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Chapter 10

Sustainable Performance Reporting: Are Banks Ready? The Case of Italy

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Banks play a critical role in economic development because they serve as financial intermediaries by facilitating cash flow between lenders and borrowers (Beck, Demirgüç-Kunt, & Levine, 2010). By doing so, they promote innovation, helping entrepreneurs launch new products and introduce new production processes: a well-functioning banking industry is, therefore, the key to sustained prosperity (King & Levine, 1993). Furthermore, banks use considerable resources from society, since their assets come mainly from depositors, not from shareholders. When banks are in distress, because of their important societal role, governments bail them out using resources paid for by society. For these reasons, the banking industry is routinely scrutinised by the media, government, and academia and is required to disclose its performance to the community more often than other industries (Wu & Shen, 2013).

More recently, though, banks are undertaking an additional responsibility: the transition to a more resilient model of economic development relies to a significant degree on the possibility of facilitating access to credit for sustainable investments and firms and limiting funding opportunities for unsustainable ones. In the European Union, in particular, as part of the broader 'European Green Deal', the European Sustainable Finance Strategy lays the foundation for a complex set of measures that have been launched in recent years (Brühl, 2021). 'Sustainable finance' refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector; these considerations are associated with climate change mitigation and adaptation, as well as the preservation of biodiversity, pollution prevention and the circular economy (Berrou, Dessertine, & Migliorelli, 2019; Carè, 2018; Hong, Karolyi, & Scheinkman, 2020; Weber, 2014).

This additional responsibility entrusted to banks entails even closer scrutiny of their performance, not only in financial terms but also in their contribution to sustainability. The EU Non-Financial Reporting Directive (Directive 2014/95/EU) took the first steps in this direction by making the disclosure of specific dimensions of sustainability performance compulsory for large 'public interest entities', including banks. The EU Corporate Sustainability Reporting Directive (Directive 2022/2464/EU) extends significantly both the number of banks subject to the obligation and the range of performance information to be disclosed. These developments are discussed in detail elsewhere in this monograph: in particular, chapter 1.3 summarizes the evolution over time of EU initiatives on sustainability reporting, chapter 2.1 details the new standards envisaged by the EU Corporate Sustainability Reporting Directive, whereas chapter 9.3 discusses the information value of sustainability reporting by financial institutions.

Following this remarkably swift regulatory development, the question arises: are banks ready for this quantum leap? The literature on sustainability reporting by banks is very rich, but the prevailing focus is on the relationship between financial and non-financial performance, thus applying to this specific industry the time-honoured tradition of research summarised by Friede, Busch, and Bassen (2015). Some studies on the quality of non-financial disclosure in the banking industry do exist (e.g., Hubbard, 2009, 2011; Löw, Klein, & Pavicevac, 2020; Zaman Khan, Bose, Taher Mollik, & Harun, 2021); in many cases, though, the search for quantitative summary measures suitable for statistical analysis is detrimental to a fine-grained understanding of how effectively banks communicate their sustainability performance, leading some authors to question the reliability of non-financial reporting by banks radically (e.g., Lock & Seele, 2015; Herold, Dietrich, & Breitbarth, 2021).

10.1. Research Objective and Methodology

On the backdrop of the developments outlined above, this chapter assesses the readiness of the European banking sector to disclose its own sustainability practices. The underlying research objective is to evaluate whether their non--financial reports live up to expectations in terms of completeness and materiality, which are necessary preconditions in case the readers of these reports want to get a credible picture of how banks are performing in terms of sustainability.

To address this research objective, we chose to analyse systematically the non-financial reports of the largest Italian banks. The focus on Italy is justified by the fact that both academic and professional circles have been discussing good practices in non-financial reporting for a very long time: seminal scientific publications on *bilancio sociale* appeared already in the mid-seventies (e.g., Salvemini, 1978; Trabucchi, 1975), and practitioners have long established coveted awards meant to acknowledge excellence in non-financial disclosure (the 'Financial Statements Oscar' was established in 1954, and since 1992 a special prize has been awarded for environmental reporting). Consequently, Italy is widely acknowledged to be at the forefront of innovation in sustainability reporting, at least among European countries (Brusati, Fuso, & Garlatti, 2021). The empirical analysis by Löw et al. (2020, pp. 52–54) on the disclosure quality of the sustainability reports issued by European banks gets to the same conclusion: Italian banks top the charts in terms of disclosure score for both sector-specific ('banking index') and sector-agnostic items ('general index').

Two recent empirical articles addressed sustainability reporting in the Italian banking sector: Murè, Spallone, Mango, Marzioni, and Bittucci (2021) performed an econometric analysis of the ESG scores of thirteen Italian banks to investigate whether banks adopt ESG practices to reduce reputational damage due to financial penalties; Menicucci and Paolucci (2023) analysed the relationships between ten dimensions of ESG pillars and bank performance indicators from 2016 to 2020 in a sample of 105 Italian banks. To our knowledge, no studies investigated instead the quality of sustainability disclosure by Italian banks, which is the focus of this chapter.

Other things being equal, the largest banks can be reasonably expected to deploy more advanced professional skills, invest more financial resources in information systems facilitating internal and external reporting (Devalle, Rizzato, & Busso, 2016) and have stronger incentives for the disclosure of their sustainability, since they are considerably more exposed to public scrutiny (Bonsón & Bednárová, 2015). Based on these assumptions, and in line with the findings by Löw et al. (2020), larger banks are expected to be more proficient than smaller banks in the communication of sustainable performance.

For practical purposes, we identified the ten largest Italian banks using the 2018 ranking by total assets presented by the leading Italian economic newspaper, *Il Sole 24 Ore*, i.e., UniCredit, Intesa San Paolo, Cassa Depositi e Prestiti, Banco BPM, Monte dei Paschi di Siena, UBI Banca, Gruppo BNL, Mediobanca, BPER Banca and Crédit Agricole Italia.

Through their websites, we retrieved the non-financial statements issued in 2020 pursuant to Legislative Decree 254/2016 (Decreto Legislativo 30 Dicembre 2016) which introduced in Italy the provisions of the EU Non-Financial Reporting Directive (Directive 2014/95/EU). The reason for focusing on 2020 lies in the fact that in late November of 2019 the European Parliament and the Council of the European Union issued the EU Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088): this Regulation states that *financial market participants and financial advisers should be required to disclose specific information regarding their approaches to the integration of sustainability risks and the consideration of adverse sustainability impacts* (Regulation (EU) 2019/2088, recital 8), and as such can be considered the starting point of the effort by EU institutions to enshrine sustainability in the management practices of the financial sector. By analysing 2020 data, it is possible to assess the proficiency of Italian banks in sustainability disclosure at the very beginning of this process.

The non-financial statements we selected were analysed using the framework developed and tested by a consortium of six European universities as part of the EU-funded project 'Integrated Reporting for SMEs Transparency' (INTEREST). This framework allows to compare sustainability reporting practices by summarising in a double-entry table seven process-related items, meant to outline the methods used to disclose non-financial information, and seventeen content-related items, meant to highlight whether and how specific dimensions of sustainability have been reported upon.

The original framework is sector-agnostic, but for the purpose of this study one more item was used to describe how the banks we selected tackled two requirements introduced for financial market participants by the EU Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088), i.e., the disclosure in their institutional websites of *their policies on the integration of sustainability risks in their investment decision-making process* (Art. 3) and *the identification and prioritisation of principal adverse sustainability impacts* (Art. 4).

For a cross-cutting assessment of the sustainability reporting practices adopted by the banks in our sample, chapter 10.2 summarises the results of our analysis as follows:

- approaches used to prepare sustainability reports, define materiality matrixes and analyse the risks and opportunities triggered by their actions;
- general features of sustainability reports and graphical choices adopted for their layout;
- degree of inclusion of different topics in sustainability reports and in their tables of contents;

- issues covered and wording used to disclose performance in the topical areas mentioned by Legislative Decree 254/2016, i.e., social welfare, human resources management, environment, human rights protection and the fight against corruption;
- policies adopted to integrate sustainability risks in investment decision-making and to identify adverse sustainability impacts pursuant to Art. 3 and 4 of the EU Sustainable Finance Disclosure Regulation.

10.2. Comparison of the Non-Financial Reports of the Largest Italian Banks

Process of preparing non-financial reports

Eight banks in our sample were required to issue a non-financial report based on Art. 2 of Legislative Decree 254/2016; BNL Group and Crédit Agricole Italia were not subject to this requirement since it was fulfilled by their parent companies elsewhere in the European Union, but they chose nevertheless to issue a non-financial report on a voluntary basis. All 10 banks published the statement of non-financial information separately from the financial statement, relying on the option envisaged by Art. 5(b) of Legislative Decree 254/2016.

The comparison of the approaches used to prepare sustainability reports, define materiality matrixes, and analyse the risks and opportunities triggered by their actions served to understand whether banks did provide information on the methods they used and whether they dealt directly with these issues or chose to rely on external expertise. We paid special attention to the decision of whether to manage directly or outsource the reporting process, the definition of the materiality matrix and the identification of risks and opportunities generated by their actions because we believe this information helps understand the attitude of banks to sustainability reporting. Each organisation has first-hand knowledge of its own values, dynamics, goals, and mission and is, therefore, better placed than anybody else to provide timely, accurate and comprehensive information in this respect; furthermore, the internal management of sustainability reporting can be considered a symptom of the willingness by the bank to engage actively in stakeholder dialogue.

All the banks in our sample relied on Global Reporting Initiative (GRI) standards to disclose their sustainability performance. They all opted for the internal management of non-financial disclosure except for Monte dei Paschi di Siena, which did not clarify how the report was prepared. In most banks, this responsibility was entrusted to the Communications Department, the CSR Department, or the Sustainability Department. UniCredit and Monte dei Paschi di Siena did not provide any information regarding the definition of materiality issues. Out of the remaining eight banks, seven developed the materiality matrix internally through interviews with top managers, multi-stakeholder fora, benchmarking with other banks and the administration of questionnaires to different stakeholders (shareholders, customers, employees, NGOs, third-party institutions, etc.); UBI Bank engaged a specialised firm to perform telephone and web-based interviews with relevant external stakeholders. Risks and opportunities generated by the bank's actions were identified either by the board of directors or by the units in charge of internal control and risk management.

Layout of non-financial reports

Reports differ significantly in terms of layout and length. We clustered them into two groups: Banco BPM, Cassa Depositi e Prestiti, Gruppo BNL, and UniCredit chose to focus primarily on visual elements (e.g., infographics, colours, charts, and drawings), whereas BPER Banca, Crédit Agricole Italia, Intesa Sanpaolo, Mediobanca, Monte dei Paschi di Siena and UBI Banca adopted instead a narrative approach, based on monochromatic texts complemented by infographics and other visual components. These differences in the layout are likely to impact readability and even perceived transparency: flowcharts and tables highlight specific pieces of information, thus helping the reader identify key messages, whereas lengthy, homogeneous text can be perceived as cumbersome and potentially misleading. On the other hand, it must be acknowledged that *banks that include several pictures and issue colourful, long reports tend to use these reports as marketing material, disclosing information that one would not consider to be CSR information* (Löw et al., 2020, p. 62). Large differences can also be noticed with reference to the size of the report, ranging from 68 pages for Cassa Depositi e Prestiti to 224 pages for Intesa Sanpaolo. This difference may be associated, on the one hand, with the size, the range of activities and the organisational complexity of each bank; on the other, it highlights that different banks chose to describe their sustainability performance with different degrees of depth and breadth.

Range of topics covered

The main topics included in the sustainability reports we analysed are rather homogeneous. This is especially true for the sections used to describe the bank itself, such as internal organisation, external environment, business model, governance model, policies about the management of risks and opportunities, strategy, and use of past earnings.

A fully-fledged materiality matrix is featured in nine reports out of ten, UniCredit being the only outlier. The adoption of this tool seems to suggest the importance attributed to the identification of the issues considered material both by the bank and its key stakeholders.

Only four reports out of ten include a specific reference to the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD), the standard established in 2015 in response to the G20's request to provide better reporting on the financial implications of climate change, and only two out of ten mention the International Integrated Reporting Committee (IIRC) framework. The fact that less than half of the sample referred to the TCFD signals a lack of consistency among different reports on a key dimension of non-financial performance, such as climate change, whereas the disregard for the IIRC framework confirms the message implicit in the decision to issue financial and non-financial reports separately, i.e., limited interest for the interplay between financial and non-financial sustainability, and more broadly among different performance dimensions.

We also investigated how many banks highlighted explicitly in the tables of contents the topics they addressed in their sustainability reports. The table of contents is meant to showcase the key contents of a document, helping readers find the topics they are most interested in, making the report more transparent and easier to browse, and influencing the overall image the bank conveys to its stakeholders. Tables of contents can also be used for a preliminary comparison of contents: if an issue is not associated with a specific paragraph, readers may conclude it was not covered, and extra effort will be needed to find out where exactly it was discussed. The impact *vis-à-vis* Sustainable Development Goals, as an example, is mentioned in all ten reports but appears in the table of contents only in three.

Performance

We used a more detailed approach for the dimensions of performance whose coverage is required by Legislative Decree 254/2016, summarising in a double-entry table the specific issues addressed by each bank. Banks often worded differently the same concepts related to a given dimension of performance; for this reason, we listed the full range of terms they used to illustrate the heterogeneity of disclosure practices. On the one hand, this approach allowed to determine the level of consistency among the reports in terms of the issues covered under each dimension of performance; on the other hand, it allowed to assess the degree of consistency in terminology, and thus whether it can be misleading for the readers.

Social performance. Social performance refers to the set of relationships that a firm establishes with its stakeholders and the community where it operates; the topics included are the actions that the firm undertook to ensure the development of the communities where it operates and to improve dialogue with its stakeholders.

Banks take different vantage points and use different terms to refer to their social performance. Some reports focus on the sense of community, others on the country, society at large, or the general public; in other cases, they emphasise the individuals and the areas they live; finally, other reports concentrate on the relationship between individuals and the bank itself, as a partner or as a trusted service provider.

In the case of social performance, there is a high degree of consistency among the issues covered by different reports. As a rule, the banks in the sample pay special attention to financial education and financial inclusion, presented as essential tools to increase their commitment to the community they are part of, and to financial support for socially relevant initiatives launched by public institutions or NGOs. Banks also declare to emphasise listening to stakeholders' feedback and managing their complaints so as to improve their engagement.

The number of pages devoted to social performance varies significantly, from six of Cassa Depositi e Prestiti and BNL Group to 46 at Intesa Sanpaolo; this broad range is partly explained by the fact that some banks disclosed their social performance in more than one chapter.

Human resources management performance. Human resources management refers to the set of practices used to nurture the competencies firms leverage to create products or services able to meet customer preferences; as such, it is meant to impact positively the knowledge, skills, level of education and professionalism, the protection of workers' health and safety, gender equality, involvement in corporate decisions, and the establishment of favourable working conditions.

Also, in the case of human resources management, banks take different vantage points and use different terms. Some reports highlight the partnership that can develop between employers and employees to achieve the corporate mission, whereas others emphasise their responsibility in generating employment opportunities or the importance of collaborative relationships among motivated employees. Some banks refer to human beings, whereas others use more neutral terms, such as employees or staff. These differences in framing are likely to influence the perception of the reader of how each bank nurtures its human capital.

Contrary to our remarks about social performance, each bank devotes a single chapter to human resources management, thus allowing readers to retrieve immediately relevant information, and the issues covered by different reports are very homogeneous. As a rule, the banks in the sample have initiatives targeted to benefit employees outside of working hours, pursue inclusion (especially gender balance), and invest in training to strengthen both technical and soft skills. Most reports disclose at least some details of how the performance of employees is assessed; half of the sample features the outcomes of organisational climate surveys. Nevertheless, the risks each bank faces and the objectives it plans to achieve are not included; consequently, readers are unable to understand the broader context in which banks implement their initiatives to build capacity, improve retention or strengthen inclusion.

The number of pages devoted to human resources management performance varies significantly, from four at UniCredit to 26 at Mediobanca and Monte dei Paschi di Siena.

Environmental performance. Pursuant to Art. 3 of Legislative Decree 254/2016, banks are required to report their direct environmental impacts by releasing data on the use of renewable and non-renewable energy resources, the amount of waste generated according to type, their greenhouse gas emissions, and their use of water resources. They must also disclose their support for initiatives meant to protect the seas and oceans and the projects carried out to increase awareness among their employees about the challenges associated with the environment.

Whereas the terminology is rather homogeneous, banks take different vantage points to disclose their environmental performance, thus allowing readers to understand their approach to the corresponding challenges. Some reports emphasise the importance of teamwork ('together for the environment'), while others see environmental protection as a responsibility or as a challenge meant to mitigate the effects of climate change ('low-impact work environment').

Banks devoted a single chapter to the discussion of their environmental impacts, and there is a fair level of homogeneity in the issues covered by sustainability reports. They include energy generation and consumption from renewable and non-renewable sources, waste management practices, greenhouse gas emissions and support for environmentally oriented initiatives organised by public institutions or NGOs. Homogeneity is instead largely lacking in the description of the initiatives undertaken to fight climate change and protect the seas and the oceans. Banks clearly focus on their own direct impact on the environment rather than the indirect impact generated by their stakeholders, and especially by borrowers; the only exception is provided by the initiatives targeted to the staff to promote sustainable mobility (e.g., car-sharing, car-pooling, provision of electric cars).

For most banks, the risks they face and the objectives they pursue in terms of environmental performance are not included in the relevant chapter of the sustainability report, but at least in some cases they are described in the sections devoted to the broader objectives and risks identified by the bank.

In the ten reports we analysed, the number of pages devoted to environmental impacts was limited and more comparable than for other dimensions of sustainability, ranging from five at Gruppo BNL to 16 at Intesa San Paolo.

Other dimensions of performance. Two additional topics whose coverage is required by Art. 3 of Legislative Decree 254/2016 are the actions and policies implemented to protect human rights and prevent corruption. All banks refer to the 'organisational and management model' to be disclosed pursuant to Legislative Decree 231/2001 (Decreto Legislativo 8 giugno 2001, n. 231), as well as the whistleblowing policy put in place to deal with these topics: the former concerns corporate liability for administrative offences associated with crimes, whereas the latter refers to the provisions meant to protect employees willing to report violations or irregularities committed to the detriment of the firm.

Only Crédit Agricole Italia and Mediobanca devoted specific chapters to both human rights and the prevention of corruption; Intesa Sanpaolo devoted a chapter to human rights, and Monte dei Paschi di Siena did the same for anti-corruption practices. BPER Banca and UBI Banca chose instead to combine human rights and the prevention of corruption with other issues concerning their social and human resources management performance. The remaining banks include these issues in other sections of their sustainability reports without mentioning them in the table of contents.

In terms of issues, all banks established an ethical code and trained their staff to develop their sensitivity to possible human rights abuses; they also pursue IT security and the protection of privacy for both employees and customers, but these initiatives are usually listed in different sections of the report. Similarly, procedures are in place and training is offered to prevent corruption in business decisions involving the bank.

In line with previous findings, six banks out of 10 reported the risks they face in the prevention of corruption, two list specific objectives to be achieved in this field, and only one includes this information in the section on combating active and passive corruption.

Integration of sustainability risks in investment decisions

Pursuant to Art. 3 and 4 of Regulation (EU) 2019/2088, banks were required to publish on their websites, by March 10, 2021, information regarding their policies on the integration of sustainability risks and how they assess negative sustainability impacts in their decision-making or advisory processes. The 'comply or explain' principle applies here, i.e., the bank can either comply with these obligations or explain the reason for non-compliance. The banks we investigated adopted two different approaches to disclosure in this respect: five justified their compliance or non-compliance by including a dedicated page on their website, whereas five, on top of the dedicated page on the website, published a PDF document to address the issue. The decision to publish a PDF document on top of the web page has advantages and drawbacks: disclosure on the practices required by Regulation

(EU) 2019/2088 can be more detailed, but on the other hand, a stand-alone document may be more difficult and time-consuming for the reader, even more taking into account that some of these documents feature hyperlinks inviting readers to browse additional documents covering issues such as restrictive policies adopted by banks in certain sectors. The single web page is likely to offer less depth, but at the same time it allows the reader to have all the necessary information in one place and results in a much smoother reading.

Banco BPM, Cassa Depositi e Prestiti and Crédit Agricole Italia chose to explain why they did not comply with the requirements of Regulation (EU) 2019/2088, referring primarily to the lack of clear requirements on what to disclose and at which level of detail. The remaining seven banks chose to comply, and thus reported on their websites or PDF documents the actions and policies they implemented or the ones they planned to introduce. Some banks, such as UniCredit and Intesa Sanpaolo, detailed their policies about restricting lending to the sectors that are considered to impact negatively on sustainability (e.g., coal, nuclear weapons, arms, sectors that violate UN Global Compact principles); other banks, such as BNL Group and BPER Banca, explained the methods they use to calculate the sustainability rating of their products; finally, other banks, such as Mediobanca and UBI Banca, reported that they consider sustainability and related risks and consequences in their investment decisions, but did not provide further details. All the banks in the sample stated they were starting plans to improve the integration of sustainability factors into their investment decisions, thus indicating that integration was at best incomplete.

Interestingly, only three banks out of ten refer explicitly to Regulation (EU) 2019/2088 on their websites or dedicated PDF documents; the remaining banks simply reported relevant information. This choice is not ideal for the reader, who is unable to connect the details provided by the bank with the requirements introduced by the EU Sustainable Finance Disclosure Regulation.

10.3. Discussion of Research Findings

Our analysis aimed to assess the quality of sustainability disclosure in the Italian banking sector by highlighting the degree of transparency, clarity and consistency of the practices used by 10 largest banks to report non-financial information. Some commonalities could be found in the analysis of their sustainability reports:

- all banks addressed the issues related to sustainable factors under Art. 3 of Legislative Decree 254/2016, even though with different levels of depth;
- all banks adopted the GRI standards for drafting the reports;
- all banks referred to the Sustainable Development Goals, even though in different forms and with different levels of depth;

- almost all banks presented the results of their materiality analysis as the cornerstone of their sustainability report.

Nevertheless, the lack of clear guidelines in Legislative Decree 254/2016 and Regulation (EU) 2019/2088 leads to arbitrariness in the disclosure of both sustainability performance and the risks and consequences for sustainability associated with investment decisions. More specifically, our analysis highlighted the following shortcomings:

- *Arbitrariness in the overall layout of reports*. The lack of guidelines supporting Legislative Decree 254/2016 implies that reporting patterns differ from bank to bank. This practice impacts negatively the reader, who must look for information on his or her own, especially when they are not highlighted in the table of contents, thus facing major obstacles in retrieving, understanding, and comparing performance data.
- *Arbitrariness in the choice of topics to be covered*. Legislative Decree 254/2016 identifies five dimensions of performance that must be covered by sustainability reports, but it does not provide a detailed list of topics that must be addressed under each dimension of performance. The arbitrariness in the choice of topics leads to inconsistencies in the information provided by each bank in its sustainability report; moreover, failure to cover a topic does not necessarily imply that the bank disregards that topic. Again, these problems are likely to distort the reader's understanding of sustainability performance and make comparisons impossible.
- *Subjective coverage of the topics included in sustainability reports*. Legislative Decree 254/2016 does not define what content should be featured under each topic and how it should be covered. This results in a subjective analysis of the topic, which also entails a serious risk of bias since banks can choose to disclose only favourable performance information.
- *Lack of clear and consistent definitions*. Since there are no guidelines on the terminology to be used in their sustainability reports, banks single-handedly adopted different definitions for the same items, notwithstanding the fact that they all declared to comply with the same reporting standards. This lack of consistency makes it difficult for the reader to compare the sustainability performance of different banks.
- *Focus on results*. Reports focused on listing the sustainability results that banks achieved in the previous financial year rather than on whether their original objectives were actually met or what objectives they planned to achieve in the future. Based on this information, readers are in a position to know 'where the bank is at the moment, but they ignore where it wanted to get to and where it wants to go in the future. This focus on the immediate past is inconsistent with the pursuit of long-term goals on the basis of integrated thinking, which should be the hallmark of sustainability strategies.

- *Publication of separate financial and non-financial reports*. All the banks in the sample issued their non-financial reports separately from their financial reports, thus leading both preparers and readers to miss the interdependence between financial and non-financial sustainability.

These results are even more remarkable considering that in 2018 the Italian Banking Association published detailed guidelines for non-financial reporting (Busco & Tanno, 2018). Also, the Bank of Italy acknowledged the need to improve the proficiency of Italian banks in disclosing their sustainability performance (Loizzo & Schimperna, 2022) and kickstarted several initiatives aimed at strengthening the dialogue with supervised entities and assessing their progress on a regular basis.

10.4. Conclusions

As discussed in chapter 10.1, there are reasons to believe that sustainability reporting practices in Italy are more advanced than elsewhere in Europe and that larger banks are in a better position to report on their sustainability performance than smaller banks. If these assumptions are correct, then the evidence presented in this chapter suggests that European banks are far from ready to engage effectively in sustainable performance reporting.

The shortcomings highlighted in our analysis are aligned with the findings summarised in the final report of the "Study on the Non-Financial Reporting Directive" commissioned by the Directorate-General for Financial Stability, Financial Services and Capital Markets Union of the European Commission (De Groen et al., 2020), as well as in the quantitative analysis performed by the European Banking Institute on the disclosure quality of the CSR reports issued by European banks (Löw et al., 2020). The latter source concludes that *CSR reporting by banks in the EMU is of generally low quality, not at all harmonised, subject to heavy information overload and greenwashing and does not provide sufficient information on the banks' indirect impacts and risks* (Löw et al., 2020, p. 62). This conclusion is remarkably similar to the one reached almost 15 years ago by Hubbard (2009; 2011) based on his analysis of ten global banks, together with ten firms in the oil and gas industry and ten more in food manufacturing: *a great deal of information in these reports could be classified as 'greenwash', due to it being not material, not assured, not measured, not aggregate information, not comparable with other organisations and presenting a favourable view rather than a realistic view of the organisation's performance* (Hubbard, 2009, p. 14).

It goes without saying that more research is needed to understand whether European banks are ready to disclose effectively their sustainability performance: the data presented in this chapter focus on a single country and on the sustainability reports for a single year of a sample of ten large banks. Considering the swift growth in disclosure requirements, in Europe as well as elsewhere, it seems especially important to understand whether banks are picking up the slack and getting ready for the challenge: a longitudinal analysis comparing, over time and according to the same protocol, the sustainability reports of the same sample of banks seems especially appropriate in order to shed light on this point.

Notwithstanding these limitations, the striking similarity between our findings and the conclusion reached by Hubbard suggests that the EU Non-Financial Reporting Directive failed to meet its objectives and ensure more credible disclosure of sustainability performance: the quality and reliability of sustainability reporting remains largely unrewarded. In our opinion, to improve the information value of sustainability reports, European regulators, duly supported by professional associations and academia, should:

- define a standardised table of contents that banks could use to define the contents and sequencing of their sustainability reports;
- specify the items that must be addressed under each dimension of sustainability;
- spell out clear parameters to be used to calculate and then report on each item;
- standardise the terminology used to refer to each dimension of sustainability and the related items;
- mandate the inclusion in sustainability reports of both planned and actual results, as well as future objectives and strategies envisaged for their achievement;
- promote the development of truly integrated reports so as to provide, in a single document, an overview of the actions undertaken and the results achieved by the bank in terms of both financial as well as non-financial sustainability.

These interventions would help minimise the arbitrariness and subjectivity that have plagued so far the non-financial reports issued by European banks. As such, they can lead to more transparent, coherent, and intelligible disclosure of sustainability performance and thus allow readers to truly appreciate and reward the breakthroughs of the banking sector on the path to a more sustainable future.

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