BANCA DEL SEMPIONE
PRIVATE BANK
SINCE 1960

ASSOCIAZIONE BANCARIA TICINESE
1920 2020 100

INFORMATION NOTE

CORPORATE SOCIAL RESPONSIBILITY IN THE BANKING SECTOR

Context and definition of Corporate Social Responsibility (CSR)

In recent years, in much of the industrialised world, there has been an increased awareness of the impacts that economic development is having on the environment and society.

In particular, the evident effects of climate change and the increased attention to issues such as inclusion and diversity have aroused the interest of public opinion and regulators who are now pushing companies to operate in a responsible manner and with the aim of reducing their external impact.

Following the adoption in 2015 of the Paris Agreement[1] on climate change and the United Nations 2030 Agenda for Sustainable Development[2], governments have developed action plans to support the transition to a sustainable economy.

It follows that all sectors, including banking and asset management, are required to adapt their operations and offerings so as to contribute to the pursuit of sustainability objectives.

The awareness that economic activities have an impact on social and environmental aspects is also increasingly widespread among all stakeholders[3], who ask banks to take these aspects into account along the entire value chain.

To take account of sustainable growth, a bank must essentially consider multiple aspects, including: the management of ESG[4] investments, the provision of sustainable loans[5], and the management of the organisation itself according to criteria of social, environmental, and good governance responsibility.

This business model, integrated into corporate strategy, is called Corporate Social Responsibility (CSR), and aims to generate economic value, while at the same time taking into consideration the environmental, social and governance dimensions, with the awareness that the extent to which one's activity is "good" can have an effect on stakeholders and that they, in turn, can influence the company's performance, its reputation, and its overall success over time.

---

[1] The Paris Agreement is an international treaty that pursues the objective of limiting average global warming to well below 2 degrees Celsius, compared with the pre-industrial period, with a target maximum increase of 1.5 degrees. Moreover, it aims to orient financial flows towards development with low greenhouse gas emissions and to improve the capacity to adapt to climate change.

[2] The 2030 Agenda for Sustainable Development was signed in 2015 by 193 countries of the United Nations and it defines 17 Sustainable Development Goals – SDGs - to be achieved by 2030, divided into 169 targets.

[3] Stakeholders are all the subjects and organisations that have a relationship of interest with the company: shareholders, customers, employees, regulatory bodies, investors, local community, environment, suppliers, etc.

[4] The Sustainability Commission of the Ticino Bank Association has issued an information sheet entitled "Sustainability in Finance" specifically on sustainable investments.

[5] The Sustainability Commission of the Ticino Bank Association has issued an information sheet entitled "Sustainability in Real Estate" specifically on sustainable mortgage loans.

The regulatory context

The strong and growing attention of the market has been joined by a regulatory push, which is still developing rapidly. The Swiss and European financial industry has equipped itself with internationally recognised standards and directives, with the aim of encouraging the adoption of good practices, especially those which are climate-related, and of regulating the communication of sustainability reports, which must be transparent and communicative.

TCFD – Task Force on Climate-related Financial Disclosures

The G20 "TCFD" Commission of Experts issues recommendations for reporting risks related to climate change.

Eleven recommendations have been issued with the aim of containing climate risk and, in particular, they are aimed at reducing CO_2 emissions.

It is also recommended to define the role of the Board of Directors in the assessment of climate risks, to identify the climate-related risks and opportunities, and to evaluate their financial effects through scenario analysis and to define a process for managing such risks.

Ordinance on Climate Reporting

In Switzerland, in November 2022, the Federal Council adopted the Ordinance on Climate Reporting for large Swiss companies.

"The ordinance provides that large Swiss companies shall implement in a binding manner the internationally recognised recommendations of the Task Force on Climate-Related Financial Disclosures - TCFD.

Companies with listed shares, banks, and insurance companies with more than 500 employees, a balance sheet total of at least 20 million francs, or a turnover of more than 40 million francs, are now required to publish a report on climate issues. The reporting includes, on the one hand, data on the financial risk that the company incurs by pursuing activities that affect the climate and, on the other hand, information on the impact that these activities have on the climate (the principle of "double materiality"). It also describes the company's reduction objectives with regard to direct and indirect greenhouse gas emissions and how the company intends to implement them."[6]

These measures are to be adopted for the first time in Switzerland starting from 2025 for the 2024 financial year.

---

[6] Source: admin.ch

INFORMATION NOTE

CSRD – Corporate Sustainabilty Reporting Directive

In April 2021, the European Commission published a proposal for a Corporate Sustainability Reporting Directive (CSRD) that will replace the current Non-Financial Reporting Directive (NFRD). With this new directive, the European Union increases the requirements relating to sustainability reporting and extends it, over a progressive time horizon[7], to a significantly increased number of companies affected, including:

- all large companies that meet two of the following criteria: (i) an annual average of 250 employees, (ii) 40 million euros of net turnover, or (iii) a balance sheet total of 20 million euros;
- all capital market-oriented enterprises - including small and medium-sized ones – with the exception of micro enterprises;
- non-EU companies with at least one subsidiary or branch in the EU and with a consolidated EU turnover exceeding 150 million euros.

The CSRD requires that the reporting include all the information that is necessary to understand future developments, company results, the financial situation and the impacts related to sustainability, and it will be based on both general standards and specific governance, environmental, and social standards.

All contents of the report must be made measurable through indicators, take into account tangible and intangible resources (such as CO_2 emissions or data relating to human capital) and must have a past and prospective temporal dimension.

Swiss companies with affiliated companies located in the European Union and/or with transferable securities listed on EU stock exchanges will also be affected by the CSRD.

Banks impacted by TCFD and CRSD are subject to significant changes. It will be necessary to identify measurable objectives and risks, evaluating financial and non-financial consequences. This means that various functions, from risk to investor relations, to strategy and resources dedicated to sustainability, will all be called upon to integrate some of their processes.

Greenwashing

Greenwashing is the more or less intentional practice of presenting a company as sustainable, even though this may be false or only partially true.[8]

Examples of *greenwashing* include misleading labels, lack of transparency, inaccurate impact measurement, and focusing on a single sustainable aspect.

The financial regulator and government bodies are particularly attentive to the transparency and truthfulness of the information disclosed on sustainability issues.

[7] The reporting requirement is expected to apply to organisations already subject to the NFRD starting from 2025, for the 2024 financial year. For all other large companies and subsidiaries of a non-EU parent company, the reporting obligation will apply starting from 2026, for the 2025 financial year, and for listed SMEs and non-EU companies, starting from 2029 at the latest, for the 2028 financial year.

[8] Finma defines Greenwashing as the danger that customers and investors might be deceived, intentionally or unintentionally, regarding the sustainability properties of financial products and services. (Finma communication on supervision 05/2021).

To avoid *greenwashing*, even if involuntary, an analysis of the corporate strategy, which must be sustainable in its entirety, is necessary to understand its impact on the individual business units and the coherence, if any, between them.

In Switzerland, at its meeting held on 16 December 2022, the Federal Council decided to continue the work to prevent greenwashing in the financial market. A working group, in which banks are also represented through the SBA, was tasked with examining how to effectively implement this position.

Sustainability report

Large institutions, in addition to publishing financial data, are required to publish a sustainability report according to recognised international standards.[9]

The sustainability report is the fundamental tool for representing the environmental, social and governance impacts generated by the company (non-financial reporting). It is published annually and is based on materiality analysis, a tool which has the aim of identifying significant impacts, current or potential, generated by the company (*Impact Materiality*) in the short, medium, or long term, as well as the impacts, current or potential, suffered by the company (*Financial Materiality*). In short, it is a graphical representation of the impacts generated along the value chain summarised according to their significance.

Within the Report, the company explains the measures it intends to implement to pursue sustainable objectives and to mitigate risks, monitors their effectiveness and, in the adverse case, explains the reasons why it does not satisfy certain social, environmental and governance objectives (*comply or explain* principle).

The Report must be approved by the highest management or administrative body of the bank and it will in future be subject to external audit, as already is the case for financial reporting. A consultation on the audit standard - International Standard on Sustainability Assurance (ISSA) 5000 - is currently underway.[10]

Sustainability Manager

When a company carries on its entrepreneurial activity, it must take into account not only the generation of profit, but also aspects such as: the provision of sustainable products or services, the reduction of environmental impact, climate risks, human rights, employees' working conditions, corruption, the interests of consumers and the surrounding community.

To respond to these needs, a new professional figure with the task of integrating sustainability into corporate strategy is emerging. The Sustainability Manager plans a path that is constant over time and consistent with the overall strategy, and he or she reports on the company's operations through a transparent communication logic based on quantitative metrics, thus avoiding the risk of slipping into *greenwashing*.

---

[9] In this report, it will be necessary to specify the standards to which reference is made. GRI (Global Reporting Initiative) is one of the most accredited methods for drawing up a sustainability report. It provides principles and indicators for measuring economic, environmental, and social performance.

[10] This standard, the world's first, was proposed by the "International Auditing and Assurance Standards Board (IAASB)."

GLOSSARY[11]

ESG: ESG stands for Environmental (e.g. energy consumption, water usage), Social (e.g. talent attraction, supply chain management), and Governance (e.g. remuneration policies, board governance). ESG factors form the basis for the different SI [Sustainable Investment] approaches.

CSR: Corporate Social Responsibility. This term refers to an organisation's commitment, beyond what is required by law, to ensure that the social, economic, and environmental impact of its actions creates a net benefit for communities and society. It is based on the belief that all companies have a "duty of care" to all their stakeholders in every area of their business operations and that being a responsible citizen improves the long-term business success of a company.

Information Note prepared by the ABT CSR Group.

Vezia, December 2023

[11] Extracted and translated from https://www.sustainablefinance.ch/en/resources/what-sustainable-finance/glossary.html