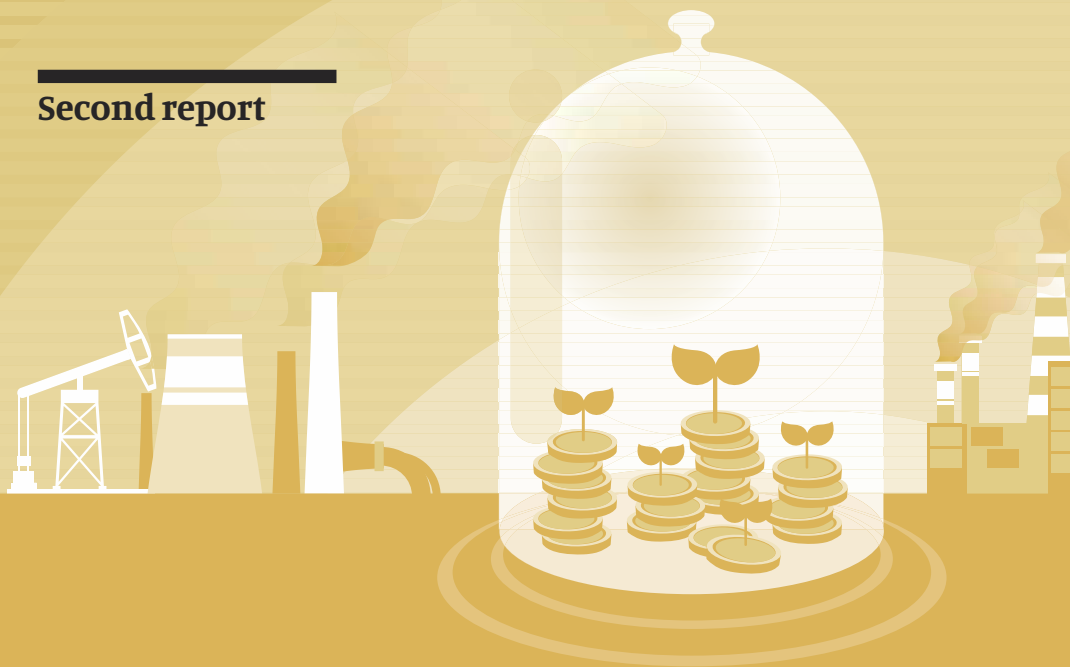


Second report



ETHICAL AND SUSTAINABLE FINANCE IN EUROPE

A publication by

fondazione
finanzaetica

fundación
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activismo y economía crítica

Matteo Cavallito
Emanuele Isonio
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Preface by
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PREFACE

ACKNOWLEDGEMENTS

Collection and organisation of all data on the ethical and sustainable banks and on the systemically important ones, together with the calculation of the financial ratios and growth trends, were carried out in collaboration with Leone Di Stefano. We would also like to thank Federica Masut of Global Alliance for Banking on Values for having kindly provided us with the data on the ethical banks belonging to that organisation.

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The second report on ethical and sustainable finance in Europe is being released on the tenth anniversary of Lehman Brothers' bankruptcy, symbol of the worst financial crisis in recent history. A crisis that from the USA was quickly transmitted to the entire planet, and Europe in particular. In the months to follow, politicians and institutions, with one voice, declared their commitment to changing course, to making new regulations and closing the financial gambling house once and for all.

What remains of those promises today? In fact, there would seem to have been a great deal of smoke but no fire. The most opaque and risky activities have not been affected and finance is increasingly characterized by very short-term horizons with the sole objective of making money generate money. What is worse still is that most of the regulations introduced regarded banks and the administration of credit. Little or nothing was done to counteract speculation or regulate the shadow banking system. A paradoxical incentive to move capital there.

In Europe, even the regulations proposed by the institutions themselves have not been approved. For example, in the aftermath of the crisis, the EU asked a group of experts, led by the governor of the Finnish Central Bank, Liikanen, what main reforms should be made to avoid a similar disaster from reoccurring. First of all, in the report we find the separation between commercial and investment banks. The work begins, but proposals for legislation on the issue remain bogged down for years, caught between intersecting vetoes and study groups, until last year when the same EU that had commissioned the study stated that it was shelving the proposal. Something similar could be said regarding the proposed tax on financial transactions, despite the favourable vote of the EU Parliament and the draft of the Directive published by the European Commission, or in various other cases.

Moreover, today the lobbies raise their heads and push for a new season of deregulation. Exacerbating the myth of competitiveness at all costs and despite the evidence from the recent past, once again there are claims that a finance free of the bootlaces and bootstraps of regulation and banks that are increasingly "too big to fail" can support the economy. All of this while international institutions such as the IMF or the OECD are also sounding the alarm on the possibility of a new financial crisis.

Andrea Baranes

President

of Fondazione Finanza Etica

In spite of promises, in the ten years since the outbreak of the crisis little or nothing has been done to fight speculation

Within this rather worrisome scenario, a positive sign coming from the EU is the commitment to define and provide a framework for sustainable finance. While such an effort is more than welcome, also because it implicitly recognizes the unsustainability of a large part of the current financial system, it is, however, necessary to examine its contents in detail.

In fact, the approach taken so far by the European institutions identifies sustainability almost exclusively in terms of the environment, or with a more narrow interpretation in terms of climate change alone. This aspect is as urgent as it is important, but it only represents a part of the impact that the financial world can have. The social dimension is just as relevant, as is the governance of the financial companies themselves.

Furthermore, and precisely in the light of the disasters of the past few years, it is difficult to understand how the topic of speculation can be completely absent from the current proposals on sustainable finance under discussion in Europe. There is no reference to the extremely short-term investment horizons, nothing about tax havens, nothing about the riskier products circulating in financial markets. And the list could go on and on.

A highly leveraged short selling of a derivative on a synthetic product created by a high-speed algorithm by a trader registered in a tax haven has no type of impact on the climate. Therefore, can we talk about “sustainable finance”? It is a provocation, but up to a certain point, if we read the documents currently under discussion in the EU.

The problem not only lies with the regulatory proposals. How many banks that today flaunt their responsibility and sustainability continue to shift their profits to the tax haven of the moment? How many of these profits are made through speculative activities and provide no capital to the real economy?

Precisely in light of the visibility that sustainable finance has today, it becomes more important than ever to study and analyse the phenomenon, to understand it in order to grasp the fundamental differences between some proposals and others.

This is what this second report on ethical and sustainable finance in Europe is attempting to do, comparing the main experiences of ethical and alternative banks with larger banking groups. And making a comparison ten years after the crisis, to show the results not only in social, environmental or human rights terms, but also from an economic point of view. Because if we want to avoid repeating what happened ten years ago, we need finance that is truly “sustainable”. Where environmental impacts and climate are fundamental components, but components in a far broader approach, one in which sustainability is considered from every angle. We hope that this report might stimulate debate and research in this direction.

The commitment of the EU to define sustainable banking is a positive step. Yet to only focus on environmental concerns runs the risk of including speculation in the sector

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ETHICAL FINANCE IS NOT CHARITY!

Ethical banks perform three times better than systemic ones

Since the collapse of Lehman Brothers, on 15 September 2008, European countries have spent approximately €750 billion to save dozens of banks from bankruptcy: these institutions had invested in the notorious subprime mortgages, under the illusion they could turn high profits at a risk that they estimated as low, but which turned out to be quite the opposite. One first thing is clear: in the ten years since the Lehman Brothers debacle, not a cent has been spent to save any of the 23 ethical and sustainable banks based Europe. The reasons for this resilience to the crisis are explained in our second *Report on Ethical and Sustainable Finance in Europe*, which compares the structure, growth and yields of European ethical banks with those of the large systemically important ones. Once again we have let the numbers speak for themselves.

Matteo Cavallito
Emanuele Isonio
Mauro Meggiolaro

Ethical banks beat systemically important ones 3-0

In the first part of the *Report*, we scrutinised financial statements, databases and historical series, reaching at least three conclusions:

- 1) Over the last ten years (2007-17), ethical and sustainable banks have recorded returns three times higher than those of mainstream banks, with an average annual profitability (in terms of ROE) of 3.98% against 1.23%. Until 2006-07, systemically important banks enjoyed a favourable financial climate, amassing dizzying profits through speculation and leverage. The party, though, came to an end. Ethical banks, which did not give in to the temptation of buying exotic stocks and bonds with vertiginous returns, were rewarded. To use a metaphor from the world of sports, the systemically important institutions may have won the 100 metres, but the ethical banks, once again, took first in the marathon. Indeed, most retail savers are marathon runners, wishing to preserve the value of their savings over the long term, and not sprinters.

Comparison of financial statements shows that ethical banks had average annual returns of 3.98% against 1.23% of systemic banks

Good news for socially responsible funds: assets invested in 'best in class' SRI funds have risen 9% annually and now total €600 bn

- 2) During the crisis, the growth of large European banks slowed dramatically or even came to a complete halt; at the same time, the assets, deposits, loans and equity of ethical and alternative banks increased by roughly 10% annually. For example, in the period 2007-17, the assets (and, therefore, the total investments, loans and liquidity) of ethical banks increased on average by 9.66% yearly, compared to an annual performance of -1% on the part of systemically important banks.
- 3) Over the last ten years, the structural difference between ethical banks and their systemically important counterparts has been more or less constant. We are indeed dealing with two different types of institutions: while ethical banks behave like banks in the traditional sense of the term, accepting deposits and granting loans, systemically important ones are increasingly focused on other sorts of operations, such as investing in stocks and bonds and offering various financial services. In 2017, on average ethical and sustainable banks lent out nearly 77% of their total assets, as opposed to 40.52% for mainstream banks.

Socially responsible funds posted 6% annual growth

In the second part of the *Report* (published for the first time in collaboration with the Fundación Finanzas Éticas of Spain), we provide updated data on socially responsible funds — those which invest in stocks of publicly traded companies and government bonds which have been selected on the basis of a series of environmental and social criteria. As the *Report* shows, also for this subgroup of the vast world of ethical and sustainable banking, the numbers are constantly growing. Between 2015 and 2017, assets invested in Europe in 'best in class' ethical funds (i.e. those with the most stringent criteria) increased on average by 9% a year, reaching nearly €600 bn. Shareholder engagement is more and more widespread: an increasing number of shareholders dialogue with company managers and critically participate in annual general meetings, requesting detailed information on development strategies in relation to such themes as the environment or workers' rights. In this regard, 2018 saw the launch of Shareholders for Change (SfC), a new European network of engaged shareholders representing over €22 billion in invested assets; the association is supported by Fon-

dazione Finanza Etica, Etica Sgr and Fundación Finanzas Éticas, among others.

Divestment from fossil fuels to the tune of \$7.2 trillion

Given that ethical banks are structurally different from systemically important ones and have proved to be more resistant to the crisis, today there is an urgent need for the approval of regulations that recognize and reward this difference at both the national and European levels. The third part of the *Report* documents the progress that has been made in this regard: here we analyse how the financial system has changed in the ten years since the outbreak of the crisis. We examine to what extent financial lobbies still influence political decision-making and analyse how many opportunities for reform have been lost along the way during the last few years.

Finally, in the fourth part, we look in depth at an aspect of socially responsible investing which is becoming increasingly crucial: the divestment of company stocks in the fossil fuel sector (coal, oil and gas). Today over 1,000 institutions worldwide — banks, foundations, religious orders, universities, municipalities, insurance firms and pension funds — have divested from fossil fuels in various ways, for a total of nearly \$7,200 billion. This is an enormous sum, equal to roughly 40% of Europe's aggregate gross national products. In spite of the fact that the Fossil Free movement is attracting more and more members and stimulating ever greater commitments to divestment, a number of funds which label themselves as 'ethical' still insist on investing in the dirtiest and most dangerous types of oil, such as oil sands and shale oil. In this part of the *Report*, we further attempt to identify some of these institutions. In addition, we provide interested persons with several tools for discovering other funds that follow this practice and for asking the right questions to banks and financial companies which try to persuade us to invest in ethical initiatives.

As should be clear by now, this is a many-sided report that can be read on several levels. Choose the one that most appeals to you and let us know if you find it worthwhile. We have tried to make this *Report* as accessible as possible, above all for non-experts. As the numbers and stories presented in this study show, after ten years of lost chances for truly reforming the financial system we believe it is high time to begin calling things by their real names.

Socially responsible investments are becoming increasingly crucial in the fight against climate change. It is important to monitor legislative changes in Italy and the EU so that growth of the sector is truly fostered

ETHICAL OR MAINSTREAM? A COMPARISON OF BANKS

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a brief historical outline**

GLOSSARY

Words contained in the glossary appear **UPPER CASE AND UNDERLINED** the first time they are quoted in the text

ANTHROPOSOPHY

Spiritual and philosophical path based on the teachings of the Austrian esotericist and theosophist Rudolf Steiner (1861-1925). Anthroposophy forms the basis of biodynamic agriculture, of anthroposophical medicine and architecture, of eurhythmics, of Waldorf education (Steiner schools) and of a series of ethical and sustainable banks founded in Europe since the 1970s.

BALANCE SHEET

A statement of the assets, liabilities and capital of a business at a particular point in time; it is usually presented in the form of two opposing columns of assets and liabilities.

GLOBAL SYSTEMICALLY IMPORTANT BANKS (G-SIBS)

A group of 30 banks globally (13 in the European Union) whose size, complexity and international presence make them capable of causing severe problems for the entire financial system and for economic activity in the case of crisis or bankruptcy. For this reason, since 2011 they have been subject to more stringent capitalisation criteria, which have been established by the Financial Stability Board to ensure that they are able to absorb possible losses.

INCOME STATEMENT

This document shows a company's profits and losses during a particular year (fiscal year) by indicating the expenses that it incurred and the revenues and other income that it earned. Together with the balance sheet, it is the main accounting document that makes up a company's financial statement.

NET INCOME

The overall profits earned by a company; it is reported on the financial statement. Net income is a crucial figure, useful for assessing a company's profitability in a given period. It is calculated by subtracting costs and

expenses incurred (including taxes) from total revenues. Net income can be used to pay dividends to shareholders or be reinvested in the company.

NET EQUITY

The total of a company's equity, the difference between its assets and its liabilities. It takes into account financial assets that come directly or indirectly to the company in the form of share capital, reserves and profits.

NON-PERFORMING LOANS (NPLs)

Loans whose recovery on the part of banks is uncertain. The term covers a broad category of transactions, which includes loans with various degrees of performance: past due or overdrawn loans, unlikely-to-pay exposures, and bad loans (the most serious category for a financial institution).

RETURN ON ASSETS (ROA)

The ratio of net income to total assets; it measures the profitability of a company's operations.

RETURN ON EQUITY (ROE)

The ratio of net income to equity; it measures a company's ability to generate revenue from its equity.

STANDARD DEVIATION

It expresses the distribution of data around a given index, such as an arithmetic mean. In finance, standard deviation measures the volatility (and therefore the degree of variability) of data (profits, yields, etc.).

TOTAL ASSETS

The sum of investments, loans and liquidity at a certain date, usually December 31 of each year.

TOTAL LIABILITIES

The sum of a company's equity and its debts (obligations toward third parties). In the case of banks, debts are mainly those owed to other banks or to customers (through deposits and current accounts).

VOLATILITY

A measure of percentage variation of the price of a financial instrument (or of other variables) over time.

CHAPTER 1

THE DISTANCE REMAINS

In our first report on ethical and sustainable banking in Europe, published in November 2017, we compared, for the first time, ethical and sustainable banks in Europe with **SYSTEMICALLY IMPORTANT BANKS (SIBS)**, that is, large mainstream banks. A year later we have repeated the experiment with some small changes, adding data for 2017. On the side of European ethical and sustainable banks, we have indeed included some new players, the German UmweltBank and the Serbian Opportunity Bank, which became part of the Global Alliance for Banking on Values (GABV) in 2018. The other 21 players are the same ones as last year: all the European members of GABV, two members of International Association of Investors in the Social Economy (INAISE) and seven members of the European Federation of Ethical and Alternative Banks (FEBEA).¹ For this match, we have considered only those institutions which carry out typical banking operations (collection of savings, granting of loans and investments) mostly oriented to social and environmental projects, and which have made available their financial statements for at least seven of the last ten years. On the side of the traditional banks, we have selected the 15 'systemically important banks' headquartered in Europe, based on the list published by the Financial Stability Board in November 2016.²

¹ Banks, that are not members of GABV at the same time. Seven of GABV's fourteen European members are in fact also members of FEBEA. For a description of GABV, FEBEA and INAISE and their objectives, see the Appendix to this first part.

² See European Parliament, *Briefing: Global Systemically Important Banks in Europe*, 23 May 2017. Link: <https://goo.gl/Sxgmf3>. Included in this group are also the two Swiss SIBs. The 2016 list was chosen because it covers the period November 2016 - November 2017, which is in line with the time frame of this study.

The report compares the results of 23 ethical and sustainable banks with those of the 15 systemically important banks based in Europe

Ethical banks grant loans amounting to 77% of their total assets. For systemic banks the percentage is just 40.5%

The aim of the comparison is once again to understand if ethical and sustainable banks, which fund social, environmental and cultural projects, are also solid in economic and financial terms and whether they are able to stand up to the other banks.

RESULTS

Publicly available financial information does not currently provide a clear distinction between bank activities in the real economy (that generate goods and services) in contrast to the financial economy (that is concerned exclusively with activities in the financial markets). Therefore, this research uses lending and deposit information as a proxy for the distinction between the real and the financial economy activities of banking institutions³.

Indeed, the first banks emerged in the Middle Age, from the intuition of Franciscan Friars⁴. Later, such banks served as a meeting point between savers and those who were in need of financial resources, to develop new activities or consolidate existing ones. An engine for the real economy, which collects money and employs it to develop trade, agriculture, and industry. However, in recent years, most banks have gone through a dramatic transformation and, especially since the 80s, have started to work less and less as “banks” – understood as intermediaries between savers and borrowers – to increasingly become brokers of complex financial products or service.

For years ethical banks have been fighting for a clear separation between banking operations for retail costumers (deposits and loans) and financial investments. The counter-lobby Finance Watch, of which Fondazione Finanza Etica is a member, made precise recommendations to this regard as early as 2014.⁵ In the same year, the European Parliament and Council presented a proposal for a structural reform of banks,⁶ which was, however, definitively rejected

³ See GABV, *Real Economy - Real Returns: The Business Case for Values-based Banking*, 2017. Link: <https://bit.ly/2Blisvl>.

⁴ See Riccardo Milano, *La Finanza e la Banca Etica*, Edizioni Paoline 2001.

⁵ See Finance Watch, *Structural reform to refocus banks on the real economy*, August 2014. Link: <https://bit.ly/2RqHljx>.

⁶ See ‘Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on structural measures improving the resilience of EU credit institutions’. Link: <https://bit.ly/2Rr9XsV>.

by the European Commission in July 2018. The Commission indeed claimed that the purpose of the proposal had ‘largely’ already been achieved thanks to ‘other measures’.⁷ Therefore, the separation between commercial and investment banks still remains a goal to pursue.

TABLE 1 Loans as % of total assets

Loans/Total assets	2017	2012	2007
European ethical/sustainable banks	76.94%	75.50%	66.72%
European systemically important banks	40.52%	35.30%	32.43%

But let us now return to our match opposing ethical and sustainable banks to systemically important ones. Here are the first results:

The degree to which a banking institution finances the real economy is evident from the portion of assets dedicated to lending. As can be seen on **TABLE 1**, which highlights the percentage of banks’ balance sheets devoted to lending, the difference between ethical/sustainable and systemic banks is impressive.

Ethical and sustainable banks lend almost twice as much as SIBs with respect to their total assets (76.94% vs 40.52% in 2017). This means that ethical banks work much more properly as ‘banks’, in the original sense of the term, while SIBs prefer to devote their resources to operations other than the granting of loans, such as investments in bonds or shareholding in companies. During the last ten years, as we can see, the structural difference between ethical/sustainable banks and SIBs has been constant: lending money has continued to be the main mission of ethical banks and has indeed increased in this period, from 66.72% in 2007 to 76.94% in 2017.

By contrast, even following the 2008 financial crisis, SIBs continued to devote a substantial part of their assets to financial operations (and not to lending), a practice which many analysts consider as the very cause of the crisis.⁸ European SIBs did, however, increase their resources dedicated to loans, from 32.43% to 40.52% of their total assets between

⁷ See European Commission, *Structural reform of the banking sector*. Link: <https://bit.ly/2RuMjvK>.

⁸ See GABV, *Real Economy - Real Returns: The Business Case for Values-based Banking*, 2017. Link: <https://bit.ly/2Blisvl>.

After 2008, systemic banks increased the amount of loans. But the difference between them and ethical banks remains

2007 and 2017. In 2017 lending increased with respect to the previous year, both for ethical banks (+3.52% of their total assets) and for systemically important banks (by +1.99%).

The structural difference between the two categories of banks is also confirmed by the ratio of customer deposits to total liabilities. As **TABLE 2** shows, ethical and sustainable banks rely much more on client deposits to fund their balance sheets in comparison to systemic banks, that fund their activities mainly through the issue of bonds or deposits from other banks. Following the 2008 crisis, SIBs began to lend more and to

TABLE 2 Deposits as % of total liabilities

Deposits/Total liabilities	2017	2012	2007
European ethical/sustainable banks	73.68%	74.70%	63.42%
European systemically important banks	44.05%	35.03%	31.96%

accept more savings from customers with respect to previous years; yet during the same period, ethical banks were doing the same, so that in the end the structural differences between the two sides remained unchanged. With regard to the ratio of loans to total assets, the percentage difference between the two categories of banks grew from 34.29% in 2007 to 36.42% in 2017, while, for what concerns the ratio of deposits to liabilities, this difference decreased slightly, from 31.46% to 29.63%. For ethical and sustainable banks the deposits to liability ratio decreased from 80.87% in 2016 to 73.68% in 2017, above all because of the significant drop in collected deposits at Crédit Coopératif (-16%), which is in fact the largest of the financial institutions included among the ethical and sustainable banks.

Ethical and sustainable banks have maintained a solid financial position, calculated as the ratio of net equity to total liabilities.⁹ As Table 3 shows, this ratio is almost double for European ethical banks with respect to their systemically important counterparts.¹⁰

⁹ Net equity consists of equity, to which are added reserves and earnings.

¹⁰ To compare the financial solidity of the ethical banks with that of the SIBs, we have chosen to refer only to the ratio between net equity and total liabilities; we have not taken into account the so-called Tier 1 Ratio (the ratio between Tier 1 capital and risk-weighted assets), which today is the most used parameter to assess a bank's solidity. This choice is essentially motivated by the fact that – following the rules introduced in the wake of the 2007-08 crisis – SIBs are obliged to have high levels of Tier 1 capital and to set aside 'buffers' of additional capital, with respect to banks that are not systemically important. This makes any comparison with ethical banks in terms of the Tier 1 Ratio less meaningful.

TABLE 3 Net equity as % of total liabilities

Net worth/Liabilities	2017	2012	2007
European ethical/sustainable banks	11.03%	10.83%	10.81%
European systemically important banks	5.93%	4.75%	3.62%

Turning to the income analysis, we compared the ROA and ROE ratios of ethical banks with those of systemic banks.¹¹

ROA (Return on Assets) is the ratio between net income and total assets and is a measure of how effectively a company is utilising its assets to generate profits for its shareholders. As illustrated in **TABLE 4**, the ROA of the ethical and sustainable banks has constantly been at a higher level than that of the SIBs over the last ten years (by 0.47% on average), with a very low volatility of 0.08% (measured by the standard deviation calculated on the average value for each year). In both of the examined time periods, European SIBs had a lower average profitability than the ethical banks and a slightly lower volatility. In our analysis, we could further see that in 2008 – the most critical year of the financial crisis – the systemically important banks suffered a significant decrease of in ROA, with a downward levelling trend, while ethical and sustainable banks reacted in a slightly positive way, delaying the decrease until the following year and growing again after 2009.

TABLE 4 ROA: Comparison between ethical and systemically important banks

ROA - RETURN ON ASSETS	5 YEARS (2012-2017)	
	Average	Standard Deviation
European ethical and sustainable banks	0.47%	0.08%
European systemically important banks	0.05%	0.02%
	10 YEARS (2007-2017)	
	Average	Standard deviation
European ethical and sustainable banks	0.42%	0.13%
European systemically important banks	0.06%	0.04%

¹¹ The methodology used to calculate ROA and ROE has changed since last year, since the number of ethical banks has increased to 23 institutions and a large bank (UmweltBank) has been added to the group: with its €3.5 billion of assets, it immediately reached the fourth place among ethical banks. The new methodology is more faithful to the performance of single banks, given that average ROA and ROE values are calculated from the ratio average of each individual bank, and not from the total values of aggregate 'ethical banks' and 'systemically important banks' (as was the case in our previous calculations).

Return on equity (ROE) is the ratio of net income to equity; it measures a company's profitability by revealing how much profit is generated with the money shareholders have invested. As shown in **TABLE 5**, the average profitability of ethical banks, in terms of ROE, was significantly higher compared to those of the systemically important ones, both in the period from 2012 to 2017 (4.36% vs 0.90%) and in the period 2007-2017 (3.98% vs 1.23%). This occurred in a context of slightly higher volatility for the ethical banks (+0.87% over five years and +0.19% over ten).

Also in this case, the analysis demonstrated that SIBs suffered a significant downturn in ROE in 2008 and failed to achieve pre-crisis levels in a lasting manner thereafter. For the ethical banks, the downturn in ROE during the worst years of the crisis (2008-09) was by contrast more gradual and less severe, and was followed by a rapid and enduring return to previous levels.

With respect to our previous report (November 2017), the better performance of ethical banks compared to the SIBs is now more evident for both indicators (ROA and ROE). The reasons for this improvement with regard to the profitability of ethical banks are two: methodological corrections (see **NOTE 11**) and the change in the time periods measured. In particular, the analysis of the longer time frame (ten years: 2007-17) includes now 2017 and excludes 2006 (while the previous report analysed the period 2006-16). 2006 was the last year that wasn't, not even in part, by the financial crisis; it was in fact a particularly positive year in terms of profits, especially for SIBs, which recorded excellent performances in the context of a particularly good financial climate, helped by a high degree of leverage. The comparison with the ethical banks, which were not ex-

TABLE 5 ROE: Comparison between ethical and systemically important banks

ROE - RETURN ON EQUITY	5 YEARS (2012-2017)	
	Average	Standard deviation
European ethical and sustainable banks	4.36%	1.18%
European systemically important banks	0.90%	0.31%
	10 YEARS (2007-2017)	
	Average	Standard deviation
European ethical and sustainable banks	3.98%	1.24%
European systemically important banks	1.23%	1.05%

posed to high risks and high leverage in the pre-crisis period, is now more balanced.

Finally, we have analysed all measurable growth trends. This analysis confirms that, on average, ethical and sustainable banks have grown more than their systemically important counterparts over the last ten years, as shown in **TABLE 6**. The former lent much more money (+11.35% vs +0.94%), collected more savings in the form of deposits (+11.18% vs +2.29%), grew to a greater degree (increase in total assets of 9.66% vs a decrease of 1% on the part of SIBs) and improved their financial solidity in a more significant way, as expressed by net equity (+9.85% vs +4.06%). Over the ten-year period under consideration, profits declined for both the ethical/sustainable banks and the SIBs: once again, however, ethical banks were able to contain this downturn to under one percent (-0.37%) as against a decrease of -5.42% for the SIBs.

TABLE 6 Growth of assets, loans, deposits, net equity and net income

GROWTH *	5 YEARS (2012-2017)	10 YEARS (2007-2017)
Total assets		
European ethical and sustainable banks	8.24%	9.66%
European systemically important banks	-1.99%	-1.00%
Loans		
European ethical and sustainable banks	8.69%	11.35%
European systemically important banks	0.75%	0.94%
Deposits		
European ethical and sustainable banks	7.59%	11.18%
European systemically important banks	2.60%	2.29%
Net worth		
European ethical and sustainable banks	8.66%	9.85%
European systemically important banks	2.47%	4.06%
Net income		
European ethical and sustainable banks	3.60%	-0.37%
European systemically important banks	18.04%	-5.42%

* Compounded Average Growth Rate (CAGR)²

COMPARISON OF NON-PERFORMING LOANS

In this version of our report we have tried, for the first time, to compare the percentage of non-performing loans (NPLS) of the two categories of banks. These are loans whose recovery on the part of banks has become uncertain. The term covers a broad category of transactions, which – in accordance with EU Implementing Regulation 2015/227 – includes loans with various degrees of performance: past due or overdrawn loans, unlikely-to-pay exposures, and bad loans (the most problematic category for a financial institution).¹³

There are multiple reasons for non-performing loans, though in general they can be grouped under two main causes: economic hardship in a particular region or country – such that companies, cooperatives and organisations experience a period of crisis which makes repayment of loans difficult – or, on the bank's side, an incorrect evaluation of the borrower. For this reason, and with particular regard to the first-mentioned cause, it is more appropriate to compare banks in the same country, since comparisons between banks in different countries are less meaningful.

Unfortunately, it has not been possible to gather data on non-performing loans of all the ethical and sustainable banks under review; we have therefore been obliged to limit our analysis to individual cases. Only slightly more than half of the ethical banks belonging to GABV have provided requested data on NPLs. For banks that are not members of GABV, it has not been possible to reliably reconstruct data from financial statements.

¹² Compounded Average Growth Rate (CAGR) represents average percentage growth over a given period of time.

¹³ See <https://www.bancaditalia.it/media/views/2017/npl/index.html>.

¹⁴ Data supplied by this bank to GABV.

TABLE 7 Gross non-performing loans with respect to total loans (NPL ratio): Comparison of ethical and systemic banks

Bank	2017 NPL ratio
Italy	
Banca Popolare Etica ¹⁴	7%
Unicredit ¹⁵	10.2%
Average of Italian banks ¹⁶	13.5%
Germany	
GLS Bank	Data not available
Umweltbank ¹⁷	0.12%
Deutsche Bank ¹⁸	1.7%
Average of German banks	2.5%
France	
Crédit Coopératif ¹⁹	1.81%
Crédit Agricole ²⁰	3.74%
Average of French banks	3.7%
Netherlands	
Triodos Bank ²¹	2.70%
ING Bank ²²	1.9%
Average of Dutch banks ²³	2.31%

As shown in **TABLE 7**, non-performing loans indeed seem to represent a phenomenon closely connected to the economic situation of individual countries; and represent a real problem in particular for Italy. As Banca d'Italia (Italian central bank) has pointed out, 'the severity and length of the recession has affected the Italian economy, while delays in the procedures for the recovery of loans have further led to a

In spite of the crisis, Italy's Banca Etica has maintained a much lower NPL percentage than the average of the banking system: 7% vs 13.5%

¹⁵ Source: 2017 Financial Statement of the Unicredit group, p. 15. Link: <https://bit.ly/2ECAHAS>.

¹⁶ Unless otherwise indicated, the source for average NPL ratios by country is: KPMG, *1 non performing loan in Italia*, 2018, p. 10. Link: <https://bit.ly/2PKXyLI>.

¹⁷ Data supplied by this bank to GABV.

¹⁸ Fitch Full Rating Report (statistic updated as of June 2017). Link: <https://bit.ly/2S0nWmG>.

¹⁹ Data supplied by this bank to GABV.

²⁰ Source: 2017 Financial Statement of the Crédit Agricole group, p. 24. Link: <https://bit.ly/2BsMuhd>.

²¹ Data supplied by this bank to GABV.

²² Source: 2017 Financial Statement of the ING group, p. 13. Link: <https://bit.ly/2PJTT0C>.

²³ Source: <https://bit.ly/2rEBB7g>.

Ethical banks provide far more services to the real economy. They are also more solid and profitable and less volatile

high level of non-performing loans in the Italian banking system'.²⁴ Nonetheless, and in spite of the 'severity and length of the recession', Banca Etica has been able to maintain an NPL ratio (the percentage of non-performing loans to the total of loans granted) of 7%,²⁵ much lower than the average of the Italian banking system (13.5%), and significantly lower than the ratio of Unicredit (10.2%), Italy's only SIB. At the same time, Unicredit has managed to lower its NPL ratio only by selling large quantities of NPLs on the market: loans totalling €17.7 billion were sold to the investment management firms Fortress and PIMCO in the last quarter of 2017, with (State) guarantees for the securitization of NPLs (known as GACS). In the meantime, between 2015 and 2017, Unicredit concluded its deleveraging operations, selling off portfolios of NPLs for a total of €26.4 billion, thus making it the leader among Italian banks for this type of transaction.²⁶ Similar operations have also been concluded by other SIBs, such as Banco Santander.²⁷

With the exception of the Netherlands, ethical and sustainable banks (for which we have information on NPLs) in the analysed countries have a lower percentage of NPLs — with respect to total loans — than the national average and than that of several SIBs of the same country. These differences, however, do not seem as marked as in Italy. In the Netherlands, indeed, the opposite holds true: here the ethical Triodos Bank has a higher NPL ratio than the national bank average (even if by little) and than that of the Dutch systemically important bank ING. This is probably due to the fact that over 40% of assets of the Triodos group is outside the Netherlands,²⁸ including roughly 22% in Spain, a country with an average banking system NPL of 5.7% (compared to 2.31% in the Netherlands).²⁹

In sum, apart from the case of Italy, where years of recession and of notoriously short-sighted lending policies on the

part of numerous financial institutions led to a proliferation of NPLs on the financial statements of systemic banks, it is not possible to claim that, on a European level, ethical and sustainable banks are less exposed to NPLs compared to their systemically important counterparts. A few examples seem to justify this hypothesis; as we have seen, though, we do not currently possess sufficient data to show that this is generally the case.

CONCLUSIONS

At the end of the match between the side of Europe's ethical and sustainable banks and that of the continent's systemically important ones, the numbers speak for themselves: ethical banks are far more oriented to offering services for the real economy than their systemically important counterparts; on average, they are more solid from a financial point of view; and they have shown greater profitability (in terms of both ROA and ROE). Compared to the 2017 Report, ethical banks have exceeded, in terms of profitability, systemic banks that, after the collapse of 2008 (the most difficult year of the last financial crisis), were no longer able to repeat the performances they got in the pre-crisis period. On the contrary, ethical and sustainable banks have preserved almost constant profitability levels without suffering significant repercussions in the periods in which the crisis was most acute, demonstrating a great resilience.

Finally, ethical banks have experienced a growth of all the items measured by the research in the last ten years. This is a sign that ethical finance has been discovered by an increasing number of people, in particular in a period of serious market uncertainty in the European banking and financial sector.

²⁴ See <https://www.bancaditalia.it/media/views/2017/npl/index.html>.

²⁵ On 31 December 2017, the ratio of gross NPLs to total loans was, by contrast, equal to 2.99%, while that of net NPLs was 0.89% (source: Banca Popolare Etica).

²⁶ See KPMG, *I non performing loan in Italia*, 2018, pp. 25–28. Link: <https://bit.ly/2PKXyLI>.

²⁷ See Deloitte, *Lift off. Loan portfolio markets continue to soar: Focus on Europe*, 2018, p. 8. Link: <https://bit.ly/2LmW0HI>.

²⁸ See the relevant section on the Triodos Bank website: <https://bit.ly/2A0m1Yb>.

²⁹ KPMG, *I non performing loan in Italia*, 2018, p. 10. Link: <https://bit.ly/2PKXyLI>.

BANCA ETICA IN COMPARISON WITH EUROPE'S ETHICAL AND SUSTAINABLE BANKS

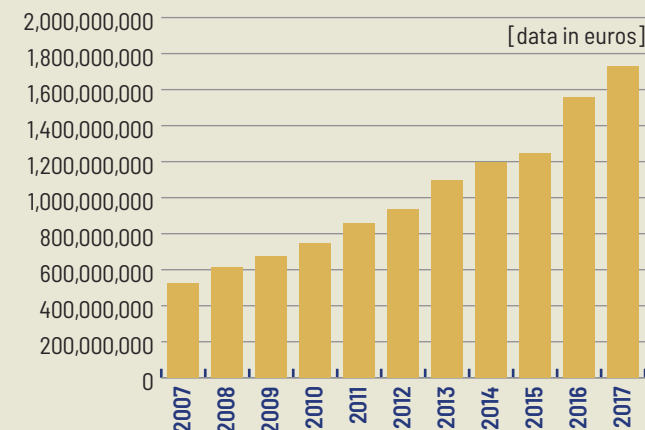
As we have seen, over the last ten years European ethical banks have grown, on average, more than SIBs. The growth of Banca Popolare Etica, the only ethical bank based in Italy, has been in line with that of other ethical and sustainable banks. As shown in **TABLE 8**, the amount of money collected by Banca Etica (in the form of deposits) has increased on average by 11.95% annually during the last ten years, compared to an average increase of 11.38% recorded by European ethical and sustainable banks. In the same period, its loans have also grown, though at a slightly lower rate, +10.05% vs +11.35%. On the other hand, Banca Etica has outperformed its European peers in other categories: net equity, deposits, assets and net

TABLE 8 Growth of assets, loans, deposits, net equity and net income
Comparison of Banca Etica and European ethical banks

GROWTH*	5 YEARS (2012-2017)	10 YEARS (2007-2017)
Total assets		
Banca Popolare Etica	13.02%	12.63%
European ethical and sustainable banks	8.24%	9.66%
Loans		
Banca Popolare Etica	4.26%	10.05%
European ethical and sustainable banks	8.69%	11.35%
Deposits		
Banca Popolare Etica	19.30%	11.95%
European ethical and sustainable banks	7.98%	11.38%
Net worth		
Banca Popolare Etica	11.85%	14.11%
European ethical and sustainable banks	8.66%	9.85%
Net income		
Banca Popolare Etica	6.67%	-3.81%
European ethical and sustainable banks	18.04%	-5.42%

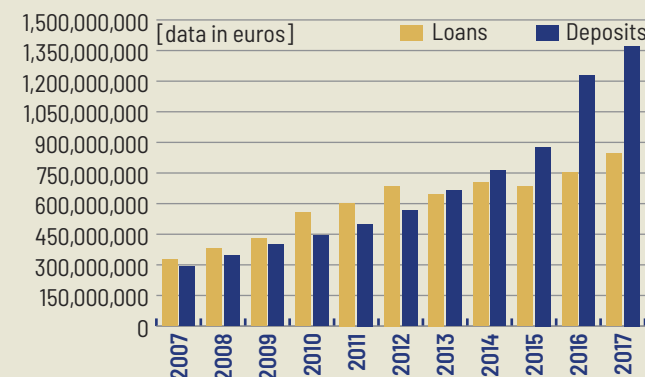
* Compounded Average Growth Rate (CAGR)

income. In particular, in the last five years (2012-17) Banca Etica has outperformed its peers as far as the growth of deposits (+19.30% vs +7.98%) and of assets (+13.02% vs +8.24%) are concerned.



GRAPH 1
Growth of assets of Banca Etica from 2007 to 2017

As we can see from **GRAPH 1**, the assets of Banca Etica have grown constantly between 2007 and 2017, without suffering setbacks during the most severe phase of the recent financial crisis (2008 and 2009). In absolute analysed terms, its assets have grown by 229% over the ten-year period.



GRAPH 2
Growth of loans and deposits of Banca Etica from 2007 to 2017

Growth of deposits has also been constant, as can be seen in **GRAPH 2**. In absolute terms, deposits have grown by 535.36% between 2007 and 2017, while loans (whose growth has been less regular in the last four years with respect to that of deposits) have risen by 160.47% in the same period.

THE TWO TEAMS COMPARED **APPENDIX I** IN THE RESEARCH

European Ethical and Sustainable Banks	European Systemically Important Banks
Alternative Bank Schweiz (Switzerland)	BNP Paribas (France)
APS Bank (Malta)	Deutsche Bank (Germany)
Banca Popolare Etica (Italy)	HSBC (United Kingdom)
Caisse Solidaire (France)	Barclays (United Kingdom)
Caixa de Pollença (Spain)	Credit Suisse (Switzerland)
Charity Bank (United Kingdom)	Groupe BPCE (France)
Cooperative Bank of Karditsa (Greece)	Groupe Crédit Agricole (France)
Credal (Belgium)	ING Bank (Netherlands)
Cultura Bank (Norway)	Nordea (Sweden)
Ecology Building Society (United Kingdom)	Royal Bank of Scotland (United Kingdom)
Ekobanken (Sweden)	Santander (Spain)
Freie Gemeinschaftsbank (Switzerland)	Société Générale (France)
GLS Bank (Germany)	Standard Chartered (United Kingdom)
Group Crédit Coopératif (France)	UBS (Switzerland)
Hefboom (Belgium)	Unicredit Group (Italy)
La Nef (France)	
Magnet Bank (Hungary)	
Merkur Cooperative Bank (Denmark)	
Oikocredit (Netherlands)	
Opportunity Bank Serbia (Serbia)	
TISE (Poland)	
Triodos Bank (Netherlands)	
UmweltBank (Germany)	

NOTES ON METHODOLOGY

In the group of 'European Ethical and Sustainable Banks' we included all 15 European institutions belonging to GABV (Global Alliance for Banking on Values), the 14 members of FEBEA (of which seven are also members of GABV) and two members of INAISE. We have included only those institutions that carry out typical banking operations (collection of savings, granting of loans and investments) mostly oriented to social and environmental initiatives, and which have published their financial statements from seven of the last ten years online (or sent them to us). The historical series of data of the banks that form part of GABV were sent to us by GABV.

The group 'European Systemically Important Banks' includes the 15 global SIBs headquartered in Europe (including Switzerland), on the basis of the list published by the Financial Stability Board in November 2016. In general, for the processing of data and the calculation of indicators, we have followed the methodology used by GABV in its report *Real Economy - Real Returns: The Business Case for Values-based Banking, 2017*.

CHAPTER 2

THE ORIGINS OF ETHICAL BANKING: A BRIEF HISTORICAL OUTLINE

In our first report on ethical and sustainable banking in Europe, published in November 2017,³⁰ we described the origins of Europe's ethical and sustainable banks: we looked at the trajectory from the first experiences in Germany with the foundation of the GLS Bank at the beginning of the 1970s, to the flourishing of banks inspired by Steiner's anthroposophy in the 1980s, to the establishment of other banks with environmental and social aims, such as ABS and Banca Etica, in the 1990s. An updated timeline with the foundation dates of Europe's main ethical and sustainable financial institutions can be found on the page 30 and 31.

In this edition of our report, we have decided to take a step back and look at the social origins of these banks beginning in the Middle Ages, when the first *banchi* were established in Italy by the first *banchieri*.³¹

THE ROLE OF THE MONTI DI PIETÀ

We can, in fact, trace the first examples of ethical banking back to the *monti di pietà* (mount of piety banks) of medieval Europe, most of which were founded by Franciscan friars

³⁰ See Fondazione Finanza Etica, *La finanza etica e sostenibile in Europa, Primo Rapporto*, November 2018. Link: <https://bit.ly/2EDvWqC>

³¹ See Riccardo Milano, 'Social Banking: A Brief History', in *Social Banks and the Future of Sustainable Finance*, eds. Olaf Weber and Sven Remer, Routledge International Studies in Money and Banking, Taylor & Francis Group, Abingdon 2011 Oxon OX14 4SB.

Ethical banking has its roots in the *monte di pietà* of Franciscan friars

**Monte di pietà
banks helped
the poor
by providing
them with
an alternative
to usury**

around the mid-15th century, mainly in Italy.³² These first intermediaries were involved in lending money to the poorest and neediest members of society, providing sums of money at very low interest rates and accepting various types of goods as guarantees. Those receiving loans promised to pay them back in a year's time; if they failed to do so, their goods would be sold at auction. In addition, they had to promise to use the loans for their own needs and for morally irreproachable purposes.

The ethical side of the activities of the *monti di pietà* can be readily identified in the help given to the poor, for whom a legitimate alternative to usury was offered, and in the moral prohibitions on the use of loans. But these institutions also reveal other characteristics that we find again centuries later in the socially committed banks of the modern era:³³ the close connection with the locality in question and involvement in local social initiatives; granting mortgage loans to private persons; and performing the functions of a treasury on behalf of a community's charitable institutions.

The *monti* were also pioneers in accepting and safeguarding the savings that nobles, merchants and artisans were beginning to accumulate. This practice, therefore, marks the beginning of the development toward the *casse di risparmio* (savings banks), which was, however, interrupted nearly everywhere in Italy (and in other parts of Europe) by the arrival of Napoleon's French troops in 1796: the latter appropriated the funds of the *monti* and transformed these early banks into *congregazioni di carità napoleoniche* ('Napoleonic charitable organisations'), which were established by a decree of 1807.

Following the Restoration of 1815, the *monti* regained their autonomy, though by this time they were no longer protagonists: it was now the turn of the savings banks to carry out the historical task of developing new ideas regarding credit and social commitment.

³² This brief historical outline is based on two publications by Riccardo Milano: 'Social Banking: A Brief History' (see above note), and *La Finanza e la Banca Etica*, Edizioni Paoline 2001. We have further made use here of the dissertation in Economics and Finance by Michele Zini, *Banca Popolare Etica in the 2007 crisis years*, Dept. of Political, Economic and Social Sciences, University of Milan, 2016-17 academic year.

³³ See Milano, 'Social Banking', pp 17-18.

SAVINGS BANKS

During the Napoleonic Era, the *monti di pietà* underwent important modifications, though the substance of their activities, in particular those regarding loans, remained the same. The changed times, though, demanded new initiatives: Italy's economic and creative leading role in Europe had come to an end, and the powerful economies lay elsewhere. The Industrial Revolution was underway, and new ideas and skills were called for. The various *monti* had to be transformed and to find new impetus. Not by chance, then, did savings banks emerge in the second half of the 18th century, thanks to the passion and efforts of philanthropists, especially from England and France,³⁴ who wished to channel the savings of manufacturers and artisans into institutions devoted to sustaining local initiatives: these were aimed not only at encouraging economic development but also at satisfying the strong desire to come to the aid of the poorer classes through a variety of initiatives, in the hope of instilling in them a spirit of saving against illness and old age.

The realisation of this model was successful above all in the mercantile cities of northwest Germany at the end of the 18th century (the *Sparkasse*); from here it spread to Austria and Switzerland, and then to northern Italy under the dominion of the Austro-Hungarian Empire. It later took root in Spain (the *Caja* or *Caixa*), France (the *Caisse d'Epargne*), Great Britain (savings banks), the United States (savings and loans associations and credit unions) and other countries. In 1788, the Hamburger Ersparungskasse was founded, traditionally considered the first savings bank, with the aim of providing 'industrious persons of a more humble condition... the opportunity to set something aside and to safely deposit their hard-earned savings at some interest'.³⁵ Beginning in 1822, the first Italian *casse di risparmio* were established in areas controlled by Austria-Hungary, as offshoots of the local *monti di pietà*.

From the outset, the main function which distinguished savings banks was the acceptance of money saved by members of less affluent classes, who deposited small amounts for social security purposes, and not with speculative intentions.

³⁴ See Milano, 'Social Banking', pp. 17-18.

³⁵ The quotation is taken from Article 94 of the original statute of the Hamburger Ersparungskasse, which is transcribed in M. Clarich, *Le Casse di risparmio verso un nuovo modello*, Il Mulino, Bologna 1984, p. 13.

Cooperative banks met the need of the poorest classes to have access to credit

COOPERATIVE BANKING

At the end of the 19th century, urban cooperative banks and rural credit unions make their appearance on the European scene. These new institutions emerged in the wake of the initiatives of the 'Rochdale Pioneers' in the first half of the 1800s, a group of workers who lived in Rochdale, a town near Manchester, England, then the most important industrial centre in the world. The 'Rochdale Principles' are still today the basis of the international cooperative movement: open voluntary membership, democratic control (based on the rule of 'one member, one vote', regardless of the number of shares owned), members' economic participation, education and collaboration among cooperatives.³⁶

The reasons behind the emergence of cooperative banking were essentially two: fight usury that was still rampant, affecting especially the poor, and give the humbler economic and productive classes the possibility of obtaining credit. For these reasons, the associative model of the credit cooperative was chosen, deemed the most suitable form for collecting the modest financial means of its members, ensuring the best kind of remuneration of small savings accounts and making capital available for small entrepreneurs on the best possible terms: the scheme thereby excluded those persons and businesses which were able to obtain loans from other banks.³⁷

Cooperative banking developed according to two main organisational schemes, that of the urban cooperative bank, and that of the rural credit union; these two models were applied in different contexts.

Cooperative banks first developed in Germany around the mid-19th century. They were conceived by the Prussian solicitor Hermann Schulze-Delitzsch, who envisioned a cooperative society that was firmly rooted in a specific locality, devoted to a local community and possessing a high degree of independence. Schulze-Delitzsch maintained that cooperative banks should be based on the capacity of individual shareholding members to provide the means for savings and social insurance, without any contributions from the State or private charities, unlike savings banks.

The spread of cooperative banks in all of Europe and throughout the world was impressive. Wherever they were established, these banks adapted themselves to specific local circumstances. Above all, they developed in urban centres, becoming the banks of business owners, artisans and professionals. Credit unions, on the other hand, emerged in rural areas, dealing almost exclusively with agricultural workers.

Like cooperative banks, credit unions have their origins in Germany, slightly later than the former (the first credit union was founded in 1862). They were born from an idea of Friedrich Wilhelm Raiffeisen, who wished to extend the cooperative banking system to rural villages. Cooperative banks were indeed an urban phenomenon and did not manage to reach agricultural populations. Raiffeisen was motivated by a vision different from that of Schulze-Delitzsch: indeed he based his activity on the ethical inspirations of Christianity rather than on purely economic considerations. On the surface, however, the *Raiffeisenbanken* differed little from Schulze-Delitzsch's cooperatives. They were also based on the principles of open membership and of "one member one vote" principle; in addition, existing members had the right to withhold their approval for the admission of new members, such that the Board of Directors could reject an application on the grounds of defending the interests of the association and the spirit of the cooperative form.

The cooperative model that gave rise to rural credit unions was more oriented to economic mutualism and democracy than was the concept behind cooperative banks. It was taken up by many other social banks, such as ethical and sustainable ones, that were established during the final decades of the 20th century. Quite often, the mission and outlook of ethical and sustainable banks were indeed inspired by the statutes of the credit unions.³⁸

Timeline of the main ethical and sustainable financial institutions in Europe*

- 1974 GLS Bank (Germany)
- 1975 Oikocredit (Netherlands)
- 1980 Triodos Bank (Netherlands)
- 1981 Ecology Building Society (United Kingdom)
- 1982 Merkur Bank (Denmark)
- 1983 Crédit Coopératif establishes the first socially responsible collective investment fund in Europe
- 1983 SIDI (France)
- 1984 Crédal (Belgium)
- 1984 Freie Gemeinschaftsbank (Switzerland)

- 1985 Hefboom (Belgium)
- 1988 La Nef (France)
- 1988 SIFA - France Active
- 1990 Alternative Bank Schweiz (ABS, Switzerland)
- 1990 APS Bank (Malta)
- 1991 TISE (Poland)
- 1992 Femu Qui (Corsica, France)
- 1994 Cooperative Bank of Karditsa (Greece)
- 1996 Etika (Luxembourg)
- 1997 Cultura Bank (Norway)
- 1997 Caisse Solidaire (France)
- 1997 Umweltbank (Germany)
- 1998 Ekobanken (Sweden)
- 1999 Banca Popolare Etica (Italy)
- 1999 Caixa Pollença launches Estalvi Ètic ('Ethical Savings')
- 2001 UCIT (Ulster Community Investment Trust Ltd, United Kingdom)
- 2002 Charity Bank (United Kingdom)
- 2002 Opportunity Bank Serbia (Serbia)
- 2003 Fiare (Spain)
- 2010 Magnet Bank (Hungary)

* Crédit Coopératif, Caixa Pollença and APS Bank were founded in 1893, 1880 and 1910, respectively. The timeline shows the years in which they began to conduct their activities on the principles of ethical and sustainable banking. (In the case of APS, we have used the year in which it obtained its banking licence).

³⁶ See Fabio Salviato and Mauro Meggiolaro, *Ho sognato una banca*, Feltrinelli 2010.

³⁷ See Milano, 'Social Banking', p. 27.

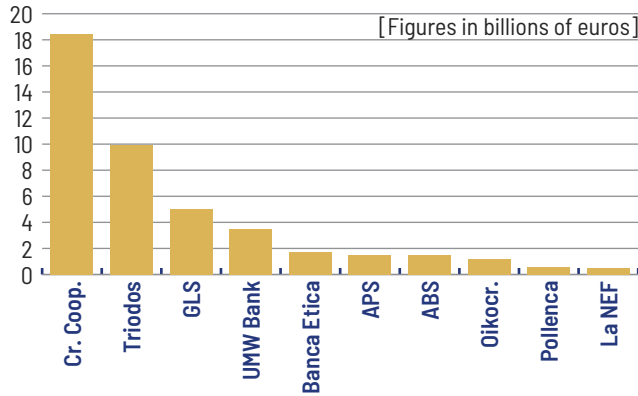
³⁸ See Milano, 'Social Banking', pp. 39.

GRAPH 3

The ten largest ethical and sustainable banks in Europe

The ten largest ethical and sustainable banks in Europe by volume of assets.

Source: 2017 financial statements of the banks.



GRAPH 4

Aggregate numbers of ethical and sustainable banks in Europe*

Source: 2017 financial statements of the banks.



* Figures are relative to 2017 and are taken from the financial statements of the 23 ethical and sustainable banks which were analysed for the study presented in this report from p. 13. To these figures have been added the 2017 data of Femu Qui (Corsica, France), Etika (Luxembourg), UCIT (United Kingdom), SIDI (France) and SIFA (France).

PROFILES OF THE TOP TEN ETHICAL AND SUSTAINABLE BANKS IN EUROPE



FOUNDATION This was the first ethical bank to be founded in Europe. It was established in Bochum, Germany, in **1974**. The original name 'GLS' stands for *Gemeinschaft für Leihen und Schenken* ('community for lending and giving'). It was born by initiative of a group of parents who were inspired by the ideas of Austrian philosopher Rudolf Steiner, the father of the anthroposophical movement.

LEGAL STATUS Cooperative bank

COUNTRY Germany

FINANCIAL DATA (2017)

Total assets: €5.06 billion	Deposits: €4.13 billion
Loans: €4.33 billion	Net worth: €405.24 million
Net income: €7.62 million	Employees: 514

WEBSITE
www.gls.de

FUNDED PROJECTS 33.2% of loans to renewable energy, 28.9% to schools and social, cultural and welfare institutions, 30.6% to social housing or home mortgages, 7.3% to organic agriculture and natural products.

THE FIRST FOOD SHARING CAFÉ IN GERMANY

Food is too good to end up in the rubbish. For this reason, the association 'Raupe Immersatt' ('the never-hungry caterpillar') in Stuttgart, together with the platform foodsharing.de, decided to create Germany's first food sharing café, offering – free of charge – food that would otherwise be discarded. In addition to managing the cafeteria, the association aims to raise awareness among the public on the value of food through educational events and cooking courses. In Stuttgart the food sharing network is made up of over 700 people; it actively works with companies in the food sector and with cafeterias and restaurants. Families can also donate excess food by means of a series of refrigerators available to the public, located in



A cafeteria where customers can prepare 'saved' foods together. [Photo: Caterpillar Immersatt e.V.]

various parts of the city. One of these refrigerators is the basis of the activities of the food sharing café, where customers can cook the saved foodstuffs together.

FOUNDATION It was founded in 1999 out of the need felt by a number of civil society organisations to have their own bank of reference. The founders include MAGs (mutual aid societies), fair trade shops and associations such as ARCI, ACLI, AGESCI, AIAB, CGM, Legambiente, Manitese and the bank employees, union FIBA-CISL.

LEGAL STATUS S.c.p.a. Cooperative bank

COUNTRY Italy (headquarters) and Spain

FINANCIAL DATA (2017)

Total assets: €1.73 billion	Deposits: €1.37 billion
Loans: €845.84 million	Net worth: €94.69 million
Net income: €2.27 million	Employees: 296

FUNDED PROJECTS 11,416 funded customers. Since its foundation, the bank has financed these sectors: social (32%), quality of life and sports (27%), private persons sustainable (11%), socially responsible for-profit sector (10%), international cooperation (10%), environment (10%).

WEBSITE
www.bancaetica.it

FOUNDATION Established in 1980, the bank takes its name from the Greek for 'three roads' to recall that all of its operations are inspired by three fundamental principles:

- each person has the right to develop and to freely express his/her individual capacities;
- each person has the right to participate in public life;
- for an economy to be sustainable, it can only be imagined and developed through socially responsible projects.

The bank is inspired by the teachings of Rudolf Steiner.

LEGAL STATUS Limited company

COUNTRY Netherlands (headquarters), Belgium, United Kingdom, Spain and Germany

FINANCIAL DATA (2017)

Total assets: €9.90 billion	Deposits: €8.72 billion
Loans: €6.65 billion	Net worth: €1.01 billion
Net income: €37.4 million	Employees: 1,377

FUNDED PROJECTS 38% loans for environmental projects, 23.2% for social projects, 25.3% for social housing, home and personal loans, and 13.5% for cultural initiatives.

WEBSITE
www.triodos.com

CENTRO MODA POLESANO: WORKERS' BUYOUT LED BY WOMEN

Since 2 July 2018, the Centro Moda Polesano in Stienta (Rovigo) has been back on its feet, after the company had been placed in receivership in March 2018. 'At the time we didn't know what to do. When we suddenly found ourselves out of work, at first we panicked and felt depressed,' explains Claudia Tosi, member and president of the new cooperative Centro Moda Polesano, which produces high-fashion clothing, above all for important name brands. 'Fortunately, we received the support and guidance of Legacoop Veneto, that proposed to us the solution of

a workers' buyout [in which employees purchase and manage companies which have run into trouble - editor's note]. Not everyone participated, but 22 of us became members and another 11 followed us as employees. Today there are 39 of us, because in the meantime we've hired new staff.' In addition to the help of Legacoop, the workers' buyout was made possible by Banca Popolare Etica, which granted an overdraft as an advance financing against invoices. 'This was crucial to be able to start working again,' explained Lisa Negri, member of the cooperative. 'As we had

no revenues, since customers usually pay in 30 days, we had no financial resources. For the moment we've managed not to use the overdraft, because we've taken up work again and are bringing in income which covers or even exceeds our expenses.'

Employees of the Centro Moda Polesano are now the shareholders of the company, which they saved from bankruptcy.





FOUNDATION This bank has two roots: the Banque coopérative des associations ouvrières (Cooperative Bank of Worker Associations) was founded in 1893, while the Caisse Centrale de Crédit Coopératif (Central Bank of Cooperative Loans) was established in 1938. Both were created to fund producers' and consumers' cooperatives. Crédit Coopératif renewed these activities in the 1980s with a strong emphasis on ethical banking.

LEGAL STATUS Consumer credit union – Banking group

COUNTRY France

FINANCIAL DATA (2017)

Total assets: €18.43 billion	Deposits: €11.76 billion
Loans: €16.32 billion	Net worth: €1.62 billion
Net income: €53.65 million	Employees: 1,960

FUNDED PROJECTS The bank finances in particular cooperatives, associations and non-profit organisations which work in such sectors as culture, health, social housing, social work, organic farming and renewable energy.

WEBSITE
www.credit-cooperatif.coop



FOUNDATION Nef (Nouvelle Économie Fraternelle, or New Fraternal Economy) was founded in 1978 as a cooperative ethical banking association, thanks to the support of GLS Bank and, later, of Crédit Coopératif. Inspired by the principles of Rudolf Steiner, it has been operating as a financial cooperative since 1988. Initially it devoted its efforts to funding biodynamic agriculture and alternative schools (in particular Waldorf schools); today it mostly finances environmental projects and, to a lesser extent, social and cultural initiatives.

LEGAL STATUS Consumer credit union

COUNTRY France

FINANCIAL DATA (2017)

Total assets: €493.81 million	Deposits: €264.59 million
Loans: €158.27 million	Net worth: €42.20 million
Net income: €50,000	Employees: 96

FUNDED PROJECTS 41% of loans granted to renewable energy, 20% to cultural projects (especially alternative schools), and 37% to organic farming production chains.

WEBSITE
www.lanef.com



FOUNDATION It was founded in 1990 in Olten, Switzerland, upon the initiative of over 1,600 people and 120 organisations. From the start, maximum transparency in financing has been one of the bank's priorities, in contrast to the secrecy and general opaque nature of the Swiss banking system. Women cover 44% of the bank's executive and managerial positions. Precise rules govern the ratio of the highest to the lowest salary in the bank, which currently stands at 1:3.57.

LEGAL STATUS Limited company

COUNTRY Switzerland

FINANCIAL DATA (2017)

Total assets: €1.49 billion	Deposits: €1.34 billion
Loans: €1.15 billion	Net worth: €147.84 million
Net income: €5.68 million	Employees: 107

FUNDED PROJECTS 63% of loans granted to socially responsible construction, including social, ecological and energy-efficient housing, 9% to renewable energy, 7% to social and cultural services, 2% to sustainable agriculture and 1% to social economy.

WEBSITE
www.abs.ch

MILAN THE UPHOLSTERER: THIRTEEN YEARS OF ETHICAL LOANS

The small artisan workshop of Milan Lezakov in Novi Sad, Serbia, is a typical family business. Upholstery work and repairs are carried out by Milan and his wife Tatjana, with the help of their son. During his thirteen years of collaboration with Opportunity Bank Serbia, Milan Lezakov has paid back seven loans; he currently has an active loan. The loans have been used to expand the business by purchasing new equipment and enlarging the laboratory. 'Tatjana - Tapetarija', as the shop is called, provides upholstery services and furniture repairs, in addition to making and selling cushions, slippers, bags and children's toys. It all began after Milan and his wife lost their jobs in State agencies. The idea came from Tatjana's brother, who had taken up upholstery as a hobby. With his help, Milan and Tatjana began doing upholstery jobs in nearby homes, with minimal investments:

at the time, they did not have a laboratory but only a staple gun and a small sewing machine; Milan often delivered finished products by bicycle. Today he carries out all commercial operations within his laboratory-shop. [Source: Gabv].

Milan Lezakov at work in the Tatjana upholstery shop in Novi Sad. [Photo: Opportunity Bank Serbia]





FOUNDATION The bank was founded in **1997** by Horst Popp, former loan director at the Raiffeisenbank Nürnberg, and his wife Sabina. This is a direct bank (without branches) which exclusively funds environmental projects. It has been listed on the German stock exchange since 2001.

LEGAL STATUS Limited company. 84.40% of its capital is traded on the stock market (public float). The remaining 15.60% was purchased by the GLS Bank in April 2018, making it the main shareholder of Umweltbank.

COUNTRY Germany

FINANCIAL DATA (2017)

Total assets: €3.48 billion	Deposits: €2.16 billion
Loans: €2.71 billion	Net worth: €212.01 million
Net income: €27.66 million	Employees: 149

FUNDED PROJECTS 37.7% of loans to solar power projects, 31.6% to ecological and socially responsible buildings, 27.4% to wind and hydroelectric power projects, 3.3% to organic farming and biogas.

WEBSITE
www.umweltbank.de



FOUNDATION In **1910**, a group of people led by Jesuit priest Michele Vella created the League of the Apostleship of Prayer, which undertook a series of social initiatives, including the creation of a savings bank. This is the origin of APS Bank (Apostleship of Prayer Savings Bank), which has been operating as a commercial bank since 1992.

LEGAL STATUS Cooperative bank - Banking group

COUNTRY Malta

FINANCIAL DATA (2017)

Total assets: €1.50 billion	Deposits: €1.22 billion
Loans: €1.04 billion	Net worth: €136.40 million
Net income: €13.11 million	Employees: 323

FUNDED PROJECTS APS Bank is committed to carrying out its operations following ethical principles. It aims to contribute to the overall economic development of society. In particular, it finances families and individuals, construction, commerce and tourism.

Through APS Consult Ltd, which it controls, the Bank also provides assistance and consulting for companies undergoing restructuring in various sectors, such as agriculture, fishing, education, infrastructure, sports and social work.

WEBSITE
www.apsbank.com.mt



FOUNDATION Founded in **1880** by the Majorcan banker Guillem Cifre de Colonya, the bank was inspired by the Krausist philosophy (based on the teachings of the German Kantian philosopher Karl Christian Friedrich Krause) and established itself as an alternative to usury, a widespread practice at the time. In 1999 it launched the 'Estalvi Ètic' ('ethical savings') programme, 'the first ethical banking experience launched by a Spanish financial institution'.

LEGAL STATUS Savings bank

COUNTRY Spain (island of Mallorca)

FINANCIAL DATA (2017)

Total assets: €570.23 million	Deposits: €514.52 million
Loans: €404.74 million	Net worth: €37.56 million
Net income: €2.60 million	Employees: 94

FUNDED PROJECTS The bank promotes social and cultural development through its own financing operations and through the Foundation Guillem Cifre de Colonya.

WEBSITE
www.colonya.com



FOUNDATION The idea behind the foundation of Oikocredit (Ecumenical Development Cooperative Society) came from a meeting of the World Council of Churches in 1968: a group of young, politically active members of various churches proposed the creation of an ethical investment channel that worked for peace and universal brotherhood. It began operating as a legal entity in 1975 and granted its first loans in 1978.

LEGAL STATUS Cooperative bank

COUNTRY Netherlands

FINANCIAL DATA (2017)

Total assets: €1.22 billion	Net worth: €1.12 billion
Loans: €795.02 million	
Net income: €18.44 million	Employees: 290

FUNDED PROJECTS 77% of the bank's investments and loans are directed to 'inclusive finance' (such as microcredit and loans to small and medium-sized businesses), 15% goes to agricultural projects and 5% to renewable energy. 49% of funded projects are in Latin America, 25% in Asia, 18% in Africa and 3% in Central and Eastern Europe.

WEBSITE
www.oikocredit.coop

APPENDIX II ASSOCIATIONS THAT REPRESENT ETHICAL AND SUSTAINABLE BANKS IN EUROPE

GLOBAL ALLIANCE FOR BANKING ON VALUES (GABV)

Global Alliance for Banking on Values is an independent network of banks using finance to deliver sustainable economic, social and environmental development'. Established in 2009, today it has 54 members and four strategic partners that operate in Asia, Africa, Australia, Latin America, North America and Europe. The network reaches roughly 50 million customers, with a total of \$163.4 bn (€142.8 bn) in investments.

Fifteen ethical and sustainable banks in Europe belong to GABV: Banca Popolare Etica (Italy), Crédit Coopératif (France), Triodos Bank (Netherlands), GLS Bank (Germany), Ekobanken (Sweden), Cultura (Norway), Alternative Bank Schweiz (Switzerland), Freie Gemeinschaftsbank (Switzerland), Magnet Bank (Hungary), Merkur Bank (Denmark), Ecology Building Society (United Kingdom), UmweltBank (Germany), Opportunity Bank Serbia (Serbia), Charity Bank (United Kingdom) and Cooperative Bank of Karditsa (Greece). Ugo Biggeri, president of Banca Etica, has been on GABV's board of directors since April 2017.

www.gabv.org

EUROPEAN FEDERATION OF ETHICAL AND ALTERNATIVE BANKS (FEBEA)

Similar to GABV in its objectives but focused on Europe, the European Federation of Ethical and Alternative Banks was founded in Brussels in 2001 by a group of ethical and sustainable financial institutions: Crédit Coopératif (France), Caisse Solidaire (France), Crédal (Belgium), Hefboom (Belgium), Banca Popolare Etica (Italy), TISE (Poland) and La Nef (France). Today it has 27 members (12 banks and 15 financial organisations) in 15 countries, with total assets of €30.5 bn and 670,000 customers.³⁹ Seven members of FEBEA also belong to GABV.

FEBEA represents its members in dealings with European institutions and carries out lobbying activities to promote the role of ethical and sustainable finance. Unlike GABV, FEBEA makes a series of financial tools available to its members to develop new ethical banks or to consolidate the position of existing ones (through the financial cooperative SEFEA). It further promotes economic and social development in Central and Eastern Europe (CoopEst) and aids microfinance institutions in the Mediterranean basin (CoopMed).

www.febea.org

INTERNATIONAL ASSOCIATION OF INVESTORS IN THE SOCIAL ECONOMY (INAISE)

The International Association of Investors in the Social Economy brings together operators in ethical and sustainable banking on an international level. Established in 1989 in Barcelona, today it has 32 members, some of which also belong to GABV and FEBEA. It differs from these latter by the significant presence of banks, foundations, networks and cooperatives from the Global South, particularly in Africa and South America. The goal of INAISE is to 'allow social investors from Norway to South Africa, from Costa Rica to Japan, to come together and exchange experiences, spread information and show that money can really be used as a means of social and environmental change'.⁴⁰

www.inaise.org

³⁹ See <http://www.febea.org/en/febea/news/our-numbers>.

⁴⁰ See INAISE, 'A propos', on the association's website.

Link: <http://inaise.org/info/a-propos/>.

THE NUMBERS



SECOND PART

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Responsible investments in Europe

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Exclusions, an Italian passion

GLOSSARY

ASSET

Goods or activity owned by a company or an investment fund.

ASSET MANAGER

This is the company, or more generally, the intermediary called upon to manage investments on behalf of savers. The savers' capital flows into a fund that is run by a savings management company.

BOND

Otherwise called an "obligation", this is a contract with which a party obtains a loan from different creditors, making a commitment to return it with interest before a given expiry date.

COMPOUNDED AVERAGE GROWTH RATE (CAGR)

The percentage that shows the average growth rate of an item over a defined period of time. It is used to calculate the profitability of an investment (for example, a set of shares).

ENGAGEMENT

Synonymous with active shareholding. It is the activity of raising awareness on issues of corporate sustainability or responsible finance carried out by an organized group of shareholders in institutions, associations or management companies and whose culminating moment is in annual general meetings.

GOVERNANCE

The set of rules, principles and procedures that generally govern the management of a company's or organization's activities.

GREEN BOND

Bonds issued to finance an initiative characterized by compliance with a series of environmental sustainability criteria. Projects funded by green bonds generally involve energy efficiency, energy production from renewable sources and sustainable land use.

PORTFOLIO

The set of all the investments held by a fund. Typically, it is made up of holdings in other companies (shares), fixed return financial instruments (see **BONDS**) and shares of indices or other investment funds.

SAY ON PAY

The right of shareholders to express a binding opinion on management's remunerative measures. This principle, explicitly recommended by the OECD, is recognized by law in many countries.

SOCIALLY RESPONSIBLE INVESTMENT (SRI)

The activity of investing in production or financial transactions that take into account not only the prospects for profit or returns but also the transaction's compatibility with respect to ethical principles and the direct or indirect impact of the investment in social and environmental terms.

CHAPTER 1

RESPONSIBLE INVESTMENTS IN EUROPE

On November 19, 2018, the European Sustainable Investment Forum, EUROSIF, presented its latest study¹ on ESG investments, (selected by taking into account Environment, Social, and **GOVERNANCE** factors, "ESG"), in Europe. In its survey, the association, which includes several of the Old Continent's national fora, and participation from more than 400 organizations as well as some of the major players in the sector, reports "a sustained growth for most sustainable and responsible investment strategies"². The study confirms the definition of sustainable and responsible investment adopted in 2016³ and is structured through the analysis of the seven categories⁴ that make up the sector:

1. EXCLUSIONS OF HOLDINGS FROM INVESTMENT UNIVERSE

The strategy is based on the exclusion of a productive sector or an issuing company whose business is incompati-

¹ EUROSIF (<http://www.eurosif.org/>), "European SRI Study 2018", November 2018. Hereafter referred to as "EUROSIF, 2018". The report can be downloaded at <http://www.eurosif.org/wp-content/uploads/2018/11/Eurosif-SRI-2018-study-low-resolution.pdf>

² EUROSIF, "Eurosif 2018 SRI Study is out!", Press release of November 19, 2018 at <http://www.eurosif.org/eurosif-2018-sri-study-launch-event/>

³ See box "Gli investimenti SRI secondo EUROSIF (SRI investments according to EUROSIF)".

⁴ EUROSIF (<http://www.eurosif.org/>), "European SRI Study 2012", November 2012. For a more in-depth analysis, please refer to Fondazione Finanza Etica, "La finanza etica e sostenibile in Europa. Primo rapporto (Ethical and sustainable finance in Europe. First report)", December 2017

There are seven categories in the sector of sustainable and socially responsible investments

The most widespread responsible investment strategy is the excision of controversial production sectors

ble with sustainability criteria or with international regulatory standards.

2. NORMS-BASED SCREENING

Investments are subject to careful evaluation with the aim of establishing the compliance (or non-compliance) of the firms in the **PORTFOLIO** with the minimum business practice standards required by the applicable international regulations.

3. ACTIVE SHAREHOLDING

(Engagement and voting on sustainability matters)

The strategy that requires that shareholders engage in a structured and continuous dialogue with the management of the company in which they invest and which is accompanied by ongoing monitoring of the ESG aspects that characterize the business activity⁵.

4. ESG INTEGRATION

(Integration of ESG factors in financial analysis)

This consists of ensuring that “managers explicitly and systematically include ESG factors in the traditional financial analysis”⁶.

5. “BEST-IN-CLASS” INVESTMENT SELECTION

This is the strategy put in place by investors who select the firms capable of achieving the best scores in ESG terms within their economic sector.

6. SUSTAINABILITY THEMED INVESTMENTS

This strategy consists of choosing investment areas that are typically related to the idea of “sustainable development”. In this way the operations involve a variety of issues starting with environmental ones. The so-called **GREEN BONDS** are fully included in this category of investments.

7. IMPACT INVESTING *(Investment with a positive impact)*

This consists of selecting investments aimed at creating social value or capable of having a positive environmen-

tal impact. These objectives prevail over the typical aim of economic returns.

The survey focuses on the sector developments in the 2015-2017 period with an analysis conducted in 12 different countries⁷: Austria, Belgium, Denmark, France, Germany, Italy, Holland, Poland, United Kingdom, Spain, Sweden and Switzerland.

The survey included managers and investors with a total portfolio (SRI and non-SRI investments) of around 20 trillion euros, equal, on balance⁸, to 4/5 of the European funds market.

The Eurosif survey analyses investors in 12 countries over the two-year period 2015-2017. Their total portfolio is 20,000 billion euros

SRI INVESTMENTS ACCORDING TO EUROSIF

“SUSTAINABLE AND RESPONSIBLE

INVESTMENT (“SRI”) is a long-term oriented investment approach, which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies⁹. This is the definition developed in 2016 by EUROSIF. A rather broad perimeter that is more precisely defined through the identification of the already-mentioned seven investment strategies. The definition offered

by EUROSIF in the first study published in 2003¹⁰ was based on three elements that characterized the process of selection and management of securities. The analysis done at the time, described, in particular, socially responsible investment as a phenomenon characterized by three individual strategies: extensive screening (called “Core SRI”), simple screening and engagement. “The term Sustainable and Responsible Investment was introduced in 2008, and by this time the screening strategies were sub-divided into positive and negative screening, and the strategies of Integration and Norms-based screening were added”¹¹.

⁷ A separate focus is dedicated to Norway.

⁸ The total amount of assets under management in Europe would have reached 25,200 billion euros. See the European Fund and Asset Management Association (EFAMA), “Asset Management in Europe”, September 2018 in https://www.efama.org/Publications/Statistics/Asset%20Management%20Report/EFAMA_Asset%20Management%20Report%202018%20voor%20web.pdf

⁹ EUROSIF (<http://www.eurosif.org/>), “European SRI Study 2016”, 10 November 2016. Hereafter referred to as “EUROSIF, 2016”.

¹⁰ EUROSIF (http://www.eurosif.org/wp-content/uploads/2014/04/eurosif_srireprt_2003_all.pdf), “Socially Responsible Investment among European Institutional Investors 2003 Report”, September 2003.

¹¹ EUROSIF (<http://www.eurosif.org/>), “European SRI Study 2012”, November 2012.

⁵ See the box “Investimenti SRI: la definizione italiana (SRI investments: the Italian definition)”

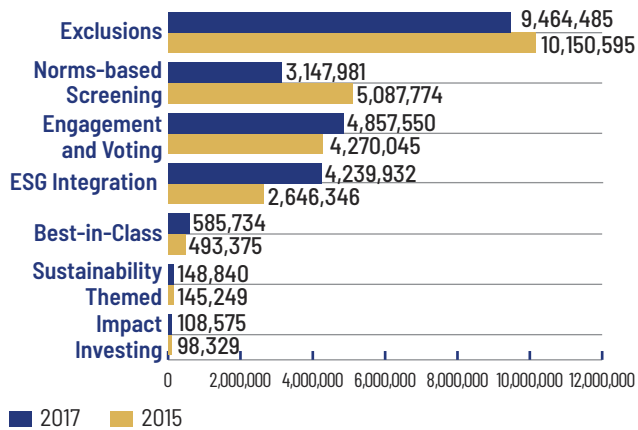
⁶ United Nations-supported Principles for Responsible Investment (<https://www.unpri.org/>), “PRI Reporting Framework 2016 Main definitions”, November 2015.

THE RESULTS

A positive trend that has shown itself in almost all the sectors of the sustainable investment market. This is the fundamental result that emerges in the latest EUROSIF analysis. The study particularly highlights a significant growth in the **ASSETS** selected with the ESG integration criterion: the annual **COMPOUNDED AVERAGE GROWTH RATE OR CAGR**¹² reported in the segment is 27%, the highest among the sectors. The Best-in-Class sectors (CAGR +9%), **ENGAGEMENT** & Voting (7%), Impact Investing (5%) and Sustainability Themed (1%) also showed growth. The Exclusions compartment decreased (-3%) as well as the Norms-based Screening sector (-21%).

GRAPH 1
Responsible investments
in Europe
[million euros]

Source: EUROSIF, 2018.



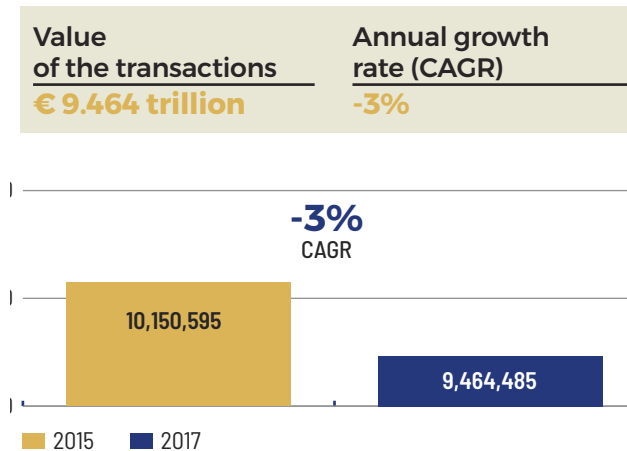
Compared to the previous edition, the EUROSIF study places greater emphasis on aggregate data by investment category. It is difficult to identify the figures for the markets in individual countries: in this edition of the research, EUROSIF defines the national markets as those in which the investments are managed, a choice that does not allow for the identification of the nationality of the final investors. In a highly internationalized sector in which "SRI funds can be domi-

¹² In the Italian Stock Exchange's definition: "The compound annual growth rate, more commonly known as CAGR from the Anglo-Saxon acronym Compounded Average Growth Rate, represents the average percentage growth of a quantity over a period of time. Given, for example, the A turnover of an action per year x and the B turnover of a company in the year y, the CAGR of revenues indicates the average annual percentage growth in revenues". See Italian Stock Exchange at <https://www.borsaitaliana.it/notizie/sotto-la-lente/cagr-259.htm>

ciled in one country, managed in a second and sold in a third, either within Europe or further afield"¹³, the definition of a national market inevitably remains debatable.

Unlike that which was reported in the previous edition, the study published in 2018 does not present an aggregate datum on total SRI investments in Europe. The calculation would be particularly complicated as **ASSET MANAGERS** tend to use multiple criteria simultaneously. As we know, this makes it impossible to identify an aggregate value through the simple sum of the values of the individual investment categories.

1 EXCLUSION OF HOLDINGS FROM INVESTMENT UNIVERSE



GRAPH 2
Exclusion of holdings
from the investment
universe in Europe
[million euros]

Source: EUROSIF, 2018.

¹³ EUROSIF, 2018.

SHAREHOLDERS FOR CHANGE, THE EUROPEAN NETWORK IS EXPANDING

It is called Shareholders for Change and is one of the most interesting new developments of 2018 in the sphere of engagement. Founded in December 2017 in Milan as a network of active shareholders, it has already recorded 15 interventions at the meetings of large European multinational companies. The organization, founded by seven different continental entities – Bank für Kirche und Caritas eG (Germany); Ecofi Investissements, Groupe Cr dit Coop ratif (France); Etica Sgr, Banca Etica Group (Italy); fair-finance Vorsorgekasse (Austria); Fondazione Finanza Etica (Italy); Fundaci n Finanzas  ticas (Spain); Meeschaert Asset Management (France) – manages a total of more than 22 billion euros in assets. What is its goal? A constant pressure (and dialogue) on corporations to promote sustainable business management in line with the 2030 Agenda, the programme signed in September 2015 by 193 UN member states that sets out 17 common development objectives to be achieved through economic growth, social inclusion and environmental protection. The instruments? Letters, participation in shareholders’ meetings, meetings with administrators, campaigns and activism in general on the most burning issues such as environment, tax havens and workers’ rights.

In December 2018, the association met in Paris to schedule the activities for the coming year. “Next year, we will dedicate ourselves to taxes in particular”, explains Andrea Baranes, president of Fondazione Finanza Etica, one of the seven founding members of Sfc. “The multinational corporations continue to pay too few taxes, shifting profits into tax havens or countries that have reduced tax rates, as we

demonstrated in the *Bad connection* report¹⁴. Some companies in the telecommunications sector will be in our sights, such as Vodafone, Telecom Italia, Deutsche Telekom, Orange, but not only these. We will also give space to our network’s other two main themes: climate change and respect for human rights along the entire production chain”.

For the next three years, the head of the network will be Aur lie Baudhuin, deputy general manager of Meeschaert Asset Management, a French company specializing in socially responsible investments, which is also one of the seven founding partners of Shareholders for Change. The position of vice is held by Ugo Biggeri, president of Etica Sgr. At the end of the year, the association also welcomed two new regular members: the Ethos foundation of Geneva, which has 230 Swiss public pension funds and the British Friends Provident Foundation, which has been practicing active shareholding in UK for over 15 years.

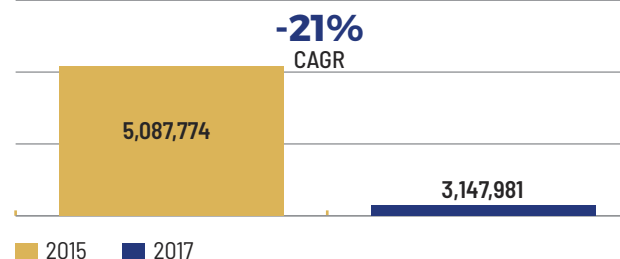
Founded in 1997, Ethos became well-known in 2005 when it became involved in a battle with the Nestl  president and CEO at that time, Peter Brabeck. They requested that he give up one of the two positions. Although rejected by about 60% of the votes, the Ethos’ motion helped to open the debate and later persuaded the corporation to appoint a new CEO. Also well-known is the “**SAY ON PAY**” campaign, which aims to convince companies to submit manager remuneration plans to the shareholders’ advisory vote.

For more information
www.shareholdersforchange.eu

¹⁴ The analysis is dedicated to the phenomenon of transfer pricing in the European telecommunications sector. See Valori, “Vodafone e i furbetti del telefonino. Noi paghiamo le tasse, loro le eludono”, December 5, 2018 in <https://valori.it/vodafone-multinazionali-fisco-ue>

2 NORMS-BASED SCREENING

Value of transactions:	Annual growth rate (CAGR):
€ 3.148 trillion	-21%

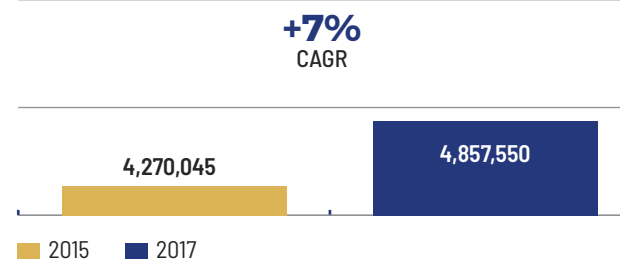


GRAPH 3
Norms-based screening investments in Europe
 [million euros]

Source: EUROSIF, 2018.
 Our data processing.

3 ACTIVE SHAREHOLDING

Value of transactions:	Annual growth rate (CAGR):
€ 4.858 trillion	+7%



GRAPH 4
Engagement and voting investments in Europe
 [million euros]

Source: EUROSIF, 2018.

ENGAGEMENT / 1

CONGO, COBALT AND CHILD MINERS. THE SHAREHOLDERS IN PRESSING ON THE AUTOMOTIVE SECTOR

Electric car? Yes, please. But also being aware of human rights and wary of unscrupulous suppliers. This is the request of the active shareholders when it comes to the automotive sector – with the French Renault and the German Daimler under special observation – privileged recipient of an increasingly precious raw material: cobalt. A commodity crucial to making batteries in “clean” vehicles, this chemical element is largely extracted in the Democratic Republic of Congo (whose production alone covers 2/3 of the global market¹⁵). As well as the large mines, many illegal mining platforms have proliferated over the years, and in these, the use of child labour is widespread. And the risk, obviously, is that the big purchasers – even without necessarily intending to – can end up driving this illegal market based on exploitation of the weakest. Therefore, examining the origin of the purchased product along the entire

supply chain, in short, becomes indispensable. In September of 2018, Ecofi Investissements, also on behalf of Shareholders for Change, of which it is a founding member, successfully concluded its dialogue with the two automobile manufacturers. “In May we have asked a number of specific questions to both companies and we are satisfied with the quality of their answers” stated¹⁶ Cesare Vitali, director of the ESG Research division of Ecofi Investissements. The two auto manufacturers were accused by Amnesty International of not having put in place any initiatives to tackle the problem of child miners in the local supply chain. Later, however, Renault made the commitment of carrying out five audits with the suppliers in 2019 and to cooperate with Amnesty International in the Responsible Cobalt Initiative program. Daimler also joined this program, stating that it had begun studying an alternative to cobalt.

ENGAGEMENT / 2

CLEAN CLOTHES: ENGAGEMENT WITH INDITEX/ZARA IN SPAIN

Since 2017, in Spain, the Fundación Finanzas Éticas (FFE), with the Campaña Ropa Limpia (Clean Clothes Campaign), as a shareholder, has been lobbying the garment multinational Inditex (Zara, Pull&Bear, Bershka, Massimo Dutti), to improve workers’ conditions along the whole production chain. The active FFE shareholders,

with French investor Ecofi Investissements, and as representatives of SfC – the Shareholders for Change network, is also working in other areas, such as tax transparency and environmental responsibility. FFE and Ecofi met Inditex in 2018, and obtained specific environmental commitments.

¹⁵ CNN Money, May 3, 2018 in “Carmakers and big tech struggle to keep batteries free from child labor”, May 3, 2018 in <https://money.cnn.com/2018/05/01/technology/cobalt-congo-child-labor-car-smartphone-batteries/index.html>

¹⁶ Action! The Responsible Shareholder’s Review, “SfC Dialogue on Cobalt Is a Success”, September 27, 2018 issue 6/18

ENGAGEMENT / 3

RHEINMETALL AND THOSE BOMBS OVER YEMEN. A LIGHT AT THE END OF THE TUNNEL

The scenario is the tragic conflict between Yemen and Saudi Arabia. And the protagonist, in negative, is the German company Rheinmetall, which in this war seems to have taken on a leading role in some way. In the activists’ sights is RWM, a company from Domusnovas, Sardinia, 100% controlled by Rheinmetall itself and responsible for producing weapons for Saudi government. In short, the bombs indiscriminately dropped in recent years on the Yemeni population also come from the island. And as if the moral problem were not enough there is also a legal question: the exports of RWM Italia Spa, in fact, would violate the European Parliament’s February 25, 2016 resolution which, as noted, calls for an arms embargo on Saudi Arabia¹⁷. This was the main argument presented by the active shareholders – which include the Fondazione Finanza Etica, the Rete Disarmo (Disarmament Network), the Bank für Kirche und Caritas (representing the SfC-Shareholder for Change network), Urgewald, Campact, various Catholic associations and the ECCHR (European Center for Constitutional and Human Rights) – at the

German company’s annual general meeting. But during the event, held in Berlin last May, the responses of the CEO, Armin Papperger, seemed to many to be an anthem to cynicism. “We are only responsible for the safety of our products, not for the use that is made of them”¹⁸, he stated. When pressed by the shareholders, Rheinmetall rejected any hypothesis of bringing a halt to operations, instead announcing investments of up to 2 million euros in 2019, investments that could rise ten times the following year if it were the case. A few months later, however, something had stirred. “I asked for an account of the exports, or the transit of bombs or other armaments from Italy to Saudi Arabia”¹⁹ Italian Minister of Defence, Elisabetta Trenta stated in September. A request addressed to the Ministry of Foreign Affairs, she specified, “emphasizing – wherever there was a violation of Law 185 of 1990 – to immediately halt exports and immediately terminate the contracts in place”. The road is still long, but for the active shareholders it is already a first sign of hope.

¹⁷ European Parliament, “European Parliament resolution of 25 February 2016 on the humanitarian situation in Yemen”, February 25, 2016 in <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0066+0+DOC+XML+V0//EN>

¹⁸ Valori, “Il cinismo di Rheinmetall premiato col Black Planet Award (Values, The cynicism of Rheinmetall rewarded with Black Planet Award)”, May 9, 2018 in <https://valori.it/il-cinismo-di-rheinmetall-premiato-col-black-planet-award/>

¹⁹ ANSA, “Trenta, chiarimenti su bombe ad Arabia (Trenta, clarification on bombs in Arabia)”, September 17, 2018 in http://www.ansa.it/sito/notizie/topnews/2018/09/17/trenta-chiarimenti-su-bombe-ad-arabia_bafc7f11-5a30-43db-9f2a-4500dc2f2bc9.html

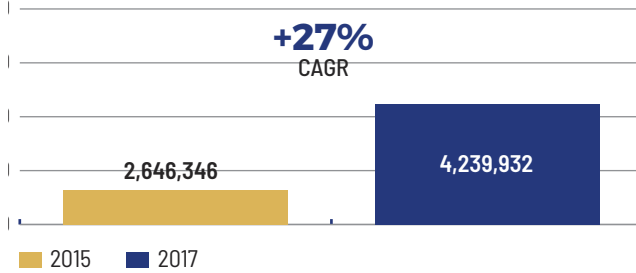
4 ESG INTEGRATION

Value of transactions:	Annual growth rate (CAGR):
€ 4.240 trillion	+27%

GRAPH 5
ESG Integration investments in Europe

[million euros]

Source: EUROSIF, 2018.



6 SUSTAINABLE INVESTMENTS

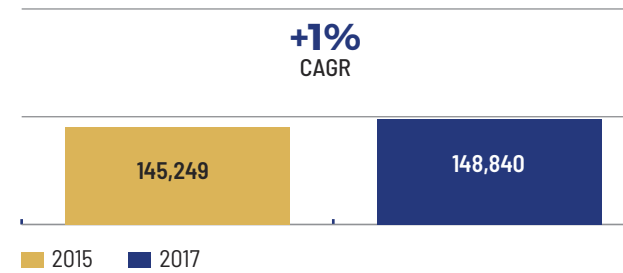
Value of transactions:	Annual growth rate (CAGR):
€ 149 billion	+1%

GRAPH 7
Sustainability themed investments in Europe

[million euros]

Fonte: EUROSIF, 2016.

Our data processing.



5 SELECTION OF "BEST-IN-CLASS" SECURITIES

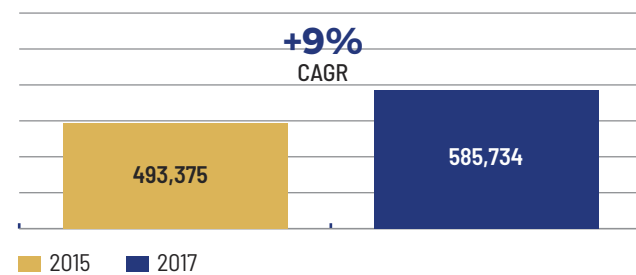
Value of transactions:	Annual growth rate (CAGR):
€ 586 billion	+9%

GRAPH 6
Best-in-class investments in Europe

[million euros]

Source: EUROSIF, 2016.

Our data processing.



7 IMPACT INVESTING

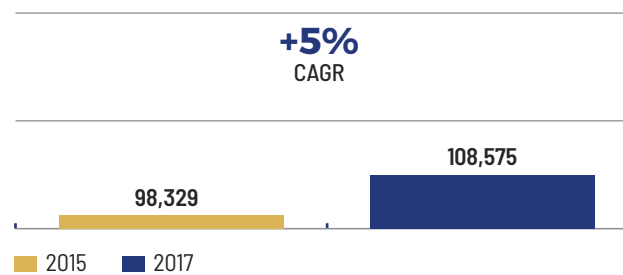
Value of transactions:	Annual growth rate (CAGR):
€ 109 billion	+5%

GRAPH 8
Impact investments in Europe

[million euros]

Source: EUROSIF, 2016.

Our data processing.



EXCLUSIONS, AN ITALIAN PASSION

The overall figure is missing given that the strategies often tend to overlap and the risk of double counting is too great. But the signs are still clear. In Italy too, sustainable investments are booming. Two years ago, when an overall estimate had been made, the aggregate data of managed assets subject to one or more ESG selection criteria showed 616 billion euros, 64 bn more than the value recorded in 2013²⁰. At the end of 2017, the value of sustainable investments that excluded controversial securities of active issuers in the arms, tobacco and gambling sectors amounted to 1,500 billion euros²¹, almost triple compared to two years earlier (570 billion). But that is not all.

The growth in themed investments and the expansion of the ESG Integration assets of impact investing are impressive in terms of percentage. The total portfolio of sustainability themed funds reached almost 53 billion against 2 bn in 2016. The value of best-in-class strategies rose from 4 billion to 58 billion euros. Impact investing reached 52 billion. In 2015, it did not reach 3 bn.

There was also good news from the strategies of engagement and voting, which today characterize a total portfolio of 135 billion euros, about three times the value recorded in 2015 (43 billion). The ESG Integration strategies also increased from € 45 to € 70 billion in two years. The only datum that goes

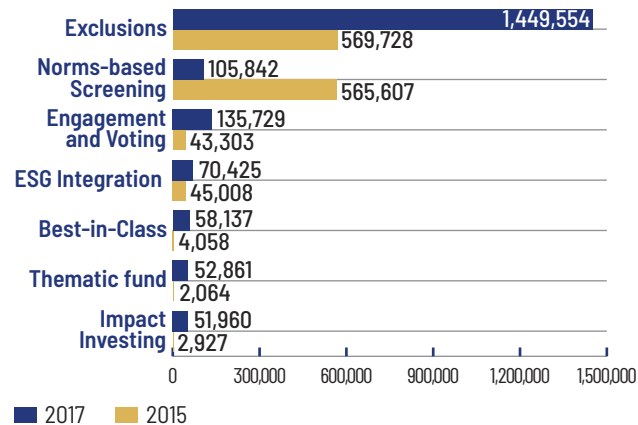
In Italy, sustainable investments that exclude arms, tobacco and gambling-related securities have gone from 616 million to 1.5 billion in two years

²⁰ EUROSIF, 2016; EUROSIF (<http://www.eurosif.org/>), "European SRI Study 2014", October 2014.

²¹ EUROSIF, 2018.

against the trend is related to the Norms-based Screening, which literally collapsed during the period under review: in 2015 it was worth 566 billion, and today is around 106 bn.

GRAPH 9
The expansion of ESG assets in Italy
 [million euros]
 Source: EUROSIF, 2018.



The role of public-private partnerships is significant in creating favourable conditions for further expansions of the ESG sector in the future. In 2018, recalls the EUROSIF report²², the Ministry of the Environment created the Italian Observatory on Sustainable Finance in collaboration with UNEP for the promotion, coordination and monitoring of the sustainable investments market. The Ministry of Economy will also promote a public consultation on the European Directive 2016/2341 (the so-called IORP II) dedicated to the activities and supervision of pension funds.

²² Ibidem.

SRI INVESTMENTS: THE ITALIAN DEFINITION

Founded in 2001, the Forum for Sustainable Finance is a non-profit association in which financial operators and other organizations participate. Its main objective is to “promote the knowledge and practice of sustainable investment”²³. Over the years, the Forum has posed the problem of developing a definition that summarizes the very evolution of the concept of sustainability in the financial sector: originally the investment choices were inspired by moral or even religious principles but later there were also objective motivations “linked to the optimization of the risk-return profile of the portfolio”²⁴. The result is the definition approved in 2014 and which, to date, still constitutes the Forum’s official position. “Sustainable and Responsible Investment,” reads the official document²⁵, “is a medium to long-term investment strategy that, in the assessment of companies and institutions, integrates financial analysis with environmental and social analysis and good governance, in order to create value for the investor and society overall”.

In this way, three aspects are simultaneously defined: the time horizon (medium-long term); the investment methods (by integrating the financial analysis with the environmental and social analysis and governance) and its aims (to create both economic-financial value and social value). There are four investment strategies: 1) negative and positive selection, based on the exclusion of issuers (companies, sovereign states, management companies) that are incompatible with the ESG principles and the inclusion of best-in-class or sustainability themed assets²⁶; 2) integration, i.e. the explicit inclusion of ESG factors in financial analysis; 3) engagement, based on dialogue with the company’s management and on the continuous monitoring of the ESG aspects that accompany its activity; 4) impact investing, or selection of investments that create social value or have a positive environmental impact by making these objectives prevail over the purpose of economic return.

²³ See <http://finanzasostenibile.it/presentazione/>

²⁴ Forum per la Finanza Sostenibile, “L’Investimento Sostenibile e Responsabile: una definizione al passo con i tempi. La posizione ufficiale” (Forum for Sustainable Finance, “Sustainable and Responsible Investment: a definition in step with the times. The official position”), Milan, September 3, 2014 in http://finanzasostenibile.it/wp-content/uploads/2016/08/140903_Posizione_ufficiale_SRI_FFS.pdf

²⁵ Ibidem.

²⁶ See the list of the seven strategies developed by EUROSIF (Part 2, Chapter 1).

TEN WASTED YEARS

A decorative graphic consisting of four horizontal lines of varying colors: a thick dark blue line at the top, followed by two thin white lines, and a thick white line at the bottom.

THIRD PART

GLOSSARY

SECURITIZATION

The process by which the receivables claimed from debtors are used as the underlying asset for a derivative which then becomes part of the guarantee. The derivatives are then traded on the market, thereby transforming the receivables into liquid cash..

CLEARING

The business of brokerage through a party who guarantees the derivative contracts exchanged between market traders.

DERIVATIVE

Stock whose value is linked to that of another asset known as "underlying". Derivatives typically pay an insurance premium in relation to the occurrence of an event (the rise or fall of an interest rate or the price change of a raw material, for example).

FLIGHT TO QUALITY

Flight to quality is the phenomenon for which traders sell the riskiest securities to invest in so-called shelter assets (triple-A bond, gold, etc.). Flight to quality typically penalizes emerging areas, generating an outflow of capital from the latter to mature economies (US, Western Europe, Japan, etc.).

HEDGE FUNDS

An investment fund with a conspicuous speculative propensity and an objective of guaranteeing constant returns over time. Hedge funds are characterized by the use of financial transactions and techniques that are typically not permitted for traditional funds.

HEDGING

Any financial hedging activity, or activity for the purpose of offsetting the risk of another activity. For example, the purchase of a derivative that pays in the event of default on a bond represents a hedging operation for those holding the bond.

LEVERAGE

The operation by which a trader invests much more money than he has by collecting capital through accruing debt.

NOTIONAL AMOUNT (DERIVATIVES)

The measurement of the theoretical value - including the potential premium - of all derivative contracts entered into by a subject or present in a given market [see **NOTE 28**].

OVER THE COUNTER (MARKET)

Atypical financial transactions agreed upon privately between the parties and off-balance sheet. These are normally used as hedging instruments against exchange rate fluctuations, but also against any other type of risk.

PROPRIETARY TRADING

An investment made by a bank with funds available for the purpose of making a profit for the bank itself and not for its clients.

QUANTITATIVE EASING

The expansionary operation of central banks in which they issue money and/or repurchase securities on the market (with consequent increase in the liquidity available on the market) which is accompanied by a lowering of interest rates (with a subsequent reduction in the costs of financing by banks and, as a consequence, their customers).

SHADOW BANKING

The set of credit intermediation activities that take place outside the traditional banking system.

TEN WASTED YEARS

“**T**he complete vanishing of liquidity in certain segments of the American bond market makes it impossible for us to evaluate some assets without taking into account the quality of their ratings”. These were the words of Bnp Paribas¹, on a strange August 9th of that unfortunate year 2007. Undoubtedly, very few would have immediately understood the deeper meaning of that note to investors. But among those few, those *happy few*, equipped to decipher the message that announced the freezing of three securitization funds, the image of the impending storm must have had all the appearances of a certainty.

Ten years after that American housing bubble burst, triggering the worst crisis since 1929, the global economy continues to show anomalous macroeconomic conditions. Something has definitely improved. But many, too many signals - according to numbers - warn us that we should not sleep soundly.

The same strategies that were used to treat the illness caused these anomalies. In other words, that flow of public money that the U.S. and Europe let loose. Limiting ourselves to the Old Continent, the *State Aid Scoreboard* of the EU Commission recalls that from 2008 to 2015, direct interventions on the banking system approved in the European Union for recapitalizations and write-downs amounted to 1,400 billion euros,

¹ See BNP Paribas, “BNP Paribas Investment Partners temporarily suspends the calculation of the Net Asset Value of the following funds” (press release), August 9, 2007 at <https://group.bnpparibas/en/press-release/bnp-paribas-investment-partners-temporarily-suspends-calculation-net-asset-funds-parvest-dynamic-abs-bnp-paribas-abs-euribor-bnp-paribas-abs-eonia>

A decade after the U.S. real estate bubble burst, triggering the worst crisis since 1929, the global economy still shows worrying anomalies

almost 10% of the continental GDP, while escrow accounts *et similia*, exceeded 3,500 billion. The figure actually used — according to the survey — stops in any case at 40% of the total.

The true protagonists of the anti-crisis therapies, however, were undoubtedly the central banks, which through the so-called *Quantitative Easing*, poured a mass of unprecedented liquidity in by buying on the market more or less — or not at all — problematic securities and by inflating, by extension, the illiquid share of their accounts.

THE ASSETS IN THE BELLIES OF THE ECB, FED AND BOJ TRIPLED

Between the end of 2008 and the beginning of 2017, Bloomberg² noted, the assets controlled by the Fed, Bank of Japan and ECB alone grew respectively by 400%, 358% and 105% [GRAPH]. [see GRAPH 1]. At the end of 2018, according to a report by the consulting firm Yardeni Research³, the assets in the hands of the three central banks had dropped in comparison to the maximum peaks but still exceeded 14,000 billion dollars⁴, approximately three times the amount recorded in 2008. By the way, in the same period, interest rates fell everywhere to some extent.

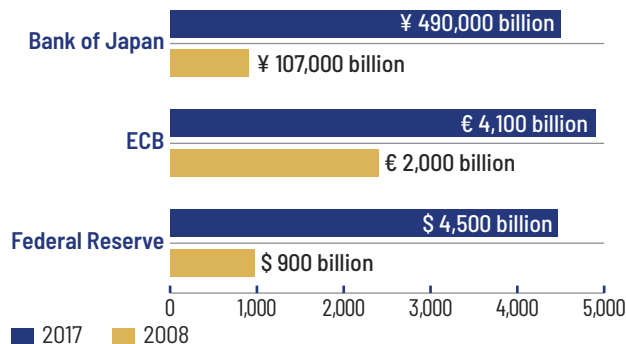
Is everything ok? Not at all. “Ten years after the crisis hit, advanced economies have not yet managed to disengage from

GRAPH 1

The extent of Quantitative Easing in the U.S., the Eurozone and Japan

Source: Bloomberg, “Markets Start to Ponder the \$ 13 Trillion Gorilla in the Room”, April 19, 2017; our data processing.

Data in billions expressed in the respective currencies.



² See Bloomberg, “Markets Start to Ponder the \$ 13 Trillion Gorilla in the Room”, April 19, 2017 at <https://www.bloomberg.com/news/articles/2017-04-19/markets-start-to-ponder-the-13-trillion-gorilla-in-the-room>

³ See Yardeni Research, “Global Economic Briefing: Central Bank Balance Sheets”, January 2019 at <https://www.yardeni.com/pub/peacockfedecbassets.pdf>

⁴ In detail: FED \$4000 billion; ECB \$5300 billion; Bank of Japan \$ 4900. Ibidem.

a growth model that depends largely on liquidity and leverage, two elements made available first by the private banks and later by the central institutions”, as Mohamed A El-Erian,⁵ former president of the *Global Development Council* during the Obama administration, explained in August 2017 in the *Guardian*. Certainly, with the markets loaded with investments and the indexes increasingly in orbit, there is danger lurking. “The central banks are at a crossroads”, explained Paolo Guerrieri, a professor of Economics at the Sapienza University in Rome, in October 2017⁶. “If they come to a halt, they risk jamming the engine. If they insist on taking the same approach, they continue to fuel a bubble”. In short, a trap is lying in wait. But is it really the fault of the central banks?

If anything, the problem is that, in all these years, the central banks have been left alone. “Fiscal policy has disappeared and public investments, invoked numerous times by the OECD, have collapsed everywhere in developed areas,” the professor concluded. “All this reduces the effectiveness of the monetary incentives: the economy is growing but not enough. Unemployment is decreasing but inflation is not being created, the conditions underlying the social imbalances remain intact”. In short, what is missing is the New Deal, which characterized the period following 1929.

THE STOCK MARKET IN CRISIS

In the meantime, the therapies mentioned have had positive effects on the stock market listings. But still we see here many risks for the future. In the last ten years, according to the management company Carmignac, in a statement released in December 2018, the S&P 500 has grown by 167% while the Nasdaq registered a frightening +464%. But now the party really seems to be over. In 2018, the note particularly emphasizes, the emerging stock markets sold an average of 17%: the Chinese markets burned out one-fifth of their value. Again at the beginning of December, Eurostoxx 50, a reliable thermometer for the stock markets on the Old Conti-

⁵ *Guardian*, “Why haven’t politicians learned from the financial crisis?”, August 18, 2017 at <https://www.theguardian.com/business/2017/aug/17/politicians-lessons-financial-crisis-advanced-economies>

⁶ See Valori, “2007-2017: la crisi del decimo anno (Values, “2007-2017: the crisis of the tenth year)”, no. 152, October 2017

The central banks have been left alone to tackle the crisis. Public investments have disappeared from the government agenda. This reduces the effectiveness of the monetary incentives

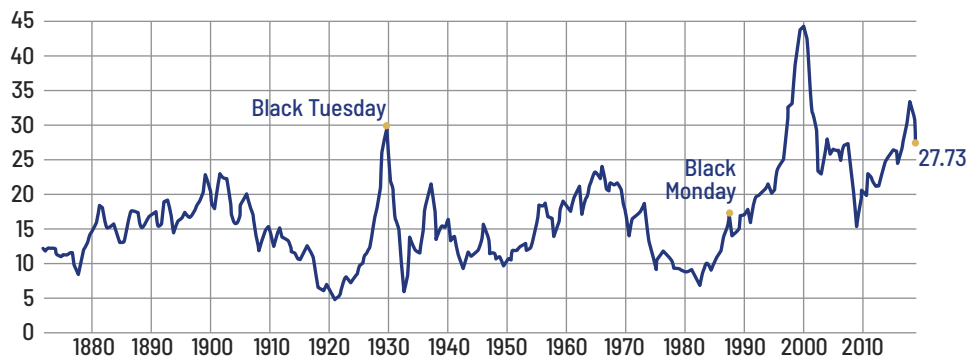
ment, went to just above 3,000 points and lost almost 13% since the beginning of the year. Finally, the global Msci World index fell in the same period to 1,965 points, dropping 12.6% since the January peak. The US, since now, is relatively stable. But not by chance: to compensate for the negative effects of the rising rates, there is the return of offshore capital motivated both by tax concessions as well as by flight from emerging markets (flight to quality). Which, for their part, are the well-known victims of the Fed's bullish moves and the Washington-Beijing trade conflict⁷.

Expressing this, among other things, is the trend of the so-called Cyclically adjusted price-to-earnings ratio (CAPE), an index developed by the Nobel Prize winner Robert Shiller. Essentially, it measures the extent to which S & P 500 shares are⁸ overvalued.

In August 2017, its value exceeded 30 points, a terribly high level that, not surprisingly, has only two historical precedents on record: the spring of 1997, in the expansive phase of the DotCom bubble, and late summer of 1929, on the eve of Wall Street's Black Tuesday [see **GRAPH 2**]. At the end of 2018, it fell below 28 points, still a high level however⁹.

Furthermore, in September 2018, the *Case-Shiller National Home Price Index*, the index that highlights the price

GRAPH 2 How inflated is the American Stock Market? - CAPE INDEX 1881-2018



Source: Robert Shiller, "Irrational Exuberance", at <http://www.multpl.com/shiller-pe/>, accessed in January 2019.

⁷ See Valori, "Fed e dazi: tra USA e Cina perdono gli emergenti (Fed and Duties: between the US and China, the emerging markets lose)", March 27, 2018 at <https://valori.it/fed-dazi-usa-cina-perdono-gli-emergenti/>

⁸ See Robert Shiller, "Irrational Exuberance", at <http://www.multpl.com/shiller-pe/table?f=m>

⁹ Ibid, access on January 2019

trends in the American real estate market, reached its historical peak at 205.8 points, 11.5% higher than the peak of July 2006¹⁰.

The causes for concern do not end here: according to the Institute of International Finance, the association that brings together the world's major banks, the amount of debts registered in the world in the first quarter of 2018 reached 247,000 billion dollars¹¹, 29 thousand billion more than the figure for the end of 2016. Special concerns arise in regard to emerging countries which, with total debts amounting to 58,500 billion dollars, have brought their historical record up to date. The increase in interest rates, in fact, makes the outstanding accounts increasingly unsustainable.

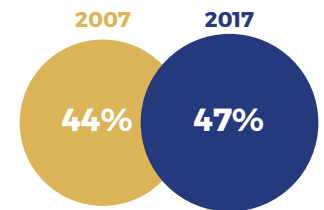
BANKS: EXTREME CONCENTRATIONS...

Then there is a series of alarming elements inherent to the banking sector: extreme concentrations were pointed out as one of the factors that triggered the domino effect from the Lehman crack onwards. "Too big to fail" has become a well-known expression even among the local market stalls. But, as the Financial Times noted last September¹², ten years later, "the big beasts are even bigger". At the last survey, the top five US banks controlled 47% of banking activities compared to 44% in 2007. And the 1% of mutual funds hold 45% of the assets. Some examples just to give the idea.

JPMorgan currently holds assets for 2560 billion dollars. This figure is basically double that of the end of 2006. One step below, Bank of America and Deutsche Bank: the first increased assets by 56% to 2280 billion. The German bank - as the FactSet financial analysis agency reveals - grew by 21%.

Wells Fargo's growth is even more impressive. After acquiring the financial services company Wachovia, which

Control of the first five U.S. banks



¹⁰ See Federal Reserve Bank of St. Louis, "S & P / Case-Shiller US National Home Price Index (CSUSHPINSA)" in <https://fred.stlouisfed.org/series/CSUSHPINSA>, access to January 2019.

¹¹ See Bloomberg, "Global debt hits a new record at \$ 247 trn, \$ 29 trn higher than end of 2016", July 12, 2018 at https://www.business-standard.com/article/economy-policy/global-debt-hits-a-new-record-at-247-trn-29-trn-higher-than-end-of-2016-118071200024_1.html

¹² Gillian Tett - "Five surprising outcomes of the 2008 financial crisis". <https://www.ft.com/content/73e3ae2a-b1ca-11e8-8d14-6f049d06439c>

went bankrupt during the crisis, it now has 1930 billion and a 300% growth in 12 years.

Close to the giants of the Western world, the ones from the emerging countries: China over everyone, of course. The four systemic banks in the country have more than tripled their assets, as S&P Global Market Intelligence reveals: in particular, the Industrial and Commercial Bank of China (the world's first bank) holds 3760 billion (it was 1,110 at the end of 2006). A real failure by the regulatory authorities in making changes to the market structure. "If and when another crisis hits, the biggest players will be even bigger than last time," the S&P Global Market Intelligence analysts warn.

What's more, not even the problem of non-banking financial companies has been solved. In 2010, the Financial Times stresses, the "shadow banks" controlled 28,000 billion dollars. Today, conservative estimates calculate that this figure has risen to 45,000 billion, or 13% of global financial assets.

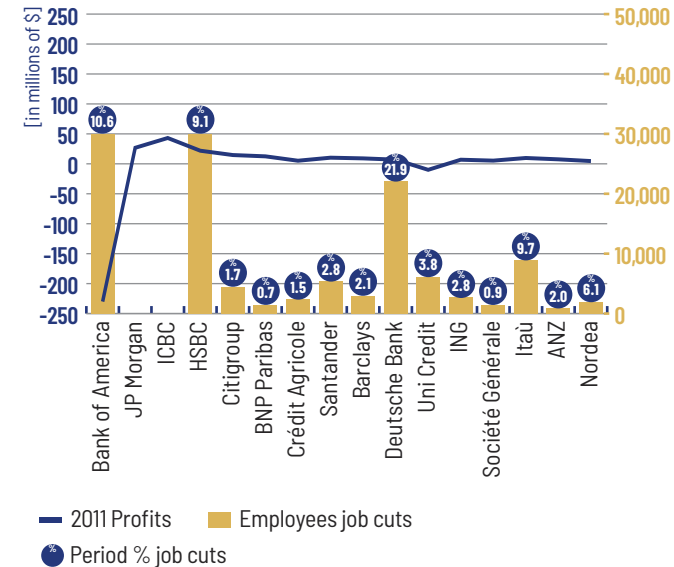
... AND MORE EMPLOYEES ARE FIRED

At the end of the day, the only reductions (o cuts) that have taken place in the last decade regard the employment levels in the financial sector as a result of restructuring activities: since the beginning of the crisis - calculates a report drawn up by the Uni Finance Global Union¹³ - in 18 countries surveyed (15 European countries¹⁴, as well as Australia, India and the United States), 300,369 jobs were lost.

The research then analysed data from 14 banks, including the 5 largest ones on the planet. In this group of credit institutions, which have nearly 3 million employees, the jobs lost numbered 121,117. In the same period, the same banks accrued profits amounting to between 4 and 40 billion dollars.

¹³ UNI Finance Global Union: "Job losses and restructuring process in the financial sector".

¹⁴ United Kingdom, Spain, Italy, France, Germany, Austria, Finland, Norway, Sweden, Denmark, Belgium, Romania, Moldova, Greece, Ireland.



GRAPH 3
Banks, profits return, but jobs disappear

Spurce: thebankerdatabase.com (FT) 2012 & UNI Global Union survey.

Control of the "shadow banks"

2010

2017

28

thousand billion dollars

45

thousand billion dollars

ITS REPUTATION IS COMPROMISED: THE INVESTORS "DODGE" BANK SHARES ONCE AGAIN

Down 8% from the 2007 peak: financial securities are the only large group in the S&P 500 index that has not yet fully recovered from the bearish market. This was revealed by an analysis published last September by Bloomberg. The feeling - wrote the financial newspaper - is that the dislike for the banking system has not fade away. On the contrary, there seems to be war brewing between fund managers and the banks. The latter, recalls an analysis by Goldman Sachs, was the most avoided segment among hedge funds at the end of June. At the same time, mutual funds have been reducing holdings to minimum levels since 5 years.

A real fall to misfortune: ten years ago, in fact, the banking sector constituted one fifth of the market. Now it marks the pace and has a gap of 12 points compared to the technology sector.

Scepticism is therefore widespread, despite the fact that various analysts consider it out of line with the fundamentals of the banking world, showing a marked improvement. The last 10 years, for example, - explains Mike Mayo, a Wells Fargo analyst at Bloomberg, - marked a clear turnaround for banks and on several fronts: from capitalization to cost control to the alignment of top management remuneration with returns guaranteed to shareholders. But when reputation is compromised, it is difficult to recover. "The industry has lost stature," said Jack Micenko, a banking analyst at Susquehanna International Group LLP. "Finally, fund managers' approach is more similar to the MBA graduate's one: than 10 or 15 years ago, they prefer rather to chose High Tech companies than the ones from Wall Street".

According to data from the Bank for International Settlements, the global notional of over-the-counter (OTC) derivatives amounts to 595,000 billion dollars¹⁵, a figure not far from that recorded in 2007 and equal to about seven times the world's gross domestic product.

DERIVATIVES

Over the last ten years, the Carmignac management company recalls, the S&P 500 index grew by 167% while the Nasdaq recorded a terrific +464%. In 2018, however, the market experienced a reversal in trends: during the year (data from the beginning of December) the emerging equity markets sold an average of 17% (-20% the Chinese indices), Eurostoxx 50 sold almost 13, the Msci global index lost 12.6% from the January peak. The US, until now, is relatively stable.

STOCK MARKETS



HOW THE MARKET CHANGES (2007-17)

PAYABLES

According to the *Institute of International Finance*, the association that brings together the world's major banks, the sum of debts registered throughout the world in the first quarter of 2018 reached 247,000 billion dollars, 29 thousand billion more than the figure for the end of 2016. Special concerns arise in regard to emerging countries which, with total debts amounting to 58,500 billion dollars, have brought their historical record up to date.

U.S. REAL ESTATE

Furthermore, in September 2018, the Case-Shiller National Home Price Index, the index that highlights price trends in the American real estate market, reached a historical high at 205.8 points, 11.5% higher than the peak of July 2006.

INCOMPLETE REFORMS: THE SPECULATION CONTINUES

Ten years after the outbreak of one of the greatest economic crises in history, the financial system continues to accumulate enormous power and at the same time take incalculable risks. The proclamations made with great fanfare by the main political representatives of the Planet at the G20 summit in Washington in November 2008 came to a dead end. And while it is true that the world economy, in conventional terms, seems to gradually be returning to its pre-crisis standards, dark clouds are at the horizon that show disturbing similarities to the causes that triggered the 2007-2008 crisis.

2018: DÉJÀ VU?

Not unlike the beginning of the millennium, after the dot-com bubble burst and the 9/11 attacks, monetary policy is confirmed as fully expansive. But unlike that time, the direct effects on the real economy are very limited. Experts suggest that it could have been consumption rather than business investment that was driving the recent economic growth. And in the meantime, we are seeing a dangerous increase in debts for families with low wages, a general increase in prices (especially on the real estate sector), a reduction in welfare and growing risks of insolvency with a view to future tax hikes.

The major banks became even bigger after absorbing other troubled financial institutions and are again imposing the road to deregulation through their powerful lobbying. The existing global bodies operate as if like a tight circle: their operational rules are not transparent, they are not held responsible, they do not have regulatory or coercive capacities and they develop proposals that are subsequently translated to a national or regional level. The World Bank continues to operate as a development bank and the sole priority of the International Monetary Fund is to maintain the stability of the monetary system.

¹⁵ See BIS, "OTC derivatives outstanding", December 16, 2018 at <https://www.bis.org/statistics/derstats.htm>

The Bank for International Settlements reveals: the notional value of OTC derivatives amounts to \$ 595,000 billion. The figure is not far from that of 2007 and is seven times greater than the world GDP

According to data from the Bank for International Settlements, the global notional amount of over-the-counter (OTC) derivatives is 595,000 billion dollars,¹⁶ a figure that is not far from the one recorded in 2007 and equal to about seven times the world's gross domestic product. In the meantime, reforms promoted for traditional banks have not affected the so-called shadow banking system. Creative finance, the excessive weight of short-term profit-oriented strategies, securitization and, in general, speculative mechanisms are not yet deterred.

This explosive cocktail is aggravated by a growing inequality¹⁷. The public coffers are overburdened by the weight of the bank bailouts while public and private debts - 2500 billion euros of which are held by the ECB and the central banks of the EU - are experiencing a rampant growth. The public debt in those European countries most affected by the crisis far outweighs the value of the national product¹⁸. Global debt has increased by over 40% in the last ten years¹⁹. The situation is critical in the face of possible new crises.

REFORMS: LOTS OF SMOKE, BUT NOT MUCH FIRE

Finally the presumed re-founding of capitalism did not take place. The reforms have been weak: they involve risk management in banking, but not the system as a whole.

Bank crisis management schemes²⁰ are still difficult to judge. As an example, the liquidation plan of Banco Popular, the sixth Spanish institute for the value of its assets, imple-

¹⁶ See BIS, "OTC derivatives outstanding", 16 December 2018 in <https://www.bis.org/statistics/derstats.htm>

¹⁷ See OECD, "An Overview of Growing Income Inequalities in OECD Countries: Main Findings", December 5, 2011 at <https://www.oecd.org/els/soc/49499779.pdf>. The analysis shows a substantial deterioration of the Gini index in the OECD countries, with respect to the levels recorded in the years preceding the crisis.

¹⁸ In particular, see 180% in Greece, 132% in Italy and 125% in Portugal. Eurostat, "Government debt down to 86.3% of GDP in euro area", October 23, 2018 at <https://ec.europa.eu/eurostat/documents/1015035/2040695/164-2018-EN.pdf/777c4a5d-d0ef-4b87-b8fa-7e41d3a2b2ef>

¹⁹ See Nikkei Asian Review, "Global debt ballooned 40% in decade after financial crisis", September 15, 2018 at <https://asia.nikkei.com/Economy/Global-debt-ballooned-40-in-decade-after-financial-crisis>

²⁰ In Europe the Bank Recovery and Resolution Directive (BRRD).

mented in 2017, highlights this. The intervention did not involve any cost for public funds or for the account holders. But since 2012, the bank management has had no lack of intrigues and controversies and many lawsuits are still pending. Therefore it will be necessary to see the outcomes of these actions. One also has to wonder whether the intervention mechanisms will also work for the larger banks that are more exposed to external risks, assuming that the interventions actually began on time.

Regulatory authorities have imposed more stringent transparency requirements for banks and adopted further legislative measures to protect small investors who have been subject to clear abuses due to "asymmetries" in information. In Europe, these measures include the introduction, in 2014, of updated versions of the Directive on Financial Instruments Markets (MiFID II), initially designed to strengthen the European single market for capital and at the same time providing clients with greater protection. Despite the disadvantages for the latter and the bureaucratic costs, these protection measures, for the moment, seem to be effective.

Other reforms²¹ have brought better controls and inspections by banking regulators. However, the crisis has not only demonstrated the limited supervisory capacity of regulators but also their lack of interest and even their collusion with the banking system itself. And this kind of problem cannot be solved merely with better supervisory tools but rather greater responsibility on the part of regulators towards the public.

Finally, the measures envisaged by the Basel III agreements in 2017²² regard only traditional banks, and exclude the rest of the financial operators from the regulations. The regulations make provisions for increases in capital, restrictions on leverage, control over the mechanisms for calculating credit risk and the introduction of operational risk prevention measures (within its internal systems or in the case of external events). But even these interventions do not substantially change the situation that much. Large banks continue to move about freely and take disproportionate risks.

²¹ For example, with the creation of the Financial Stability Board (FSB) within the BIS or the European System of Financial Supervision (ESFS).

²² See BIS, "Basel III: international regulatory framework for banks", December 7, 2017 at <https://www.bis.org/bcbs/basel3.htm>

The crisis has brought out the regulatory authority's disinterest and collusion with the banking system

The measures adopted have neither slowed speculation nor dealt with the problem of negative effects on society caused by the banks' behaviour

Generally speaking, the measures adopted appear to be more technical than political. No actions to halt speculation have been put in place, nor measures to avoid the risk of contagion in the event of new crises, and the problem of the negative effects that banks' behaviour can have on society as a whole has not yet been tackled. Finally, no large-scale anti-cyclical measures were imposed to definitively leave behind the old principle of privatising profits and socialising losses. In short, the system continues to work against the common interest.

DERIVATIVES: A BIGGER BUBBLE THAN PREDICTED?

The real value of the global market of derivatives could very well outweigh the conventional estimate reported by the Bank for International Settlements (BIS). This is what the latest data on the European market would lead us to believe. According to the latest report by the European Securities and Markets Authority (ESMA)²³ for 2017, Europe alone recorded 74 million transactions on the derivatives market for an overall apparent value of 660 thousand billion euros. The figure shows a significant growth (+55 thousand billions since the beginning of the year) and includes both over-the-counter (OTC) transactions – at least 542 thousand billion in value – and those managed by clearing houses. Some 69% of the securities traded are contracts on interest rates. Almost all transactions (95%) are carried out by banks and investment companies.

In January, on the newspaper, Italia Oggi²⁴, former Undersecretary for Economy Mario Lettieri and economist Paolo Raimondi raised

the alarm. In its latest survey, they explain, the BIS estimated 622 thousand billion dollars in the total outstanding value of derivatives globally; of these, the OTC securities amounted to 532 thousand billion²⁵. The problem, however, according to Lettieri and Raimondi, is that the BIS assessments “are only based on surveys carried out through the central banks of some countries with some large international banks”. Which, “in practice, report whatever they want”. The ESMA report, on the other hand, “is based on more truthful and highly detailed data”. All things considered, they maintain, the real weight of derivatives in the world is likely far greater than predicted. With all the risks that this entails. “Furthermore, the BIS has always indicated that the ‘European component’ of the derivatives market was approximately a quarter of the global total”, the two analysts wrote. “If this estimate were to be confirmed, then the OTC bubble could be much bigger than the one experienced until now. There are numerous reasons to take this thing damned seriously”.

“CAREFUL, THE MONSTERS ARE BACK”

By now we are hearing from all sides that the crisis is over. Is that really the case?

No, absolutely not. The crisis is not over because the macro-economic problems that produced it have not been resolved. Furthermore, investments in the real economy are at a minimum and the returns on investments are very low. The system is still unstable. One positive thing, however, is that banks have more equity and can use their own resources to cope with any new crises.

So, has something changed? Have some reforms worked?

Yes, certainly. The reforms in Europe and in the US have followed more or less the same path, leading to similar results. The problem with the reforms is that now, ten years after the crisis struck, the monsters are back and by monsters I mean the bank lobbyists, who try in every way to lower the capitalization requirements. Unfortunately, many colleagues in the European Parliament have a poor memory and let them have their way.

Are there any other successes worth talking about?

Yes, for example the **CLEARING** (compensation) of derivative financial contracts. Before the crisis, OTC derivatives (**OVER THE COUNTER**), purchased and sold outside regulated markets, were not required to have their transactions regulated through a “clearing house”. With the 2012 EMIR regulation, this obligation has been introduced and today an increasing number of OTC derivatives trading is offset by a clearing house: a third party between the seller and the buyer who, for a fee, assumes the risk in case one of the parties involved in the contracts becomes insolvent.

Did the EMIR work then?

Definitely! And the European banking supervision system, which was not there before, is also working. First we had very weak individual state controllers and now we have a single controller, at the European level, which has decided that “sys-

Sven Giegold, the Greens' financial spokesperson for the European Parliament: “The new European standards are working but bank lobbyists have gathered strength again. And speculation is never-ending”

²³ See ESMA, “ESMA Annual Statistical Report EU Derivatives Markets 2018”, October 18, 2018 at https://www.esma.europa.eu/sites/default/files/library/esma50-165-639_esma-rae_asr-derivatives_2018.pdf

²⁴ See ItaliaOggi, “Derivati, c'è una grande bolla (Derivatives, it's a big bubble)”, January 2, 2019. The article is found in full at https://www.ariannaeditrice.it/articolo.php?id_articolo=61397

²⁵ See BIS, “Global OTC derivatives market”, 1December 16, 2018 in https://www.bis.org/statistics/d5_1.pdf

In December 2018 the EU Commission introduced a limit to the ratio between capital and debt. It was established at 3%. A ridiculous ceiling but a first step

temic" banks exist, banks whose possible instability is important enough to weigh on the world economy. It is clear, however, that common European banking supervision will only be complete when we will have a European deposit guarantee scheme.

But it's having trouble taking off...

Yes, and it's mostly Italy that's putting a spanner in the works, and it should decide to accept the bail-in rules in force since 2016 (*resolution of banking crises envisioning the direct involvement of shareholders, bondholders and depositors, ed.*) instead of constantly looking for loopholes.

Has any progress been made in this last year?

Yes, in December of 2018 the European Commission introduced, with the so-called "risk reduction package", a minimum limit for the leverage of banks (indebtedness index), in other words, the ratio between bank equity and debts. It has been set at 3%, but for systemic banks it will be higher. This regulation is already set out in the Basel III agreement, but now it has become European law in all respects. Clearly this 3% is ridiculous, but it is a first step. At least now we have something definite, a reference parameter which did not exist before and is something to aim for.

Measures were then introduced that require listed banks to declare their ESG risks (environmental, social and governance). The ESG criteria and risks of exposure to money laundering will also be considered when the measure for capital requirements of banks is defined.

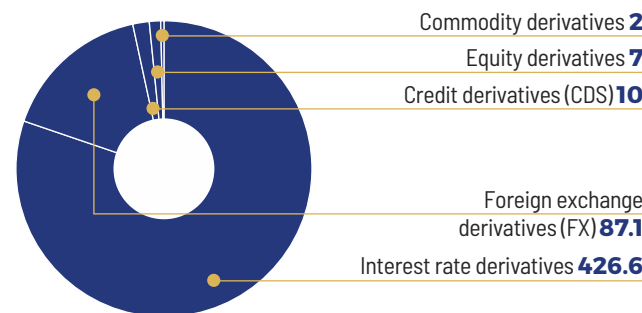
Are there any more reforms on the horizon to prevent new crises?

There are, but the progress of the reforms has slowed down. After ten years, we feel less urgency to intervene. We are working on the "union of capital markets" to counter the fragmentation of the markets: there have certainly been steps forward but not in the direction we had hoped for. The national insolvency regulations still need to be harmonized. For this reason, the Bank Recovery and Resolution Directive (BRRD), to prevent and manage bank crises, is in fact a lame duck: individual countries can adopt their own insolvency procedures which can conflict with European law. And the treatment of taxes on capital income also needs harmonization. In short, there are plenty of irons in the fire, but the path is more uphill than ever.

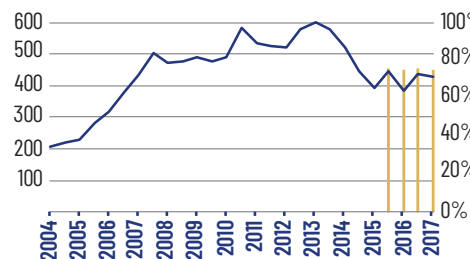
GRAPH 4 THE WORLD OF OTC DERIVATIVES

"An increasingly large share of derivatives contracts is now cleared centrally through a **CCP**. According to the Bank for International Settlements' most recent figures, the share of centrally cleared interest rate and credit derivatives in particular has grown. End-2017, the underlying value of the over the counter (**OTC**) derivatives market amounted to USD 532 trillion. Some 75% of this market is cleared through a CCP, an increase of 50% compared to a decade before (period 2007-2017).

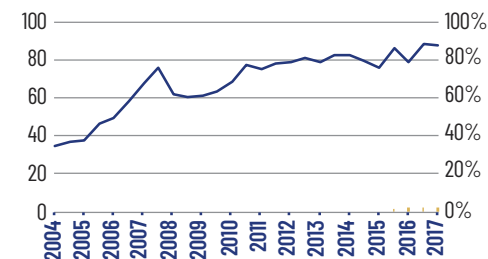
Source: BIS derivatives statistics. Data in USD trillion.



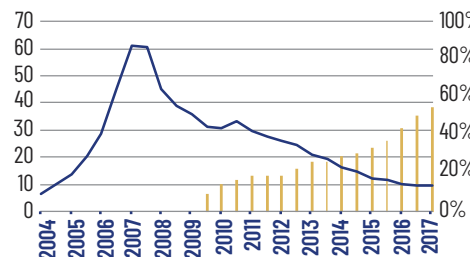
Interest rate derivatives



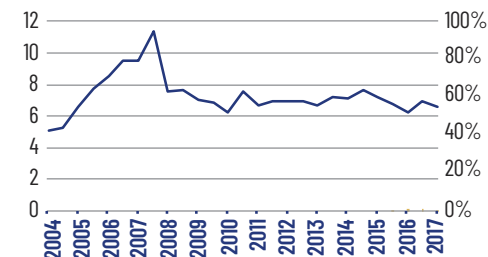
Foreign exchange derivatives



Credit derivatives



Equity derivatives



— Underlying value of total outstanding OTC derivatives ■ Share of derivatives cleared through a CCP (right axis)

CHANGE FINANCE: 50 ORGANISATIONS BECOME ALLIED TO RECTIFY FINANCE

Building a stable and democratically-governed financial system that really serves citizens and the planet. It is an ambitious but nonetheless indispensable commitment if we really wish to review the mechanisms underlying the outbreak of the financial crisis. The “Change Finance” campaign, launched last year in September by an international coalition of more than 50 NGOs, associations and organizations, is taking on the challenge. Among them is the Italian Foundation for Ethical Finance (FFE). “For some time now, the networks of European civil society have been denouncing the lack of courage and political initiative in response to the crisis”, explains Simone Siliani, director of the FFE. “Within this campaign, they want to organize initiatives throughout Europe to put pressure on European political decision-makers. If there is a sign of hope since the time the crisis broke out 10 years ago, it is the increased awareness of those who ask that finance must be at the service of the economy and the people and not vice versa”.

The resolutions translate into 14 proposals²⁶ to regulate financial assets. What are they? For example, promoters ask that the financialization of welfare services (starting with education and health) be discouraged, and that speculative and short-term investments introduce instruments socially and ecologically

orientate investments, and begin a gradual process of disinvestment away from sectors that are harmful for the Planet, starting with fossil fuel sources. At the same time, it is crucial to introduce limits to the financial industry’s lobbying activities and increase the transparency of information provided by banking institutions by stepping up controls on the derivatives market and the shadow banking sector. But there is more: “We need to separate the activities of investment banks from traditional banking operations,” explains Jordi Ibañez, Director of Fundación Finanzas Éticas²⁷, who adds: “The rating agencies must be subject to public controls and avoid conflicts of interest. The pursuit of short-term profit strategies and the use of financial hedging instruments, including derivatives, must be discouraged and regulated to prevent abuses”. Finally, one proposal that would avoid a repetition of the 2008 domino-effect collapse is to create interconnection systems for the financial system that enables it to absorb its losses autonomously. “No business should be too big to fail”, write the promoters of Change Finance.

The campaign officially started on September 15, 2018 with initiatives all over Europe (primarily in Austria, Belgium, France, Germany, Ireland, Italy, Holland, United Kingdom, Scotland and Spain) and in the U.S.

²⁶ The proposals, in detail, are mentioned at www.changefinance.org and in Finance Watch “Ten Years After: Back to Business as Usual”, September 15, 2018 at <https://www.finance-watch.org/wp-content/uploads/2018/09/10YA-FW-report.pdf>

²⁷ www.finanzaseticas.net

U.S. FINANCE: THE WINDS OF RESTORATION BLOWS WITH TRUMP

The Dodd-Frank Wall Street Reform and Consumer Protection Act, the reform law of the American financial system approved in 2010, is still in force. But its potential has been greatly reduced due to significant changes. On May 22, 2018, the House of Representatives in the American Congress voted in favour of the new regulations already approved two months earlier by the Senate. The new law slightly weakens regulation for banks that do not pose a systemic risk (those with total assets of fewer than 250 billion dollars compared to the 50 envisioned previously). This latter change of course was strongly supported by Donald Trump who, two days after the House vote, signed the law.

Backed by Barack Obama, the Dodd-Frank Act aimed at introducing stricter regulations to reduce the level of risk in the financial market. The maxi-reform — over 400 articles totalling approximately 8 thousand pages — regulates various sectors: from raw materials to derivatives, banking activities and managers’ remuneration. The most important change is the so-called *Volker Rule*, the rule that prohibits proprietary trading, or the use of clients’ funds (deposits) to make investments with the scope of achieving a profit for the bank. The massive use of **PROPRIETARY TRADING** alone, say the critics, paved the way for speculation transactions — starting with those on mortgage securitization — the origin of the great global crisis of 2007-08. The ban — which recalls the old Glass-Steagall Act of 1933 (abolished in 1999 by Bill Clinton) aims to reduce the default risk of institutions. The principles of Dodd-Frank must be translated into implementational rules drawn up by various federal agencies, such as the SEC or the CFTC. A very long process. In July of 2016²⁸, the latest analysis available from the New York law firm Davis Polk & Wardwell reports, 116 out of 390 standards were still lacking implementation.

²⁸ Davis Polk, “Dodd-Frank Progress Report”, July 19, 2016 at <https://www.davispolk.com/files/2016-dodd-frank-six-year-anniversary-report.pdf>

The top 5 US banks control 94% of US derivatives: 194,700 billion dollars out of a total of 207

The new law passed in May guarantees exemption from compliance with the Volcker Rule only to smaller institutions, those with assets of fewer than 10 billion dollars²⁹. But the risk is that further reforms could weaken the Volcker Rule afterwards. A few days before the House vote, the Federal Reserve submitted a proposal to simplify the legislation. “Our goal is to replace excessively complex and inefficient requirements with a streamlined set of rules,” said the Fed Chairman, Jerome Powell³⁰.

At the current stage of the law, it is up to the banks to demonstrate the regulatory compatibility of transactions carried out with clients' deposits, each time highlighting the hedging nature and not mere speculation. Volcker's proposal for reform, on the other hand, proposes transferring the burden of the controls to regulators. The credit institutions would be required to implement only a few simple internal audits. In practice, a green light to speculation that will favour the largest banks in the country, those with the most exposure to derivatives. As of June 30, 2018, the latest analysis by the Office of the Comptroller of the Currency, the main supervision institution in the US banking sector, US institutions had a notional portfolio³¹ of derivatives equal to 207,000 billion dollars³². The top

²⁹ America 24, Il Sole 24 Ore, “Congresso Usa smantella la riforma finanziaria post-crisi in favore delle banche più piccole (US Congress dismantles the post-crisis financial reform in favour of smaller banks)”, May 23, 2018 at <http://america24.com/news/congresso-usa-smantella-riforma-finanziaria-post-crisi-in-favore-delle-banche-piu-piccole>

³⁰ Federal Reserve, “Opening Statement on the Volcker Rule Proposal by Chairman Jerome H. Powell”, May 30, 2018 at <https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20180530.htm>

³¹ The notional value measures the value of all the derivative contracts signed. This is a theoretical figure which in no way identifies the real risk associated with the derivatives themselves. In a portfolio, most of the outstanding contracts consist of derivative securities that cancel each other out (e.g. a derivative underwritten by A with B which commits A to paying a premium to B in the event of a rise in a reference interest rate is balanced by another derivative underwritten by A with C which commits C to pay a premium equivalent to A in the event of an increase in the same rate). For this reason, what is far more important than the notional value is the data on the net position that identifies the potential maximum losses on existing derivatives. The value of the net position could also be thousands of times lower than the notional value (e.g. tens of billions vs. tens of trillions).

³² Office of the Comptroller of the Currency, “Notional Amounts Of Derivative Contracts Top 25 Commercial Banks, Savings Associations And Trust Companies In Derivatives June 30, 2018, Millions Of Dollars” in “Quarterly Report on Bank Trading and Derivatives Activities Second Quarter 2018”, September 10, 2018 at <https://www.occ.gov/topics/capital-markets/financial-markets/derivatives/dq218.pdf>

five banks - JP Morgan, Citibank, Bank of America, Goldman Sachs and Wells Fargo — alone control 94% of the total: \$ 194.7 thousand billion³³.

Finally, on October 31, 2018, the Federal Reserve proposed a new set of rules that substantially reduce the weight of capital restrictions and stress tests for all the banks, with the exception of larger institutions³⁴.

TABLE 1 The concentration of derivatives in the American banking sector

	BANKS	NOTIONAL [millions of \$]		BANKS	NOTIONAL [millions of \$]
1	JP MORGAN	57,091,910	15	CAPITAL ONE NATIONAL	152,383
2	CITIBANK	55,189,426	16	CITIZENS BANK	113,671
3	GOLDMAN SACHS	52,158,889	17	KEYBANK	103,342
4	BANK OF AMERICA	21,733,173	18	REGIONS BANK	102,370
5	WELLS FARGO	8,817,583	19	MUFG UNION BANK	91,079
6	HSBC	5,501,032	20	FIFTH THIRD BANK	89,952
7	STATE STREET BANK&TRUST	2,187,968	21	BRANCH BANKING&TRUST	59,131
8	BANK OF NEW YORK MELLON	960,574	22	BOKF NATIONAL	58,296
9	PNC BANK NATIONAL	476,275	23	MANUFACTURERS&TRADE RS TR	55,814
10	US BANK NATIONAL	401,870	24	COMPASS BANK	48,707
11	MORGAN STANLEY	305,845	25	CAPITAL ONE BANK USA	45,418
12	NORTHERN TRUST	300,886			
13	SUN TRUST BANK	234,597		Total TOP 25	206,476,335
14	TD BANK	196,144		Total commercial U.S. banks	207,186,357

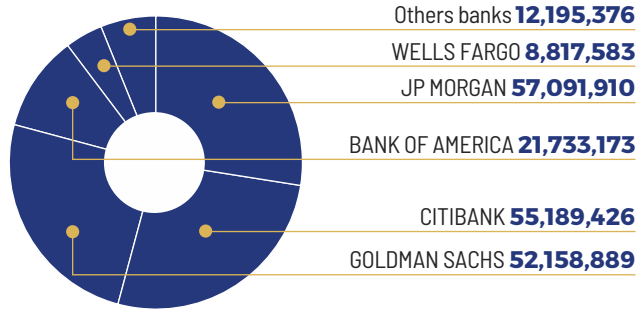
Source: Office of the Comptroller of the Currency, “Notional Amounts Of Derivative Contracts Top 25 Commercial Banks, Savings Associations And Trust Companies In Derivatives June 30, 2018, Millions Of Dollars “in” Quarterly Report on Bank Trading and Derivatives Activities Second Quarter 2018”, 10 September 2018 in <https://www.occ.gov/topics/capital-markets/financial-markets/derivatives/dq218.pdf>. Figures in millions of dollars

³³ Ibidem, our data processing.

³⁴ CNBC writes in its online edition: “For banks at the highest asset levels, the rules remain in place, though Fed officials said Wednesday they are looking to move away from annual public stress tests. Those banks would still test annually, but would only have to report the results every two years”. See CNBC, “Fed sets new rules to ease regulations on smaller banks”, October 31, 2018 <https://www.cnbc.com/2018/10/31/fed-sets-new-rules-to-ease-regulations-on-smaller-banks.html>

GRAPH 5

The concentration of derivatives in the American banking sector



Source: Office of the Comptroller of the Currency, "Notional Amounts Of Derivative Contracts Top 25 Commercial Banks, Savings Associations And Trust Companies In Derivatives June 30, 2018, Millions Of Dollars "in" Quarterly Report on Bank Trading and Derivatives Activities Second Quarter 2018 ", September 10, 2018 at <https://www.occ.gov/topics/capital-markets/financial-markets/derivatives/dq218.pdf>; our data processing. Data in percentage on total.

PRESSURE, BIPARTISAN VOTING & EVER-POWERFUL WALL STREET LOBBYISTS

"The greatest concern with regard to the weakening of the Dodd-Frank Act is the gradual loss of limited measures for crisis prevention. Without these, we will be seeing the same dangerous behaviours that contributed to the 2008 financial crisis". This argument is supported by Eric LeCompte, columnist, activist and director of Jubilee Debt USA, the American branch of the international campaign for debt cancellation in the poorest countries³⁵. It is a real danger, especially in the face of the intensifying phenomenon that never seems to go out of fashion: lobbying.

Behind the dismantling of Dodd-Frank Rule is a provision known as the "Crapo bill", a deregulation measure signed by the President of the Senate Banking Committee, Mike Crapo, Republican representative of Idaho. The provision, which meets the deregulation ambitions of the Trump administration, has found significant bipartisan support in Congress. As well as the Republicans, 17 Democratic senators and 33 deputies voted in favour of the law.

But that is not all: as someone has noticed³⁶, the three Democrats at the Senatorial Commission who participated in drafting the provision were also, in terms of the amount collected, the top beneficiaries of the financial lobby's donations to the American political world in the biennium 2017-18.

According to data from the Center for Responsive Politics³⁷, an independent Washington think-tank, in the biennium 2017-18 the North Dakota Democratic senator Heidi Heitkamp received an overall amount of more than 320 thousand dollars from financial industry contributions, preceding party colleagues Jon Tester (Montana) and Joe Donnelly (Indiana) in the ranking, both collecting about 275 and 234 thousand respectively. In total, 96 senators received contributions from the financial sector over the period under review, for a total amount of 4.9 million dollars. "Financial sector lobbyists continue to be one of the strongest groups in Washington," says LeCompte. "They have enormous power, regardless of who sits in the White House or in Congress."

³⁵ Interview with the authors, November 29, 2018. Eric LeCompte is also a member of working groups at the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Human Rights Office of the High Commissioner (UNHCHR). See <https://events.bizzabo.com/208014/agenda/speakers/367633?widget=true>

³⁶ The Intercept, "Democrats who voted to deregulate wall street got wiped out in a setback for bank lobbyists, November 10, 2018 at <https://theintercept.com/2018/11/10/dodd-frank-deregulation-midterms-2018/>

³⁷ Center for Responsive Politics, "Commercial Banks: Money to Congress. 2018 ", accessed on December 9, 2018, at <https://www.opensecrets.org/industries/summary.php?ind=F03&cycle=2018&recipdetail=S&mem=Y>

Non torna... a meno che non sia ripreso direttamente dalla citazione originale in inglese, mancando però qualcosa...

In any case, the future is still uncertain. Especially after the November 2018 midterm elections in which Democrats gained majority in the House. In January, California Democratic Congresswoman Maxine Waters was appointed president of the House's Financial Services Committee. In November, Waters herself intervened strongly on the issue of reforms, launching a real challenge to Trump. "Make no mistake, come January, the days of this committee weakening regulations

and putting our economy once again at risk of another financial crisis will come to an end," she said³⁸. But the persistent republican majority in the Senate continues to put a damper on things. "I think the Chamber will protect the financial regulations," says LeCompte. "Probably," he adds, "we will see new legislation that reinforces security in the financial sector and initiatives by the Chamber to support transparency. But it's hard to say whether the Senate will approve them".

³⁸ CNBC, "Maxine Waters says easing banking regulations 'will come to an end' when she takes committee chair, November 14, 2018 at <https://www.cnbc.com/2018/11/14/maxine-waters-days-of-easing-bank-regulations-will-come-to-an-end.html>

TABLE 2 The contributions made by the financial lobbies to the US Senate 2017-18

	SENATOR	Financial Contributions [in \$]		SENATOR	Financial Contributions [in \$]
1	Heitkamp, Heidi (D-ND)	321,129	26	Cotton, Tom (R-AR)	69,354
2	Tester, Jon (D-MT)	274,944	27	Flake, Jeff (R-AZ)	65,600
3	Donnelly, Joe (D-IN)	234,466	28	McConnell, Mitch (R-KY)	65,275
4	Heller, Dean (R-NV)	227,325	29	Hyde-Smith, Cindy (R-MS)	61,039
5	McCaskill, Claire (D-MO)	197,558	30	Fischer, Deb (R-NE)	57,980
6	Brown, Sherrod (D-OH)	169,293	31	Tillis, Thom (R-NC)	57,400
7	Stabenow, Debbie (D-MI)	164,042	32	Klobuchar, Amy (D-MN)	54,957
8	Kaine, Tim (D-VA)	152,698	33	Thune, John (R-SD)	51,950
9	Crapo, Mike (R-ID)	134,700	34	Lankford, James (R-OK)	49,600
10	Jones, Doug (D-AL)	126,363	35	Menendez, Robert (D-NJ)	48,360
11	Murphy, Christopher S (D-CT)	121,844	36	Cassidy, Bill (R-LA)	48,350
12	Casey, Bob (D-PA)	119,706	37	Perdue, David (R-GA)	48,250
13	Cornyn, John (R-TX)	106,900	38	King, Angus (I-ME)	43,150
14	Cruz, Ted (R-TX)	103,350	39	Rounds, Mike (R-SD)	40,700
15	Gillibrand, Kirsten (D-NY)	96,784	40	Kennedy, John (R-LA)	40,366
16	Warner, Mark (D-VA)	93,898	41	Booker, Cory (D-NJ)	39,461
17	Carper, Tom (D-DE)	88,986	42	Peters, Gary (D-MI)	38,971
18	Feinstein, Dianne (D-CA)	87,803	43	Portman, Rob (R-OH)	37,450
19	Toomey, Pat (R-PA)	85,050	44	Baldwin, Tammy (D-WI)	37,190
20	Manchin, Joe (D-WV)	83,416	45	Heinrich, Martin (D-NM)	35,868
21	Strange, Luther (R-AL)	78,800	46	Corker, Bob (R-TN)	33,651
22	Wicker, Roger (R-MS)	77,261	47	Smith, Tina (D-MN)	32,293
23	Nelson, Bill (D-FL)	76,880	48	Sasse, Ben (R-NE)	30,900
24	Barrasso, John A (R-WY)	74,700	49	Scott, Tim (R-SC)	27,100
25	Hatch, Orrin G (R-UT)	73,300	50	Capito, Shelley Moore (R-WV)	25,000

Source: Center for Responsive Politics, "Commercial Banks: Money to Congress, 2018", accessed on December 9, 2018, at <https://www.opensecrets.org/industries/summary.php?ind=F03&cycle=2018&recipdetail=S&mem=Y>

	SENATOR	Financial Contributions [in \$]		SENATOR	Financial Contributions [in \$]
51	Risch, James E (R-ID)	24,100	76	Harris, Kamala D (D-CA)	5,692
52	Gardner, Cory (R-CO)	22,800	77	Sanders, Bernie (I-VT)	5,494
53	Ernst, Joni (R-IA)	22,049	78	Paul, Rand (R-KY)	5,400
54	Moran, Jerry (R-KS)	21,050	79	Duckworth, Tammy (D-IL)	5,261
55	Whitehouse, Sheldon (D-RI)	20,865	80	Markey, Ed (D-MA)	4,746
56	Cantwell, Maria (D-WA)	18,576	81	Masto, Catherine Cortez (D-NV)	4,146
57	Inhofe, James M (R-OK)	17,350	82	Sullivan, Dan (R-AK)	4,000
58	Graham, Lindsey (R-SC)	15,800	83	Blunt, Roy (R-MO)	3,500
59	Boozman, John (R-AR)	15,500	84	Hassan, Maggie (D-NH)	3,051
60	Reed, Jack (D-RI)	14,125	85	Burr, Richard (R-NC)	2,000
61	Cardin, Ben (D-MD)	14,000	86	Leahy, Patrick (D-VT)	2,000
62	Coons, Chris (D-DE)	14,000	87	Hoeven, John (R-ND)	1,830
63	Roberts, Pat (R-KS)	13,000	88	Franken, Al (D-MN)	1,817
64	Young, Todd (R-IN)	12,900	89	Merkley, Jeff (D-OR)	1,758
65	Warren, Elizabeth (D-MA)	12,737	90	Blumenthal, Richard (D-CT)	1,219
66	Johnson, Ron (R-WI)	12,000	91	Murkowski, Lisa (R-AK)	1,000
67	Rubio, Marco (R-FL)	11,200	92	Murray, Patty (D-WA)	949
68	Collins, Susan M (R-ME)	10,000	93	Grassley, Chuck (R-IA)	500
69	Isakson, Johnny (R-GA)	9,200	94	Udall, Tom (D-NM)	436
70	Hirono, Mazie K (D-HI)	9,091	95	Shaheen, Jeanne (D-NH)	424
71	Bennet, Michael F (D-CO)	8,929	96	Wyden, Ron (D-OR)	404
72	Daines, Steven (R-MT)	8,750		Totale 2017-18	4,913,953
73	Durbin, Dick (D-IL)	6,620			
74	Schatz, Brian (D-HI)	6,400			
75	Schumer, Charles E (D-NY)	5,873			

"D" stands for the Democratic Party, "R" for the Republican party. The two-letter abbreviations next to these refer to the individual U.S. states where the senators were elected (e.g.: ND, North Dakota; MT, Montana, etc.).

ESG PERFORMANCE, FEW BANKS HAVE UNDERSTOOD THE LESSON

There are 228 companies working in the sector of financial services. The catchment area is very respectable, according to the analysis of Vigeo Eiris, one of the most authoritative European social and environmental rating agencies. The objective: to highlight how European bank performances have changed in terms of ESG. They are assigned scores based on the commitment to corporate ethics, the energy transition, due diligence on social and environmental risks in the supply chain, transparency in governance and the tax level, the choices on top management remuneration and the contribution to the sustainable development objectives set by the UN.

The result? A global performance that has only slightly improved in comparison to previous Vigeo analyses, with an average score of 28.6 (on a scale from 0 to 100). In short: not much to be proud of. The financial sector, according to Vigeo comparisons made in the universe of 4500 companies distributed throughout 39 sectors, only comes 30th. Of course, it has climbed 2 positions compared

to the previous year but the situation is certainly not good at all. The best situation recorded regards companies located in Europe, while on the other hand, the worst performances regards emerging markets. In general, the financial sector shows weak capabilities in adapting to the consequences of climate change and supporting the transition to a low-carbon economy. The average score is just 20 out of 100. And very few companies monitor CO₂ emissions associated with their investment portfolio.

Slightly better, but only by a small margin, is its conduct and spreading of a responsible culture of asset management (37 out of 100 points). Apparently, not enough has been learned from the lesson of the great 2007 crisis. Only a few companies can be saved. Among these is the European Amundi (which leads the ranking of the most "virtuous" with 68 points out of 100), the North American Goldman Sachs, Wheaton Precious Metals and Janus Henderson Group (46 out of 100) and the Asian Hong Kong Exchanges & Clearing.

ETHICAL FINANCE REGULATIONS SNAIL'S PACE IN EUROPE AND ITALY

They say, the road to Hell is paved with good intentions. And in terms of regulatory recognition that should ease the way for those who choose ethically responsible finance, it is regrettable to note that often the number of promises far exceeds the number of concrete deeds.

In this sense, Italy and the European Union go hand in hand: so many words, and so few (until now) executive measures. Our country aroused the greatest hopes two years ago. But from that moment on, silence. It was December 11, 2016: Parliament, due to thanks to an amendment by two members of the Partito democratico (Democratic Party) and Liberi & Uguali (Free and Equal), included in the Stability Law 2017, recognized the diversity of ethical banks, defining their requirements and providing specific incentives.

ITALY, A PARTIAL REVOLUTION

In the first part, the rule "gives a definition of ethical finance, regarding the limit on remuneration, requesting a ratio between average and maximum salaries of 1 to 5, the need for transparency, and being obliged to allocate 20% of the portfolio to not-for-profit organizations", explains Ugo Biggeri, president of Banca Etica. According to Biggeri, "the definition of ethical finance is revolutionary".

But in the second part comes the negative point, related to incentives: the rule establishes that for ethical banks, 75% of the amounts intended to increase capital will be tax free. So far so good. However, the maximum limit is set at one million euros, applicable to all ethical operators. And so a limit that is easily reached.

However the real problem is another: from the moment of the law's approval, the sector is waiting for the government to approve the implementing decrees. And, without those, the rule will be at risk of simply remaining a declaration of principles to be shared. But two years on, and the change of government coalition has not produced anything new.

FIGURE 1

The Italian law on ethical finance in brief

Source: Valori.



DEFINITION OF ETHICAL BANKS

Article 111-bis establishes that a bank must have six requirements in order to be defined as ethical. The institute must:

1. evaluate that loans are disbursed according to internationally recognized ethical rating standards;
2. guarantee maximum transparency on the loans disbursed;
3. contribute at least 20% of the credit portfolio to non-profit organizations; not distribute profits, but reinvest them in their business activities;
4. adopt a democratic and participatory governance system, characterized by a widespread shareholding;
5. limit the gap between average and higher remuneration to within a ratio of 1 to 5.

THE INCENTIVES

The next paragraph introduces an important tax break for ethical banks: three quarters of the profits are tax-free.

THE LIMITS

However, the last two paragraphs impose stringent limits on this exemption and have, more than any aspect, been heavily criticised. One million euro is the established maximum amount above which public finance charges cannot be derived and the limit of 200 thousand euros is imposed for loans granted over three years to individual companies.

The latest disappointment in the Note to update the Economic and Financial Document (NADEF) approved by the Government at the end of September 2018: nowhere in it is there a commitment to complete or resume the process of approving the implementing decrees.

IN THE EU, PROGRESS MOVES AT A SNAIL'S PACE

Within the European institutions, on the other hand, things are moving forward, but at no great pace. Progress has been made but it is still cautious and partial. One significant date is June 19, when the European Parliament Economic and Monetary Affairs Committee³⁹ approved a resolution that binds the EBA (European Banking Authority) to collect data to establish once and for all whether introducing a “green and social supporting factor” is desirable and justified from the point of view of prudential banking regulation.

³⁹ The text of the resolution is available on the European Parliament portal: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2018-0164+0+DOC+XML+V0//IT>

Introducing a green and/or a social supporting factor would mean recognizing that investments by banks in activities with a positive social and environmental impact should also be encouraged through favourable treatment in terms of the prudential provisions required by the EBA.

For the first time, there is recognition of the possibly lower risks of socially responsible investments and their possibly positive impact - not only for the protection of the environment and people's rights - but also for financial stability in Europe.

The EBA's evaluation has not arrived yet. But in the meantime, another step forward has been made by the European Commission, which has been stressing the relationship between financial sustainability and concrete progress in favour of ecological transition and climate change for two years. First the work of the High-Level Expert Group on Sustainable Finance, which began in December 2016, produced the report “Financing a sustainable European economy”, presented on January 31, 2018⁴⁰.

Then, on March 8, the European Commission's Sustainable Finance Action Plan was published⁴¹. And now all eyes are on the work of the TEG (Technical Expert Group on Sustainable Finance), 35 experts, from civil society, academia, business, banking and insurance, who are working on 4 strands (to which 4 subgroups correspond):

- developing a taxonomy of sustainable economy;
- proposing a standard for European Green Bonds;
- improving the communication of information related to climate change;
- helping to develop “low carbon” indexes to be used as a benchmark.

“These are all revolutionary steps in their own way”, says Francesco Biciato, Secretary General of the Forum for Sustainable Finance, “because not only has sustainable finance been included in the official documents of the European institutions, but the concept of sustainability has been made central to the economic policies of the European Commission”.

Of the tasks assigned to the technical group, the most “urgent” one is probably that of developing a taxonomy of sus-



⁴⁰ The full text of the report is available on the European Union portal: https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

⁴¹ https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_it

The EU Commission has decided to reduce sustainable finance to the environmental component alone, forgetting the other two pillars (social aspects and good governance)

tainable economy. It might seem like a nebulous task, and will certainly not get media attention, but it is a crucial step: defining the economic activities that do not cause damage to the environment, but instead contribute to the fight against climate change. Those activities that should be given priority in terms of investment.

“To finance sustainable growth, businesses, investors and governments need to have a clear idea as to which economic activities are environmentally sustainable,” writes the European Commission.

And this is precisely where concern arises for those who know responsible finance first-hand. Because the EU Commission's approach seems to reduce sustainable finance to the environmental component only. But concern over the environment, while crucial, is certainly not enough to discern sustainable finance (let alone “ethical finance”) in the vast sea of global finance.

ESG, THREE INSEPARABLE FACTORS

Environment aspects, social aspects and good governance are the three fundamental pillars for defining sustainable finance. The last two, however, seem to have been lost in the maze of rooms in Brussels. More like, the Commission has decided not to get involved with it (except in a negligible way, postponing everything until a later time with no definite deadlines or methods).

“Right now the dominant imperative is the climate change alarm”, explained Flavia Micilotta, Executive Director of Eurosif (European Sustainable Investment Forum), the European forum for sustainable investments. “The Commission, in a realistic policy perspective, maintains that it is unable to carry forward all the sustainability fronts at the same time. And, because it must choose a starting topic, it favoured climate and, therefore, the environment”. The reason was soon clear: climate change is becoming a “hot topic” and concerns are growing (just look at the latest SR15 report published by the IPCC last November). And then, more prosaically, the environment is also the most “measurable” topic left today: “the metrics on environmental sustainability are easier to identify today than those regarding social responsibility or governance: they've been developing them for some time”.

Reasonable, but the problem remains. And an imperfectly constructed system can have contradictory repercus-

sions on the world of finance: “Environmental issues cannot be separated from social ones, where they have major repercussions”, continues Micilotta. “One only has to think of poverty or the waves of migrants caused by devastation due to climate change. If the social aspects and good governance are neglected today, then it will be harder to go back and explain that sustainability is a concept that cannot be separated”. And the vultures of speculative finance are already poised to plunge into a voracious sector, and worse, make themselves seem more responsible.

AN AMENDMENT FOR A MORE ADVANCED TEXT

“Mainstream finance has already shown that it can insinuate its way subtly into sectors that were initially considered niche and reserved only for responsible investors”, commented Andrea Baranes, president of the Fondazione Finanza Etica. “The choice made by the European Commission to focus solely on the environmental component could actually damage the other two components if they are marginalized. This way, there is a serious danger that the path intended to broaden the way for sustainable finance instead provides new growth margins for speculative finance, only a little ‘greener”.

For this reason too, on the initiative of Banca Etica, Triodos, Gabv⁴² and Febea⁴³, an amendment to the Sustainable Investment Law (“Establishment of a framework to facilitate sustainable investment”) was presented to the Economic Affairs Committee of the European Parliament, which calls for explicit social criteria in the taxonomy to define what can fall within the sphere of sustainable finance.

Building a system imperfectly can produce contradictory effects and make new space for classic speculative finance

⁴² GABV (Global Alliance for banking on values) is the most important network of ethical and sustainable banks in the world.

⁴³ FEBEA (European Federation of Ethical and Alternative Banks) is an organization established in 2001 to promote solidarity and the development of ethical finance in Europe. Founders: Banca Etica (Italy and Spain), Crédit Coopératif and Caisse Solidaire du Nord Pas-de-Calais (France), Crédal and Hefboom (Belgium) and TISE (Poland).

CAN WE CALL THEM ETHICAL?

FOURTH PART

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GLOSSARY

ISIN CODE

Acronym for International Securities Identification Number, the international identification code applied to the main financial instruments. The first two letters of the code identify the country of origin in which the product is placed and traded or the place in which the fund is domiciled.

LOW CARBON FUND

A fund that has low exposure to both fossil fuels and the risks of a failed transition to an economy with a low environmental impact but that does not completely exclude oil & gas stocks from its portfolio.

SOVEREIGN WEALTH FUND

A government-owned fund that operates by investing in the capital market, and consists of public revenues (taxes and income from state-controlled companies).

FOSSIL FREE PORTFOLIO

A portfolio (see [GLOSSARY PART 2](#)) without the stocks and bonds of companies that operate in the production and marketing of fossil fuel sources. Not all funds defined as “ethical” or “sustainable” or “responsible” are automatically *fossil free*. The exclusion choices, in some cases, might only involve specific sectors: this is the case with the *coal free* portfolio (with no shares of companies in the coal sector), *tar sand free* (which exclude the bituminous sands segment) or *shale free* (which do not invest in the shale gas or oil sector).

TAR SANDS

Sands found at a shallow depth containing oil mixed with water and clay. The process to extract this fuel involves mechanical operations and chemical reactions through the use of solvents which are very harmful to the environment.

SHALE OIL/SHALE GAS

Shale gas or oil. This unconventional fuel extracted through the fragmentation of rocks and then transformed into gas or oil. The production process is more expensive and polluting than that of conventional oil.

CHAPTER 1

GLOBAL WARMING: DIVESTMENT IS GETTING POPULAR

It started all with the slave trade and the war industry; then came tobacco, alcohol and gambling. Forbidden investments according to Quakers and Methodists, God-fearing people in everyday life as in business, convinced, today just like yesterday, that “Ethics are not just for Sunday”¹.

“Responsible” funds appeared in the United States in the 1920s,² inspired by deeply religious motivations. But over the course of decades, their group of followers has expanded considerably: in the 1970s and 1980s, some investors began to exclude from the portfolio any assets that were in some way connected to the South African segregationist regime of that time, with the aim of opposing apartheid³. It would seem that the tactic proved successful, to the point of inspiring, in recent years, a similar strategy in favour of a truly ambitious goal: fighting climate change.

The idea would appear to be simple: gradually divest from the fossil fuel sector — the sector most responsible for

¹ BBC News, “Church v Wonga row: Can investments ever be ethical?”, July 26, 2013 at <https://www.bbc.com/news/business-23465294>

² Forbes, “Legendary Investor’s Embrace Of Sustainable Investing Is New, But The Movement Isn’t”, July 6, 2018 at <https://www.forbes.com/sites/jenniferpryce/2018/07/06/legendary-investors-embrace-of-sustainable-investing-is-new-but-the-movement-isnt/#41dfa15030d9>

³ Bloomberg, “Divestment Hurt Apartheid. Can It Save the Planet?”, April 9, 2018 at <https://www.bloomberg.com/news/articles/2018-04-09/divestment-hurt-apartheid-can-it-save-the-planet-quicktake>

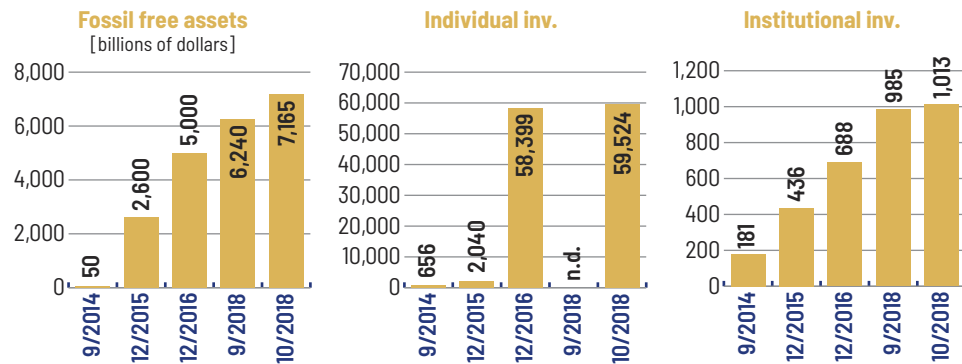
Responsible funds appeared in the United States in the 1920s, inspired by deeply religious motivations

global warming⁴ – to persuade companies to develop other energy sources. The phenomenon literally exploded in the second half of the decade, as the periodic reports from the consulting firm Arabella Advisors⁵ make clear. In September 2014, the exclusion of the fossil fuel sector regarded scarcely 181 institutional investors and 656 individual investors. The total portfolio under management of these operators was worth about 50 billion dollars. In September 2018, the public of institutional investors expanded to almost 985 units while the value of the overtly *fossil free* portfolios exceeded 6,200 billion dollars. At the end of October, the Divestinvest.org⁶ network raised the estimates to 1,013 institutional investors and 59,524 individual investors, estimating a total value in “clean” portfolios of 7,165 billion dollars. The latter datum is in line with the calculations of the *gofossilfree.org* network (7.18 trillion)⁷.

GRAPHS

The divestment boom

Sources: Arabella Advisors, *divestinvest.org*; our data processing. For further details, see notes nos. 5 and 6.



⁴To more closely examine the connection between the two phenomena, see, among others, the work of the UN Intergovernmental Panel on Climate Change (IPCC) at <http://www.ipcc.ch/index.htm>

⁵Arabella Advisors, “Measuring the Global Fossil Fuel Divestment Movement”, September 19, 2014 at <https://www.arabellaadvisors.com/wp-content/uploads/2016/11/Measuring-the-Global-Divestment-Movement.pdf> and December 2015 at <https://www.arabellaadvisors.com/wp-content/uploads/2016/10/Measuring-the-Growth-of-the-Divestment-Movement.pdf>; Arabella Advisors, “The Global Fossil Fuel Divestment and Clean Energy Investment Movement”, December 2016 at <https://www.arabellaadvisors.com/wp-content/uploads/2016/10/Measuring-the-Growth-of-the-Divestment-Movement.pdf> and September 2018 at <https://www.arabellaadvisors.com/wp-content/uploads/2018/09/Global-Divestment-Report-2018.pdf>

⁶DivestInvest.org, at <https://www.divestinvest.org/wp-content/uploads/2018/10/2018.10.25-DivestInvest-Commitments-List.-External.xlsx>, data from October 25, 2018

⁷Gofossilfree.org, “Divestment Commitments” in <https://gofossilfree.org/divestment/commitments/>, access on November 25, 2018

The analysis carried out by *divestinvest.org* is particularly interesting because it provides disaggregated data on the operators and their choices. At the end of October 2018, for example, the complete divestment from the fossil fuel sector regarded 893 institutions of various types (banks, foundations, health institutions, insurance companies, etc.) with total assets in their portfolios equal to 376 billion dollars. Divestment from coal and/or bituminous sands alone and exclusively – the two all-time most polluting fossil sources – involved 71 institutional operators, with a total coal-free and/or tar sand-free portfolio of 5.000 billion dollars. Of the institutional subjects, 49 eventually practiced a selective form of divestment (based on some analytical criteria processed by the manager) which characterized a total portfolio of 1,750 billion dollars⁸.

The total divestment from fossil fuel sources has so far involved 1,013 institutions with a total portfolio of 7.165 billion dollars

TABLE 1 Who in the world is divesting?

Type of institution / level of disinvestment	Value of the managed assets	Number of Subjects
Complete disinvestment	\$ 376.390.982.473	893
Banks	\$ 56,344,512,248	3
Charitable Trusts or foundations	\$ 15,597,476,133	176
Collective societies	\$ 90,844,784	1
Cultural organizations	\$ 1,508,047,970	4
Educational or academic institutions	\$ 12,695,037,414	106
Religious organisations	\$ 14,435,777,080	262
Family Offices	\$ 200,000,000	2
Governmental organisations	\$ 100,206,211,547	148

⁸These are the original definitions of the three categories identified by *DivestInvest.org*: Full Disinvestment: “The organization has committed to exclude all companies involved in the extraction of coal, oil and gas reserves”; Coal or coal and tar sands: “The organization has committed to exclude companies involved in coal and unconventional oil and gas reserves. This may include the use of certain thresholds, e.g. an investor may exclude companies deriving 30% of the revenue from coal operations”; Qualified divestment: “The organization has committed to some form of exclusion policy based on a set criteria other than company reserves. E.g. an asset owner may use an internal methodology to assess whether a company is in line with the Paris Agreement, and exclude any which they deem not to be aligned”. Source: <https://www.divestinvest.org/wp-content/uploads/2018/10/2018.10.25-DivestInvest-Commitments-List.-External.xlsx>

Type of institution / level of divestment	Value of the managed assets	Number of Subjects
Health institutions	\$ 331,882,296	13
Insurance companies	\$ 3,277,400,000	2
Investment Managers	\$ 7,481,486,884	14
Non-governmental organisations	\$ 1,703,536,043	44
Other	\$ 30,000	1
Pension funds	\$ 162,515,380,800	109
Private Companies	\$ 3,359,274	8
Coal and/or bituminous sands	\$ 5,038,113,912,461	71
Banks	\$ 151,931,940,000	4
Charitable Trusts or Foundations	\$ -	1
Educational or academic institutions	\$ 142,266,402,161	30
Religious organisations	\$ 2,952,687,550	6
Governmental organisations	\$ -	1
Insurance companies	\$ 3,793,057,288,000	11
Investment Managers	\$ 168,084,843,797	4
Pension funds	\$ 779,820,750,953	14
Qualified divestment	\$ 1,750,844,796,507	49
Banks	\$ 266,738,000,000	1
Charitable Trusts or Foundations	\$ 1,200,000	2
Educational or academic institutions	\$ 29,507,654,758	10
Religious organisations	\$ 12,453,045,900	10
Governmental organisations	\$ 517,000,000	6
Health institutions	\$ 541,000,000	1
Investment Managers	\$ 11,614,318,558	1
Pension funds	\$ 1,429,472,577,291	18
Total	\$ 7,165,349,691,441	1,013

When we talk about divestment, in other words, we generally refer to those traders who practice "some form of exclusion" and not, as we might commonly think, only to completely fossil-free investors (which, as we have seen, make up a minority in terms of managed assets).

A PROBLEMATIC DEFINITION

Can we therefore define as "ethical", "sustainable" or "responsible" only the "100% fossil free portfolios" and, on the other hand, "unethical" the investment strategies of those who continue to pour money in the fossil fuels sector? Not necessarily. As we saw in Part II, "responsible investment" can be defined at various levels according to various criteria. Moreover, some investors may choose to invest in the best-in-class fossil fuel sector companies, to reward serious projects for making the transition to clean energy sources and to encourage, through investment and active ownership, more courageous conversion plans.

In Italy, the data on "ethical" investment funds within the country is gathered by Assogestioni, the association which represents the local asset management companies and foreign asset managers companies operating in the country. The institution distinguishes the funds themselves according to their characteristics and the investment strategies employed. The "ethical" financial vehicles appeared in the 2003 classification. Starting in October 2017, Assogestioni replaced the word "ethical" with "sustainable and responsible". The definition applies to each fund that, "on the basis of its own operational definition of the concept of responsibility, has an investment policy that prohibits the acquisition of a set of securities and/or favours the acquisition of securities on the basis of analyses that integrate good environmental, social and governance criteria into the financial analysis"⁹. A very broad definition with clear implications: in order to be defined as *formally* "sustainable" (according to Assogestioni) a fund is not necessarily called upon to exclude certain categories of investments.

Growing interest in responsible funds creates problems: depending on the criteria used, there is a risk of also including highly controversial investments in the group

⁹ Assogestioni, "Classificazione Assogestioni: nuova definizione di fondo sostenibile e responsabile, in sostituzione di fondo etico (Assogestioni Classification: new definition of a sustainable and responsible fund, replacing the ethical fund)", October 4, 2017 at http://www.assogestioni.it/ass/library/78/classificazione_fondi_sostenibili_ottobre_2017.pdf

One of the strategies for selecting funds defined as sustainable is norms-based screening. This approach makes it possible to include companies with controversial sectors in its portfolio

IS IT POSSIBLE TO BE “RESPONSIBLE” AND STILL INVEST IN FOSSIL FUELS?

According to this approach, the “responsible” operator seems to have the right to be considered as such — at least in theory — even when he chooses to finance controversial sectors, provided that he makes an effort to take into account sustainability parameters in the portfolio selection. The result is that even companies that operate in problematic segments — such as fossil fuels for example — can be compatible with this type of investment. The principle is obviously questionable, but is in line with the same investment classification of Eurosif, which, as is known, includes seven different selection strategies¹⁰. Among these, for example, is “regulatory screening”: based on this strategy, investments are subjected to a preventive analysis that aims to assess the compliance of the companies in the portfolio with some minimum standards of business practices based on some landmark international regulations¹¹. It is well-known that such compatibility can be easily identified even in companies operating in controversial sectors.

Among the main “sustainable” operators that follow this selection criterion is the Norwegian sovereign fund, one of the main global benchmarks in the responsible investment sector. The Norwegian government fund, for example, has divested over the years from the palm oil market, selling its holdings in some companies¹². At the same time, however, the fund continues to invest in fossil fuels (“coherently”, we should add, with the origin of its national wealth: oil in fact). From a formal point of view, in short, there is nothing “illicit”

here. But the problem is clear: in a global context where there is growing pressure from civil society to gradually divest from the oil, gas and coal sectors, the choices of “ethical” funds that continue to operate in the fossil fuel market, especially in the more controversial fossil fuel sources such as oil sands, risk being not compliant with the ambitions of their investors. And in the category of controversial operators, as we shall see, the Norwegian fund is not alone.

The Norwegian sovereign fund has divested from palm oil but continues to invest in fossil fuels

¹⁰ See Part 2

¹¹ United Nations-supported Principles for Responsible Investment (<https://www.unpri.org/>), “PRI Reporting Framework 2016 Main definitions”, November 2015. The normative corpus includes: the United Nations Global Compact Principles, the Universal Declaration of Human Rights integrated by the “Guiding Principles on Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework”, the standards of the International Labor Organization (ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy), United Nations Anti-Corruption Convention (United Nations Convention Against Corruption) and the OECD Guidelines for Multinational Enterprises (OECD Guidelines for Multinational Enterprises).

¹² Fondazione Finanza Etica, “La finanza etica e sostenibile in Europa. Primo rapporto (Ethical and sustainable finance in Europe. First report)”, December 2017.

FUNDS AND FOSSIL FUELS: THE ITALIAN CASE

The analysis of the Italian context offers an excellent example of the still unresolved problems that characterize the activity of “responsible” operators. To date,¹³ There are 119 sustainable funds operating in the Italian market according to the Assogestioni survey.

According to the Assogestioni census, there are currently 119 sustainable funds in Italy

FOREIGN FUNDS LOVE FOSSIL FUELS...

Of the sustainable and responsible funds in the Peninsula, 90 are registered abroad, primarily in Luxembourg¹⁴ as we can see by the ISIN code, which is basically, an identity card that becomes the starting point for each analysis. By entering the code into a public database¹⁵, some key information, though not exhaustive, can be easily obtained.

Here is an example:

Management company	Name of Fund	ISIN Code
PARVEST SICAV	Parvest Sustainable Equity Europe Classic-Distribution	LU0212189368

Parvest Sustainable Equity Europe Classic-Distribution is a BNP Paribas group fund that was launched in 2007 and reg-

¹³ Assogestioni, www.assogestioni.it, data for September 2018

¹⁴ See appendix

¹⁵ Among the most complete, in particular, are those provided by the Financial Times and Morningstar.

BNP Paribas proposes a “sustainable” fund registered in Luxembourg which has holdings in two multinational oil companies (Shell and Total)

istered in Luxembourg (as the first two letters that make up its code confirm). According to Financial Times database its shares are available in ten other markets: Austria, Belgium, Denmark, Finland, France, Jersey, Spain, Switzerland, United Kingdom and obviously, Italy¹⁶. Moreover, approximately 70% of its portfolio is invested in five sectors:

Financial Services	19.78%
Consumer Defensive ¹⁷	14.42%
Health	13.27%
Energy	9.10%
Technology	8.71%
Other	3.21%

But what does this fund invest in? In the Top 10 most significant holdings – which, in this case, amount to 33.49% of the assets under management – some very interesting holdings emerge:

Fund stocks and bonds/shares	Weight on the portfolio
Royal Dutch Shell PLC B	4.52%
Nestlé SA	4.20%
Unilever PLC	4.12%
Siemens AG	3.54%
Total SA	3.43%
AstraZeneca PLC	2.98%
Zurich Insurance Group AG	2.84%
GlaxoSmithKline PLC	2.70%
Deutsche Telekom AG	2.62%
SAP SE	2.55%
Weight of the Top 10 on the portfolio	33.49%

¹⁶ All the information below is from the Financial Times, “Markets>Markets Data>Funds” at <https://markets.ft.com/data/funds/tearsheet/summary?s=LU0212189368:EUR>, data from November 16, 2018.

¹⁷ According to Morningstar, the sector includes “Companies engaged in the manufacturing of food, beverages, household and personal products, packaging, or tobacco. Also includes companies that provide services such as education & training services. Companies in this sector include Philip Morris International, Procter & Gamble and Wal-Mart Stores”. At http://www.morningstar.com/InvGlossary/consumer_defensive_sector.aspx, accessed November 20, 2018

In first and fifth place, for example, are two fossil fuel giants, the Anglo-Dutch multinational Royal Dutch Shell (whose weight on the portfolio is 4.52%) and the French corporation Total (3.43%).

By analysing the Top 10 in the portfolios, and gathering data on the total volume of investments, not only is it possible to identify the controversial investments but also their market value. According to Morningstar data¹⁸, the overall value of the Parvest Sustainable Equity Europe Classic-Distribution is 165.67 million euros.

Fund stocks and bonds/shares	Weight on the entire portfolio	Size of the fund (millions of euros)	Investment value (millions of euros)
Royal Dutch Shell PLC B	4.52%	165.67	7.49
Total SA	3.43%	165.67	5.67
Total Fossil Fuels	7.95%	165.67	13.17¹⁹

Fossil fuel investment alone is worth no less than 13.2 million euros, equal to approximately 8% of the total.

Limiting our analysis to the fossil fuel sector, the examples go on and on.

See, among others, the top 10 stocks in the portfolio of the State Street World ESG Index Equity Fund I (LU1159235362)²⁰ where there is shareholding in Exxon Mobil, which continues to extract oil from bituminous sands, one of the most polluting fossil fuel sources without question.²¹

Fund stocks and bonds/shares	Weight on the entire portfolio
Microsoft Corp	3.36%
Apple Inc.	2.35%
Amazon.com Inc	1.67%
Nestle SA	1.08%
Intel Corp	0.93%
Procter & Gamble Co	0.86%
JPMorgan Chase & Co	0.81%
Alphabet Inc Class C	0.78%
Alphabet Inc A	0.75%
Exxon Mobil Corp	0.70%
Weight of the Top 10 on the portfolio	13.30%

¹⁸ Morningstar Funds at <http://www.morningstar.it/it/funds/snapshot/snapshot.aspx?id=F0000009JZ> data from November 16, 2018.

¹⁹ Total figures may vary slightly due to rounding

²⁰ Financial Times, “Markets>Markets Data>Funds” at <https://markets.ft.com/data/funds/tearsheet/holdings?s=LU115923536:USD>, data from November 16, 2018

²¹ See: <https://valori.it/canada-le-sabbie-bituminose-inquinano-come-citta-del-messico/>

Among the funds registered in Italy, there are also companies in the oil & gas sector

Or the top 10 of M&G (Lux) Investment Funds 1 - M&G (Lux) Global High Yield ESG Bond Fund (LU1665236482)²² in which there appears an investment in the bonds of Southwestern Energy Company, a Texas oil company²³, working specifically in the controversial sector of shale gas.

Top 10 holdings	Weight on the entire portfolio
Southwestern Energy Company 7.75%	2.65%
Wind Tre S.p.A. 2.75%	2.23%
Intrum Ab 2.62%	2.05%
OI European Group B.V. 3.12%	1.88%
UBS Group AG 5.75%	1.65%
Cooperative Rabobank U.A. 6.62%	1.62%
Unitymedia Hessen GmbH & Co KG / Unitymedia NRW GmbH 3.5%	1.61%
Unitymedia Hessen GmbH & Co KG / Unitymedia NRW GmbH 4%	1.61%
Iceland Bondco Plc 4.62%	1.53%
Banco Bilbao Vizcaya Argentaria, S.A. 7%	1.48%
Weight of the Top 10 on the portfolio	18.32%

... BUT THE ITALIAN FUNDS ARE NOT FAR BEHIND

In addition to operating on the Peninsula, 29 of the 119 “sustainable and responsible” funds in the Assogestioni list are also registered in Italy (ISIN IT Code). The analysis of this last is more complete, given that in their case the securities in the portfolio made known by the managers are 50 in number. In the future we will be carrying out a complete analysis of their reports. Here, we limit ourselves to highlighting the potentially controversial choices of some of them.

Eurizon (Intesa Sanpaolo Group) is still the main operator with 18 funds for a total value equivalent to 4.8 billion euros. These include Eurizon Azionario Internazionale Etico,

²² Financial Times, “Markets>Markets Data>Funds” at <https://markets.ft.com/data/funds/tearsheet/holdings?s=LU1665236482:EUR>, data from November 16, 2018

²³ Financial Times, “Markets>Markets Data>Funds” at <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=304260>, data from November 16, 2018

a 400 million euro fund in whose portfolio — according to the latest biannual report²⁴ — we find a total of 3.6 million euros holdings in three oil & gas corporations: the American Conoco Phillips (1.7 million) and Valero Energy (1.2) and the French Total (700 thousand euros). All three are also active in the controversial sector²⁵ of shale gas or oil.

There is no lack of other examples in the analysis of the other asset management companies. BNL Azioni Europa Dividendo di BNP Paribas, for example, invests approximately 110 million euros of its assets in another fund: Parvest Sustainable Equity High Dividend Europe. Which in turn — as can be seen from the list of the first thirty stocks and bonds in the portfolio — invests 18.48 million euros (4.64% of assets) in Shell, 17.54 million (4.41%) in Total and 9.15 million (2.3%) in the Spanish Repsol²⁶.

Parvest - Sustainable Equity High Dividend Europe

Stocks and bonds	% of net assets	Stocks and bonds	% of net assets
Zurich Insurance Group	5.06	ING	3.48
Royal Dutch Shell	4.64	Intesa Sanpaolo	3.47
Basf	4.52	Nordea Bank	3.13
Total	4.41	Rio Tinto	2.67
Enel	4.24	Lloyds	2.61
Siemens	4.19	Novo Nordisk	2.52
Astrazeneca	4.11	Repsol	2.30
Legal & General Group	4.02	Daimler	2.12
Orange	3.86	Klepierre	2.05
AXA	3.85	Adecco	1.99
GlaxoSmithKline	3.81	Swedbank	1.83
Aviva	3.78	National Grid	1.70
Bnp Paribas	3.71	Schneider Electric	1.69
Deutsche Telekom	3.63	Roche	1.25
Allianz	3.48	Lagardere	0.75

²⁴ Eurizon Capital, “Eurizon Azionario Internazionale Etico. Relazione semestrale al 29 giugno 2018” at https://www.eurizoncapital.it/_vti_bin/Eurizon.Web/API.svc/service/documenti/documento?id=207181

²⁵ Reuters, “Conoco moves to sell North Sea oilfields: sources”, May 14, 2018 at <https://www.reuters.com/article/us-conocophillips-northsea-exclusive/exclusive-conoco-moves-to-sell-north-sea-oilfields-sources-idUSKCN11F17F>; Valori, “Total nel mirino di una Ong per lo shale gas argentino”, May 14, 2014 at <https://valori.it/total-mirino-ong-lo-shale-gas-argentino/>; Valero Energy, “Three Rivers Refinery” at <https://www.valero.com/en-us/Pages/ThreeRivers.aspx> accessed November 20, 2018

²⁶ Sustainable Equity High Dividend Europe, data from June 30, 2018 in “PARVEST SICAV SEMI-ANNUAL REPORT at 30/06/2018” p. 227. The document can be downloaded at <https://docfinder.bnpparibas-am.com/api/files/badb3d3f-a8da-48fa-977e-15a50279c2be/512>

Shares in Total (2 million euros, 1.4% of the assets) also appear in the Bilanciato Etico Fund of Ubi Pramerica, which also invests in Eni (1.97 million euros)²⁷. A similar situation is also recorded in the Azionario Etico fund for the same operator (Eni 4.55%, Total 4.23%)²⁸. The French oil company is also at the top of the portfolio of the Obbligazionario Euro Corporate Etico fund²⁹ (159 million euros in assets) of Amundi (Crédit Agricole Group), the management company that, in January of 2018 – with the acquisition of Pioneer Investments – inherited the mutual funds of Unicredit bank. In addition to the controversial shale gas, the French giant Total continues to extract oil from tar sands in Canada.³⁰

LOW-CARBON FUNDS

Exclusion, as we said, is not the only strategy available for managers working in the ESG investment segment. The decision to include companies in the fossil fuel sector in the portfolio may certainly be questionable. But the managers who take this initiative can still make an important contribution to the growth of the ESG investment sector. The diffusion of so-called low-carbon funds makes this particularly clear. While not excluding, a priori, those companies involved in oil and gas, these funds are characterized by a low exposure to both fossil fuels as well as to the risk of a failed transition to green economy. A fund that invests in companies that still operate in fossil fuels but which are also concretely engaged in a gradual transition towards renewables, can therefore be called low carbon. Of the examples, we should mention a fund of the Parvest management company:

the Climate Impact fund. According to the latest available report,³⁰ some companies involved in selling natural gas, such as the French company Suez and the Chinese ENN Energy, appear in the securities portfolio as of December 31, 2017. However, these companies are not involved in mining activities and therefore have a relatively low impact on the environment. In the same portfolio of the Parvest Climate Impact, there are also stocks and bonds of companies in the renewable sector that, as such, contribute directly to the transition mentioned above. Among these we mention, for example, the Chinese Huaneng Renewables Corporation (9.4 million euro investment equal to 1.74% of the net equity of the fund) and Xinyi Solar Holdings (10.6 million, 1.96%), the Spanish EDP Renováveis (17 million, 3.15%) and the Californian SunPower (6.2 million, 1.15%).

²⁷ Ibidem.

²⁸ https://www.amundi.it/investitori_privati/document/download

²⁹ <https://www.total.com/en/media/news/press-releases/canada-fort-hills-project-reaches-first-oil>

³⁰ Parvest SICAV, "RELAZIONE ANNUALE al 31/12/2017", at https://www.bper.it/prodotti/privati/investimento/allfunds/44_23.pdf

³¹ Assogestioni. Data from September 28, 2018.

APPENDIX

SUSTAINABLE FUNDS IN THE ITALIAN MARKET³²

Assogestioni Category	Code	Type	Company	Name	ISIN Code
INTERNATIONAL SHARES	AGTT	EE	ABERDEEN GLOBAL	ABERDEEN GLOBAL C.TO RESPONSIBLE WORLD EQUITY FUND	LU0498185999
EUROPEAN SHARES	ACUE	EE	AMUNDI FUNDS	AMUNDI FUNDS C.TO EQUITY GREEN IMPACT	LU1579337871
INV. GRADE BONDS - DOLLARS	OZ07	EE	AMUNDI INDEX SOLUTIONS	AMUNDI INDEX SOLUTIONS C.TO AMUNDI INDEX US CORP SRI	LU1806495575
OTHER SPECIAL. SHARES	AYAS	FFEI	AMUNDI LUX SA	CORE SERIES C.TO CORE SUSTAINABLE	LU1545601657
CORP. INV. GRADE BONDS - EUROS	OZ03	IT	AMUNDI SGR	PIONEER OB. EURO CORPORATE ETICO	IT0004814213
BALANCED	BAUP	EITA	AMUNDI SGR	AMUNDI SOLUZIONI ITALIA C.TO PROGETTO AZIONE SOSTENIBILE	LU1655258330
BALANCED	BAUP	EITA	AMUNDI SGR	AMUNDI SOLUZIONI ITALIA C.TO PROGETTO AZIONE SOSTENIBILE II	LU1720525762
BALANCED	BAUP	EITA	AMUNDI SGR	AMUNDI SOLUZIONI ITALIA C.TO PROGETTO AZIONE SOSTENIBILE III	LU1774630195
OTHER SPECIAL. SHARES	AYAS	EE	AXA WORLD FUNDS	AXA WORLD FUNDS C.TO HUMAN CAPITAL	LU0372523448
EURO AREA SHARES	ABEU	EE	AXA WORLD FUNDS	AXA WORLD FUNDS C.TO FRAMLINGTON EUROZONE RI	LU0545090143
OTHER SECTOR SHARES	AHS9	EE	BNP PARIBAS AM FRANCE (FRENCH RANGE)	BNP PARIBAS DEVELOPPEMENT HUMAIN	FR0011383058
CORP. INV. GRADE BONDS - INTERNATIONAL	OZIO	EITA	BNP PARIBAS AM FRANCE (FRENCH RANGE)	BNP PARIBAS CEDOLA SOSTENIBILE 2021	FR0013229937
OTHER SPECIAL. SHARES	AYAS	EE	BNP PARIBAS AM FRANCE (FRENCH RANGE)	BNP PARIBAS IMMOBILIER RESPONSABLE	FR0013302130
OTHER PUBLIC UTILITY. SERV. SHARES	AHS8	EE	BNP PARIBAS AM FRANCE (FRENCH RANGE)	BNP PARIBAS AQUA	FR0013302155
EUROPEAN SHARES	ACUE	IT	BNP PARIBAS AM FRANCE (ITALIAN RANGE)	BNL AZIONI EUROPA DIVIDENDO	IT0001468047
BALANCED BONDS	BAUQ	EE	BNP PARIBAS AM LUXEMBURG	BNP PARIBAS FORTIGO C.TO SUSTAINABLE ALLOCATION	LU1604175957
BALANCED	BAUP	FFEE	BNP PARIBAS LI	BNP PARIBAS LI C.TO SUSTAINABLE ACTIVE BALANCED	LU0159091882

³² Assogestioni. Data from September 28, 2018.

Assogestioni Category	Code	Type	Company	Name	ISIN Code
BALANCED EQUITY	BAU0	FFEE	BNP PARIBAS LI	BNP PARIBAS LI C.TO SUSTAINABLE ACTIVE GROWTH	LU0159092427
BALANCED BONDS	BAUQ	EE	BNP PARIBAS LI	BNP PARIBAS LI C.TO SUSTAINABLE ACTIVE STABILITY	LU0531998010
INTERNATIONAL SHARES	AGTT	EE	BNP PARIBAS LI	BNP PARIBAS LI C.TO SMART FOOD	LU1151729644
CORP. INV. GRADE BONDS - EUROS	OZ03	EE	BNP PARIBAS SELECT	BNP PARIBAS SELECT C.TO BNP PARIBAS SUSTAINABLE BOND EURO SHORT TERM	FR0013176377
EUROPEAN SHARES	ACUE	EE	BNY MELLON GLOBAL FUNDS PLC	BNY MELLON GF C.TO EUROPEAN ETHICAL INDEX TRACKER	IE0030820504
MEDIUM/LONG T. GOV. BONDS - EUROS	OZ02	EE	CANDRIAM SRI	CANDRIAM SRI C.TO BOND EURO	LU1313770023
CORP. INV. GRADE BONDS - EUROS	OZ03	EE	CANDRIAM SRI	CANDRIAM SRI C.TO BOND EURO CORPORATE	LU1313770882
EURO AREA SHARES	ABEU	EE	CANDRIAM SRI	CANDRIAM SRI C.TO EQUITY EMU	LU1313771427
EUROPEAN SHARES	ACUE	EE	CANDRIAM SRI	CANDRIAM SRI C.TO EQUITY EUROPE	LU1313772151
BONDS - EMERGING MARKETS	OZ13	EE	CANDRIAM SRI	CANDRIAM SRI C.TO BOND EMERGING MARKETS	LU1434519846
GOV. SHORT T. BONDS - EUROS	OZ01	EE	CANDRIAM SRI	CANDRIAM SRI C.TO BOND EURO SHORT TERM	LU1434522634
INTERNATIONAL GOV. BONDS	OZ09	EE	CANDRIAM SRI	CANDRIAM SRI C.TO BOND GLOBAL	LU1434523442
EMERGING MARKET SHARES	AFEP	EE	CANDRIAM SRI	CANDRIAM SRI C.TO EQUITY EMERGING MARKETS	LU1434524416
INTERNATIONAL SHARES	AGTT	EE	CANDRIAM SRI	CANDRIAM SRI C.TO EQUITY WORLD	LU1434528169
MONEY MARKET FUNDS - EUROS	RAEU	EE	CANDRIAM SRI	CANDRIAM SRI C.TO MONEY MARKET EURO	LU1434529050
AMERICAN SHARES	ADMA	EE	CANDRIAM SRI	CANDRIAM SRI C.TO EQUITY NORTH AMERICA	LU1507501481
HIGH YIELD BONDS - EUROS	OZ04	EE	CANDRIAM SRI	CANDRIAM SRI C.TO BOND GLOBAL HIGH YIELD	LU1644441476
PACIFIC SHARES	AACP	EE	CANDRIAM SRI	CANDRIAM SRI C.TO EQUITY PACIFIC	LU1797946917
BALANCED	BAUP	FFEE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE MEDIUM	BE0159411405
BALANCED BONDS	BAUQ	FFEE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE LOW	BE0159412411
BALANCED EQUITY	BAU0	FFEE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE HIGH	BE0169199313
EUROPEAN SHARES	ACUE	EE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE EUROPE	BE0173540072
AMERICAN SHARES	ADMA	EE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE NORTH AMERICA	BE0173901779
PACIFIC SHARES	AACP	EE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE PACIFIC	BE0174191768

Assogestioni Category	Code	Type	Company	Name	ISIN Code
GOV. MEDIUM/LONG T. BONDS - EUROS	OZ02	EE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE EURO BONDS	BE0943336116
INTERNATIONAL GOV. BONDS	OZ09	EE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE WORLD BONDS	BE0945478197
CORP. INV. GRADE BONDS - EUROS	OZ03	EE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE EURO CORPORATE BONDS	BE0945493345
INTERNATIONAL SHARES	AGTT	EE	CANDRIAM SUSTAINABLE	CANDRIAM SUSTAINABLE C.TO SUSTAINABLE WORLD BONDS	BE0946893766
FLEXIBLE BONDS	OZ16	EE	CREDIT SUISSE FUND MANAGEMENT SA	CS IF 13 C.TO CS (LUX) GREEN BOND FUND	LU0533765334
CORP. INV. GRADE BONDS - EUROS	OZ03	EE	DB X-TRACKERS II	DB X-TRACKERS II C.TO XTRACKERS ESG EUR CORPORATE BOND UCITS ETF	LU0484968812
FLEXIBLE	SAFL	EITA	DEAWM FIXED MATURITY	DEAWM FIXED MATURITY C.TO DEAWM FIXED MATURITY FLEXINVEST ESG 2021	LU1278174724
BONDS - OTHER SPECIALIZATIONS	OZ14	EE	DWS INVEST	DWS INVEST SICAV C.TO EURO BONDS (PREMIUM)	LU0254491003
INTERNATIONAL SHARES	AGTT	EE	DWS INVEST	DWS INVEST SICAV C.TO ESG EQUITY INCOME	LU1747711460
OTHER SPECIAL. SHARES	AYAS	EE	DWS INVEST	DWS INVEST SICAV C.TO CROCI WORLD ESG	LU1769941771
GOV. SHORT T. BONDS - EUROS	OZ01	EE	DWS INVEST	DWS INVEST SICAV C.TO ESG EURO BONDS (SHORT)	LU1815111171
GOV. SHORT T. BONDS - EUROS	OZ01	IT	ETICA SGR	ETICA OBBLIGAZIONARIO BREVE TERMINE	IT0004782352
BALANCED BONDS	BAUQ	IT	ETICA SGR	ETICA RENDITA BILANCIATA	IT0005117558
BALANCED	BAUP	IT	ETICA SGR	ETICA BILANCIATO	IT0005336851
INTERNATIONAL SHARES	AGTT	IT	ETICA SGR	ETICA AZIONARIO	IT0005336877
MIXED BONDS	OZ15	IT	ETICA SGR	ETICA OBBLIGAZIONARIO MISTO	IT0005336893
INTERNATIONAL SHARES	AGTT	EITA	EURIZON CAPITAL SA	EURIZON FUND C.TO SUSTAINABLE GLOBAL EQUITY	LU1529957687
CORP. INV. GRADE BONDS - EUROS	OZ03	EITA	EURIZON CAPITAL SA	EURIZON FUND C.TO BOND CORPORATE SMART ESG	LU1652387454
BONDS - OTHER SPECIALIZATIONS	OZ14	EITA	EURIZON CAPITAL SA	EURIZON FUND C.TO ABSOLUTE GREEN BONDS	LU1693963883
MIXED BONDS	OZ15	IT	EURIZON CAPITAL SGR	EURIZON DIVERSIFICATO ETICO	IT0001052742
BONDS - OTHER SPECIALIZATIONS	OZ14	IT	EURIZON CAPITAL SGR	EURIZON OBBLIGAZIONARIO ETICO	IT0001083382
OTHER SPECIAL. SHARES	AYAS	IT	EURIZON CAPITAL SGR	EURIZON AZIONARIO INTERNAZIONALE ETICO	IT0001083424
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO DICEMBRE 2023	IT0005212037

Assogestioni Category	Code	Type	Company	Name	ISIN Code
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO MARZO 2024	IT0005220535
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO MAGGIO 2024	IT0005237943
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO LUGLIO 2024	IT0005250540
	SAFL	IT	EURIZON CAPITAL SGR	EURIZON ESG TARGET 40 - GIUGNO 2022	IT0005250805
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO SETTEMBRE 2024	IT0005273476
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO DICEMBRE 2024	IT0005278806
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON DISCIPLINA SOSTENIBILE ESG MARZO 2023	IT0005312464
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO MARZO 2025	IT0005312654
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO MAGGIO 2025	IT0005320905
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON DISCIPLINA SOSTENIBILE ESG MAGGIO 2023	IT0005320947
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON DISCIPLINA SOSTENIBILE ESG LUGLIO 2023	IT0005329930
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO LUGLIO 2025	IT0005330177
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON FLESSIBILE AZIONARIO SETTEMBRE 2025	IT0005336430
FLEXIBLE	SAFL	IT	EURIZON CAPITAL SGR	EURIZON DISCIPLINA SOSTENIBILE ESG OTTOBRE 2023	IT0005339897
EURO AREA SHARES	ABEU	EE	EURO CAPITAL DURABLE	EURO CAPITAL DURABLE	FR0010589275
INTERNATIONAL SHARES	AGTT	EITA	EUROMOBILIARE INTERNATIONAL FUND SICAV	EUROFUND LUX C.TO MULTI SMART EQUITY - MUSE	LU1492371270
FLEXIBLE	SAFL	EITA	FIDEURAM ASSET MANAGEMENT IRELAND	FONDITALIA ETHICAL INVESTMENT	LU0814413083
INTERNATIONAL SHARES	AGTT	FFEE	FUNDQUEST	FUNDQUEST SICAV C.TO ETHISWORLD	FR0012686046
EUROPEAN SHARES	ACUE	EE	GENERALI INVESTMENTS SICAV	GI C.TO EUROPEAN SRI EQUITY	LU1489756715
FLEXIBLE	SAFL	EE	INVESCO FUNDS	INVESCO FUNDS C.TO INVESCO SUSTAINABLE ALLOCATION FUND	LU1701704584
INTERNATIONAL SHARES	AGTT	EE	JPMORGAN FUNDS SICAV	JPM FUNDS C.TO GLOB.SOC.RESPONS.	LU0210534813
EUROPEAN SHARES	ACUE	EE	JPMORGAN FUNDS SICAV	JPM FUNDS C.TO EUROPE SUSTAINABLE EQUITY FUND	LU1529808336
INTERNATIONAL HIGH YIELD BONDS	OZ11	EE	M&G (LUX) INVESTMENT FUNDS 1	M&G (LUX) INVESTMENT FUNDS 1 C.TO M&G (LUX) GLOBAL HIGH YIELD ESG BOND FUND	LU1665236482

Assogestioni Category	Code	Type	Company	Name	ISIN Code
INTERNATIONAL SHARES	AGTT	EE	M&G (LUX) INVESTMENT FUNDS 1	M&G (LUX) INVESTMENT FUNDS 1 C.TO M&G (LUX) GLOBAL LISTED INFRASTRUCTURE FUND	LU1665238009
BALANCED	BAUP	EITA	NEAM SA	NEF C.TO ETHICAL BALANCED CONSERVATIVE	LU1555072336
GOV. MEDIUM/LONG T. BONDS - EUROS	OZ02	EITA	NEAM SA	NEF C.TO ETHICAL TOTAL RETURN BOND	LU1555162913
BALANCED	BAUP	EITA	NEAM SA	NEF C.TO ETHICAL BALANCED DYNAMIC	LU1555163135
INTERNATIONAL SHARES	AGTT	EE	NN INVESTMENT PARTNERS	NN (L) SICAV C.TO GLOBAL SUSTAINABLE EQUITY	LU0191250769
BONDS - OTHER SPECIALIZATIONS	OZ14	EE	NN INVESTMENT PARTNERS	NN (L) SICAV C.TO EURO SUSTAINABLE CREDIT (EXCLUDING FINANCIALS)	LU0577863615
BONDS - OTHER SPECIALIZATIONS	OZ14	EE	NN INVESTMENT PARTNERS	NN (L) SICAV C.TO EURO SUSTAINABLE CREDIT (INCLUDING FINANCIALS)	LU1106537605
BONDS - OTHER SPECIALIZATIONS	OZ14	EE	NN INVESTMENT PARTNERS	NN (L) SICAV C.TO EURO GREEN BOND	LU1365052627
EUROPEAN SHARES	ACUE	EE	NN INVESTMENT PARTNERS	NN (L) SICAV C.TO EUROPEAN SUSTAINABLE EQUITY	LU1542714578
OTHER SPECIAL. SHARES	AYAS	EE	PARVEST SICAV	PARVEST C.TO SUSTAINABLE EQUITY EUROPE	LU0212189368
BONDS - OTHER SPECIALIZATIONS	OZ14	EE	PARVEST SICAV	PARVEST C.TO SUSTAINABLE BOND EURO CORPORATE	LU0265317569
OTHER SECTOR SHARES	AHS9	EE	PARVEST SICAV	PARVEST C.TO GLOBAL ENVIRONMENT	LU0347712431
OTHER SPECIAL. SHARES	AYAS	EE	PARVEST SICAV	PARVEST C.TO CLIMATE IMPACT	LU0406803147
OTHER SPECIAL. SHARES	AYAS	EE	PARVEST SICAV	PARVEST C.TO GREEN TIGERS	LU0823438733
BONDS - OTHER SPECIALIZATIONS	OZ14	EE	PARVEST SICAV	PARVEST C.TO SUSTAINABLE BOND EURO	LU0828231075
CORP. INV. GRADE BONDS - DOLLARS	OZ07	EE	PARVEST SICAV	PARVEST C.TO SUSTAINABLE BOND WORLD CORPORATE	LU0925121187
OTHER SPECIAL. SHARES	AYAS	EE	PARVEST SICAV	PARVEST C.TO HUMAN DEVELOPMENT	LU1165136844
INTERNATIONAL SHARES	AGTT	EE	PARVEST SICAV	PARVEST C.TO SMART FOOD	LU1165137651
OTHER SPECIAL. SHARES	AYAS	EE	PARVEST SICAV	PARVEST C.TO SUSTAINABLE EQUITY HIGH DIVIDEND EUROPE	LU1458429054
OTHER SECTOR SHARES	AHS9	EE	PARVEST SICAV	PARVEST C.TO AQUA	LU1620156130
BONDS - OTHER SPECIALIZATIONS OTHER SPECIALISATIONS	OZ14	EE	PARVEST SICAV	PARVEST C.TO GREEN BOND	LU1620156999
OTHER SPECIAL. SHARES	AYAS	EE	SCHRODER INTERNATIONAL SELECTION FUND	SCHRODER ISF C.TO GLOBAL SUSTAINABLE GROWTH	LU0557290854
OTHER SPECIAL. SHARES	AYAS	EE	SCHRODER INTERNATIONAL SELECTION FUND	SCHRODER ISF C.TO GLOBAL SUSTAINABLE GROWTH EUR HEDGED	LU0671501046

Assogestioni Category	Code	Type	Company	Name	ISIN Code
INTERNATIONAL SHARES	AGTT	EE	SCHRODER INTERNATIONAL SELECTION FUND	SCHRODER ISF C.TO QEP GLOBAL ESG	LU1775314054
MIXED BONDS	OZ15	IT	SELLA SGR	INVESTIMENTI SOSTENIBILI	IT0005219859
INTERNATIONAL SHARES	AGTT	EE	STATE STREET GLOBAL ADVISORS LUXEMBOURG	STATE STREET GLOBAL ADVISORS LUXEMBOURG C.TO STATE STREET WORLD SRI INDEX EQUITY FUND	LU1159235362
EUROPEAN SHARES	ACUE	EE	THEAM QUANT	THEAM QUANT C.TO EQUITY EUROPE CLIMATE CARE	LU1353196436
EURO AREA SHARES	ABEU	IT	UBI PRAMERICA SGR	UBI PRAMERICA AZIONARIO ETICO	IT0003851034
CORP. INV. GRADE BONDS - EUROS	OZ03	IT	UBI PRAMERICA SGR	UBI PRAMERICA OBBLIGAZIONARIO EURO CORPORATE ETICO	IT0005075590
BALANCED BONDS	BAUQ	IT	UBI PRAMERICA SGR	UBI PRAMERICA BILANCIATO ETICO	IT0005278970
BALANCED BONDS	BAUQ	EITA	UBI SICAV	UBI SICAV C.TO SOCIAL 4 PLANET	LU1785078269
BALANCED BONDS	BAUQ	EITA	UBI SICAV	UBI SICAV C.TO SOCIAL 4 FUTURE	LU1785081131

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This second report on ethical and sustainable banking in Europe is published just after the tenth anniversary of the collapse of Lehman Brothers. This occasion provides us with the opportunity for describing the 'traditional' financial system, one which finds it difficult to break its habit of short-sighted speculation. It further gives us the chance of relating how in the meantime another banking system has flourished, with double-digit growth. This is the world of socially responsible investment funds, of engaged shareholding and of ethical banks. As more and more citizens and investors reward this sector, it awaits long-overdue legislation — from the United States to the European Union — that serves to incentivise its growth.

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