Third report

ETHICAL AND SUSTAINABLE FINANCE IN EUROPE

A publication by

fondazione finanzaetica

fundación finanzaséticas activismo y economía crítica

Matteo Cavallito
Emanuele Isonio
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in cooperation with
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Foreword by
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FOREWORD

Marco Piccolo
Chairman of Fondazione Finanza Etica

This third report on Ethical and Sustainable Finance in Europe provides data, information and analyses on how ethical finance is contributing to change the culture of the financial system. It also marks an important step forward in a long process started well before the consequences of some financial distortions became so clear. I am talking about a number of experiences that originated on the edges of the financial system, especially in those contexts where people showed a certain reluctance in talking about finance, investments, and profits, and where financial and/or economic action was never intended to be the ultimate goal but a tool to create not just a merely economic value but also greater social justice and a benefit for the civil society.

Sometimes tied together, sometimes autonomous, these experiences were often perceived as disturbing because they were challenging lifestyles and habits and the never-ending-growth dogma. It is no surprise that they contributed to create an alternative way of thinking.

When the great financial crisis impacted our lives, we felt for the first time the limits of our magnificent progressive destinies. Now, with an incumbent and uncertain future (migrations, climate change etc.), this vision allows us to bring back to the core of the debate on social and economic progress the need for harmony and complementarity between the values on which our humanity and the economy are based, between the individual and the common good.

This is a path, I would say, rather than an alternative, to a different consciousness and a different way of being active and responsible citizens for many people, organisations and movements. This is also the story of the last 50 years of ethical finance: we have tried to "change the world" or (we would better say) take care of the world, often by launching credit unions, guarantee funds, microcredit networks and banks, often promoting within traditional institutions a different sensitivity and responsibility that radically transformed those organisations. This rich variety of approaches guarantees the necessary biodiversity in order to respond to the many demands posed by citizens but also to recognise the freedom of savers and investors who can thus harmonise their financial choices with their ethical vision. This new sensitivity is chasing mainstream finance and now international institu-

Different models of ethical finance have challenged the dogma of unlimited development

FOREWORD

tions such as the EU and the UN speak of sustainable finance as a mandatory path. On the other hand, Laurence D. Fink, CEO of BlackRock, the world's largest asset management company, in a recent letter to investors on the impact of climate change on the company's long-term strategies, said that "awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance. The evidence on climate risk is compelling investors to reassess core assumptions about modern finance". Despite this statement, however, BlackRock, a company with about $7trn assets under management, admits that its sustainable funds are well below 1% of the total (which is a huge amount in absolute terms, anyway). All other investments still don't consider their climate effect and in some cases they have a negative environmental and social impact, raising reasonable suspicions that a huge greenwashing operation involving a considerable part of the financial system could be under way.

Unfortunately, the game has just begun, as shown by the European Commission, which is struggling to develop an effective policy for the development of sustainable finance. The recent legislation on sustainable finance taxonomy contains many discrepancies and omissions, even though it marks a step forward at least in the supranational political institutions' awareness of that deep transformation process mentioned by BlackRock's CEO. The social sustainability issue has been postponed to 2021, that's a fact; but it's remarkable, anyway, that all investments, not just the self-declaring sustainable ones, will have to be examined from the point of view of their environmental impact. In short, something is moving to the right direction, even if this movement may be too slow to reverse the trend of climate change while internal contradictions also threaten to reduce its scale.

Too many interests, represented by powerful lobbies, keep on clashing with the ambitions and goals of a civil society that is slowly raising its head. However, we are witnessing the insurgence of new global and vibrant movements claiming the right to a sustainable future for the younger generations and to a greater social justice. Movements such as Fridays for Future have already started to influence the public opinion. Their activists are nothing but people who vote, consume, save and invest and now are also learning how to use these tools to "change the world".

A new ethical sensibility of savers is challenging mainstream finance and influencing EU and UN choices

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RECORD GROWTH AND FAIR WAGES

Ethical banks continue to grow even without super bonuses

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In 2018 José Antonio Alvarez, CEO of Spanish bank Santander, earned €8.65 million euros. Chairwoman Ana Botin got €10.48 million: almost €1,200 euros per hour or €20 per minute. On average, the bank's 202,713 employees brought home €58,531: 179 times less than their chairwoman and 149 times less than their CEO. Such cases are not uncommon among large systemically important banks, the ones that are too-big-to-fail when crisis comes in. On average, the nine biggest European systemic banks (in terms of revenues) paid their CEOs about 65 times more than their employees. Despite these super compensations, the banks' performance over the last ten years hasn't been outstanding. Profits have shown a huge volatility with continuous ups and downs and returned to pre-crisis levels only recently. On the other hand, ethical and sustainable banks showed an opposite trend: CEOs salaries are moderate and fair compared to other employees' wages, while financial reports show a steady growth which seems to be unaffected by any crisis or temporary markets' whim. This is what we show in PART I (CHAPTER 2) of this third report on ethical and sustainable finance in Europe, in which we compare for the first time the remuneration policies of 23 European ethical banks with the compensation schemes of systemic banks.

The salary cap for top managers allows ethical banks to minimise inequalities within its workforce

Less inequality. Stronger financial results

These are the three main findings of our analysis:

1) The majority of ethical and sustainable banks set a salary cap to ensure that top managers do not earn disproportionately higher wages compared to other workers. The maximum to average (or minimum) pay ratio is always less than 10 (except for one bank). This is a unique case in

The comparison between ethical and mainstream banks on their structure, growth and profitability sees ethical banks clearly prevailing

the European banking system and it's also one of the peculiar features of ethical and sustainable banks;

2) Systemic banks don't put any salary cap on the top managers compensation, which is based on a high variable component (linked to the achieved — mainly financial - results). The variable component is very much higher for systemic institutions than for ethical banks;
3) In systemic banks executives' pay is generally linked to external market parameters (usually a benchmark which is based on a peer group of competing banks). This is not the case for ethical banks: intrinsic motivation and not a higher level of wages is what drives to work for an ethical bank.

Ethical banks outperform the banking system

As we did in the previous reports, in PART I (CHAPTER 1) we analysed the structure, growth and performance of ethical banks in Europe. This time, however, we didn't compare them with systemic banks but with an aggregate of all the about 4,500 banks operating in the Eurozone according to the data provided by the European Central Bank. Once again ethical banks scored a crushing victory:

1) In the last ten years (2008-2018) ethical and sustainable banks have returned twice as much than the European banking system, with an average annual profitability (in terms of ROE) of 3.57% Vs 1.79%;
2) Assets, deposits, loans and equity of ethical banks grew around 10% per year. From 2008 to 2018, for example, ethical banks' assets (and thus total investments, loans and liquidity) grew on average by 9.91% per year versus a -0.31% per year for European banks. Likewise, loans to customers increased on average by 10.55% per year for ethical banks compared to 0.39% for European banks;
3) Over the last decade, structural differences between ethical and mainstream banks remained almost unchanged. We are dealing with two very different kind of banks: ethical banks focus on collecting deposits and granting loans while, on average, mainstream banks are much more engaged in other activities such as investments in securities, financial services, etc. In 2018, loans accounted, on average, for almost 76.11% of total assets for ethical and sustainable banks but only 39.80% for the European banking system;
4) European ethical and sustainable banks' total assets continue to grow. In 2018 they rose to €51.26bn, 11% more than in 2017 when they stood at €46.22bn.

In Part I, chapter 3, we described what has been done in Europe in terms of regulatory framework, in order to recognise the distinctive role of ethical finance and facilitate its dissemination. 2019 has been definitely a memorable year: after months of work and negotiations, Brussels legislators have finally reached an agreement on the regulatory text that will define which financial activities can be considered as sustainable. This is a first important step forward, which will necessarily need to be followed by further initiatives in the coming months.

2019 is a year to remember for ethical finance. The agreement on EU regulation defining sustainable financial activities is an historic first step

50 years of corporate engagement

The second part of the report, published as usual in collaboration with the Spanish Fundación Finanzas Eticas, focuses on the different kinds of shareholder engagement with listed companies on social, environmental and governance issues. Ethical and sustainable finance doesn't mean just collecting deposits, granting loans or investing in companies: one of its main goals is to transform money into a participation instrument, through the exercise of voting rights by responsible shareholders. For almost 50 years, active and critical shareholders have been submitting resolutions and questions at companies' annual general meetings, writing letters to corporations and meeting with the management. In Part II you will find a brief history of engagement and ten successful cases in which companies bowed to shareholders pressure, as well as an overview of goals and European key players. These include the European network SfC - Shareholders for Change. In 2019, with €25 billion of assets under management, SfC launched 76 engagement initiatives. More than a third were climate-related.

A COMPARISON OF BANKING SYSTEMS

FIRST PART

GLOSSARY

Words included in the glossary appear UPPER CASE AND UNDERLINED when mentioned in the text for the first time

ASSET
Good or business owned by a company or an investment fund.

ASSETS (TOTAL OF)
It is the total assets in the balance sheet including investments, credits and liquidity outstanding at a given date (usually December 31).

BOND
Fixed income instrument that represents a loan made by several investors to a borrower (typically corporate or governmental).

GOVERNANCE
The set of rules, principles and procedures regulating the management of a company business or an organisation in general.

INTERMEDIATION MARGIN
Balance sheet item consisting of the sum of net fee and commission income and income from financial service activities, net interest income and other financial items.

LEASING
A contract whereby one party pays another for the use of an asset for a given period of time. At the maturity the user can return the asset or become its owner by paying the difference between the amount already paid and the value of the asset.

LIABILITIES (TOTAL)
It is the sum of net equity and debt. In most cases banks' debts are owed to other banks or customers (through deposits and current accounts).

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

NET INCOME
Also known as net profit. The ultimate profit made by a company and calculated as the difference between revenues and costs after taxes. The net income may be fully or partially allocated as dividends to shareholders.

REAL ECONOMY
All economic activities that are directly related to the production and distribution of goods and services.

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.

SHARE CAPITAL
The total value of all shares in a company measured at the market price at a given moment.

STANDARD DEVIATION
It is a statistical indicator used to express the dispersion of data around a position index, such as the arithmetic mean. In finance, the standard deviation measures the volatility (and thus the degree of variability) of data such as profits, yields, etc.

SYSTEMIC BANKS
A group of 30 banks globally (13 in the EU) whose size, complexity and international presence make them capable of causing severe problems for the entire financial system and for economic activity in case of crisis or bankruptcy.

TIME DEPOSIT
Capital invested in a savings account with a bank paying a fixed interest rate until maturity. Investors cannot withdraw the money before the maturity date (unless he pays a fee).

VOLATILITY
A measure of the percentage change in the price of a financial security over a given period of time.

CHAPTER 1

ETHICAL BANKS AND THE EUROPEAN BANKING SYSTEM

In the first two reports on ethical and sustainable finance in Europe, published in November 2017 and January 2019 respectively, we compared European ethical and sustainable banks with the large "systemic" banks as identified by the Financial Stability Board. We follow the same path this year (in SECTION 2 OF THE FIRST CHAPTER), even though for the last time: the differences we have found are in fact clear, structural and not subject to significant changes, at least not in the medium term. We therefore think that there is no need to keep on pointing them out. We take them for granted. Moreover, comparing the relatively small ethical banks with the giants of the European banking system has certainly helped us to focus precisely on the specificities of ethical finance, but it has also forced us to compare very different entities in terms of size, corporate organisation and shareholder structure, since all SYSTEMIC BANKS are listed on stock exchanges and therefore exposed to market VOLATILITY, while most ethical banks are unlisted cooperatives.

In this third report we decided to make the comparison less polarised. Instead of systemic banks, we opted for the entire aggregate of banks operating in the euro area, including large and small banks, listed and unlisted firms, cooperatives and joint-stock companies, according to data on the about 4,500 banks operating in the Eurozone, provided by the European Central Bank. Last year's sample of European ethical and sustainable banks has been confirmed. The list consists of 23 institutions: all the European members of Gabv, two members of Inaise and seven members of Febea[1]. We chose to

In this 3rd Report we compare the world of ethical and sustainable banks with the whole aggregate of euro area banks

[1] Banks, that are not members of GABV at the same time. Seven of GABV's fourteen members are in fact also members of FEBEA.

We analysed 23 European ethical and sustainable banks

consider only members engaged in banking activities (such as collecting savings, granting loans and making investments) with a strong social and environmental orientation, that made available financial statements covering at least seven of the last ten years. The purpose of the comparison is still the same: understand whether ethical and sustainable banks, which support social, environmental and cultural initiatives, are also economically and financially stable and can therefore compete with traditional banks.

RESULTS

TABLE 1 Loans as % of total assets

Loans/Total assets	2018	2013	2008
European ethical/sustainable banks	76.11%	73.54%	72.28%
European banks	39.80%	38.70%	37.12%

First of all, we compared the weight of credit activity on total assets for ethical and sustainable banks and for the aggregate "European banks", representing the European banking system as a whole. As shown in **TABLE 1**, credit is the largest activity by far for ethical banks (76.11% of the total amount in 2018), while it represents less than half of the European banking system's total activities (39.80% in 2018). Ethical banks therefore are more devoted to classical banking activity (savings and lending) than the European banking sector, which seems to be more focused on other financial activities: securities investing, financial services, shareholding in companies, etc.

From 2008 to 2018, the weight of credit activity grew for both aggregates, although to a lesser extent for the team of "European banks" (+2.68 percentage points) compared with ethical and sustainable banks (+3.83 percentage points). In other words, in the last ten years, following the financial crisis of 2007-2008, the structural differences between the two groups of banks have consolidated.

Since credit can be viewed, with some approximation, as a financing activity that benefits the real economy (in the absence of more accurate data in the banks' balance sheets), we can assume that ethical and sustainable banks operate strongly in support of the **REAL ECONOMY** (production of tangible goods and services) while the European banking system, on average, is more oriented to financial markets.

TABLE 2 Deposits[2] as % of total liabilities

Deposits/Total liabilities	2018	2013	2008
European ethical/sustainable banks	71.31%	76.95%	63.71%
European banks	40.96%	36.57%	31.26%

The difference between the two groups of banks is also confirmed by the value of deposits[3] as a percentage of total **LIABILITIES**. As shown in **TABLE 2**, ethical and sustainable banks collect money (which they mostly lend out as credits) mainly through customer deposits[4] (71.31% of total) while, on average, European banks collect liquidity (to be lent or invested) mainly from other channels, such as **BOND** issues or deposits of other banks. Only 40.96% of European banks' liabilities are made up of deposits: this share has grown by more than eight percentage points since 2008, pretty much the same strong growth of ethical and sustainable banks.

ARE LOANS AND DEPOSITS SYNONYMOUS OF REAL ECONOMY?

In this report we use the percentage of loans on total assets (and the percentage of deposits on total liabilites) to distinguish, approximately, between a speculative and non-speculative use of money from depositors.
The main assumption is that money collected from customers not used for lending goes to speculative activities.
However, it is essential to consider how much economic structures and paradigms have changed in recent years:

a) after the liquidity crisis of 2008-2012, all market supervisory authorities (primarily the European Central Bank) are concerned about a credit-to-deposits ratio above 70%;
b) recent history has proven that when credit grows too fast (see the case of Italian Cooperative Banks in the period 2010-2014) there is a strong risk of losing control and bad loans may increase because of the difficulty to adapt skills, procedures and supervision at the same pace;
c) the culture of impact (impact financing), influenced also by the long phase of flat interest rates, has led many banks to seek "meaningful" finance interventions outside the credit sector, for example through direct investments in companies.

Therefore, non-credit activities may also benefit the real economy. Investing in government bonds with a long-term perspective, for example, may represent a contribution to the real economy of a country.

[2] All data on "deposits" reported in this study include bonds subscribed by customers.
[3] See **NOTE 2**.
[4] This also happens because ethical banks offer a non-monetary value (the safe allocation of money for projects with a social and environmental value) in exchange for the deposit. Many other banks are unable to offer this kind of added value and are therefore forced to use other instruments with a higher remuneration than deposits (i.e. a higher cost for banks), to raise liquidity.

TABLE 3 **Net equity as % of total liabilities**

Net equity/Liabilities	2018	2013	2008
European ethical/sustainable banks	10.54%	9.90%	10.05%
European banks	8.18%	7.89%	5.55%

Ethical and sustainable banks have kept a solid and constant financial position with a NET EQUITY/liabilities ratio of about 10% from 2008 to 2018, while the European banking system as a whole moved from a relatively weaker position in 2008 (5.55%) to gradually closing the gap (although not yet fully) with ethical banks (8.18% in 2018). In general, European banks have been pushed by lawmakers to increase their capital to tackle potential new turmoils in the aftermath of the 2007-2008 crisis, while ethical banks have always had relatively high equity in comparison with total liabilities, even in the period before 2007-2008.

In order to analyse income indicators, we compared the two balance sheet ratios ROA and ROE of European ethical banks with the same ratios calculated for the European banking system.

The ROA (Return on Assets) is the ratio between NET INCOME and total assets and is a measure of a business' profitability.

TABLE 4 **ROA. Comparison between ethical banks and European banks**

ROA - RETURN ON ASSETS	5 YEARS (2013-2018)	
	Average	Standard deviation
European ethical/sustainable banks	0.40%	0.05%
European banks	0.26%	0.13%
	10 YEARS (2008-2018)	
	Average	Standard deviation
European ethical/sustainable banks	0.40%	0.40%
European banks	0.13%	0.20%

As shown in **TABLE 4**, ethical and sustainable banks' ROA has always been higher than the European banking system average over the last ten years (0.40%), with a relatively low volatility, measured by the STANDARD DEVIATION calculated on the average value for each year (0.05% over the period 2013-2018, 0.40% over the whole period under review). In both time frames, the European banking system had a lower profitability than ethical and sustainable banks' average: 0.13% vs. 0.40% over the decade.

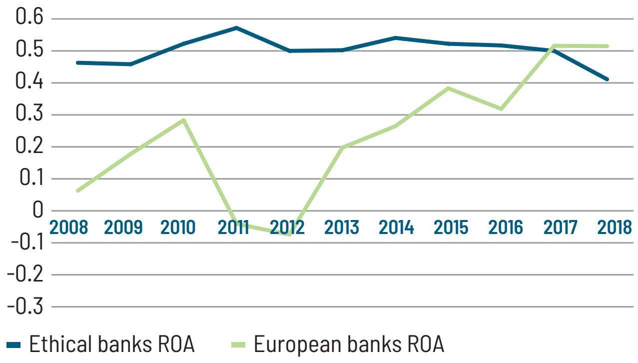


CHART 1
ROA. Comparison between ethical and European banks

As shown in **CHART 1**, the profitability of European ethical and sustainable banks (as measured by ROA) has remained generally stable over the last decade, with a significant decline from 2017 to 2018, largely due to the collapse (-30%) of net profit at Crédit Coopératif, the largest ethical bank. As explained in the financial statements of the Crédit Coopératif group[5], this is a consequence of several factors, some of which are non-recurring, such as the sale of the real estate LEASING business in October 2017. Another reason, common to many European banks, is the erosion of the interest margin, due to "persistently low interest rates on the market", which "was only partly offset by the increase in loans granted".

At the same time, the ROA performance of the European banking system as a whole has been much more volatile, with a collapse from 2010 to 2012 as a result of the financial crisis and an almost constant progression from 2013 to 2018, which has led to outperforming ethical banks in the last year. Ethical banks, however, seem not to have suffered the impact of the crisis in the last decade.

In the last five years the European banking system's ROA has proven to be more volatile than ethical and sustainable banks' average

[5] See Crédit Coopératif, *Document de référence 2018*, December 31, 2018, page 94.

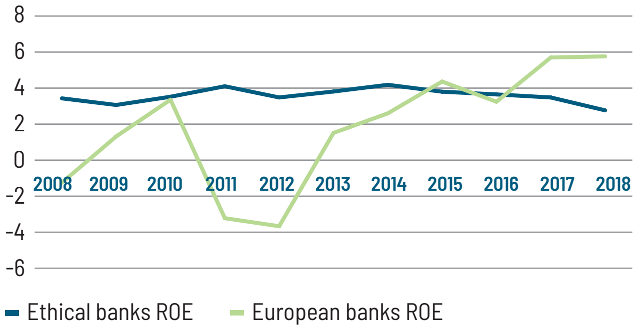
ROE (Return on Equity) is the ratio between net income and equity and is a further measure of a business' profitability.

TABLE 5 ROE. Comparison between ethical banks and European banks

ROE - RETURN ON EQUITY	5 YEARS (2013-2018)	
	Average	Standard deviation
European ethical/sustainable banks	3.61%	0.48%
European banks	3.86%	1.72%
	10 YEARS (2008-2018)	
	Average	Standard deviation
European ethical/sustainable banks	3.57%	0.41%
European banks	1.79%	3.28%

As can be seen in TABLE 5, the return on equity of ethical banks was higher than the European banking system's average in the period 2008-2018 (3.57% vs. 1.79%) with much lower volatility, and therefore a lower level of risk: 0.41% vs. 3.28%. However, over the last five years (2013-2018) European banks have returned to grow in terms of returns, outperforming, albeit slightly (3.86% vs. 3.61%), ethical and sustainable banks, although with a higher volatility (1.72% vs. 0.48%).

CHART 2
ROE. Comparison between ethical banks and European banks



As shown in CHART 2, the profitability of European ethical and sustainable banks (measured by ROE) has also remained generally stable over the last decade, with a significant decline from 2017 to 2018, for the same reasons that are behind the decrease in ROA, as described above.

The chart also clearly shows the higher volatility of the European banking system's profitability (as measured by ROE), with a clear collapse in 2011-2012 and a rapid growth in the following years, outperforming the 'ethical and sustainable banks' aggregate in 2015 and, more sharply, in 2017 and 2018.

EXTRAORDINARY GROWTH FOR ETHICAL BANKS

In the last 10 years, ethical and sustainable banks have grown much more than the banking system as a whole: +9.9% per year

Finally, we analysed the growth trends of the previously measured indicators (ASSETS, loans, deposits and equity) for both groups of banks. The analysis shows that, over the last decade, ethical and sustainable banks have grown much more than the European banking system's average (TABLE 6). They became bigger (with a 9.91% annual growth in assets over the last decade) while European banks got smaller (-0.31% on average per year over the last decade), granted more loans (+10.55% per year from 2008 to 2018 compared with +0.39% for European banks) and collected more money through deposits (+11.17% vs. +2.43%). And, they have significantly increased their equity (+10.40% on average per year over the last ten years, compared with +3.65% for European banks). While the European banking system has generally experienced a long period of stagnation or very weak growth (a trend that was reversed only in the last five years) after the great financial crisis of 2007-2008, ethical and sustainable banks have continued to grow significantly, also due to the demand of many savers for an alternative to mainstream banks that were, in many cases, the main victims of the crisis after having contributed to it.

TABLE 6 Growth in assets, loans, deposits, net equity

GROWTH*	5 YEARS (2013-2018)	10 YEARS (2008-2018)
Total assets		
European ethical/sustainable banks	7.94%	9.91%
European banks	0.31%	-0.31%
Loans		
European ethical/sustainable banks	8.69%	10.55%
European banks	0.88%	0.39%
Deposits		
European ethical/sustainable banks	6.31%	11.17%
European banks	2.61%	2.43%
Net equity		
European ethical/sustainable banks	9.30%	10.40%
European banks	1.04%	3.65%

* Compound Annual Growth Rate or CAGR[6]

[6] The CAGR or Compounded Average Growth Rate represents the average percentage growth of a value in a given time frame.

ECB data made it possible to compare the performance of ethical banks in the 4 largest EU countries (Germany, France, Italy, Spain) with their respective banking systems

ETHICAL AND SUSTAINABLE BANKS IN SINGLE EUROPEAN COUNTRIES

The data made available by the European Central Bank allow us, for the first time, to make comparisons between ethical and sustainable banks and national banking system in individual countries in Europe. In this report we have chosen to analyse Germany, France, Italy and Spain: the largest economies in the European Union, excluding UK, which is on its way out of the EU.

GERMANY: ETHICAL BANKS WIN TWICE

In Germany, ethical and sustainable banks deal with a banking system that has a significantly lower profitability than the European banking system average, both in terms of ROA and, above all, in terms of ROE (**TABLE 7**). Ethical and sustainable banks prevail when taking into consideration both indicators over the last ten years, although with substantial differences between the two ethical banks based in Germany. In fact, GLS Bank has a lower profitability than European ethical and sustainable banks average, while Umweltbank has a very high profitability (with an average ROE of 19.26% in the period 2008-2018) at the expense, however, of an equally high volatility (4.73% for ROE), which is slightly higher (+0.54%), than the German banking system average. The profitability of Umweltbank, whose ROE has progressively decreased in recent years (from 21.24% in 2014 to 11.42% in 2018[7]), seems to be linked to the trend of the renewable energy market in Germany (wind farms, photovoltaic plants, etc.) which receives 61% of loans granted[8].

Umweltbank, which is traded on the stock exchange (84.40 % of its capital is floating in the stock exchange[9]) and whose largest shareholder is GLS Bank (with a 15.60% stake[10]), has a percentage of loans on total assets (67.96%) significantly lower than the European ethical banks average (76.11%, Table 8). This is explained by the bank's particular structure, since 30.27% of its assets are used for investments in "bonds and other fixed-income securities"[11]. The same goes for deposits, whose share of total liabilities is lower (by five percentage points) than the European ethical banks average. 27% of liabilities consists of debts with other credit institutions, 20% of which with the Bundesbank, the German central bank, as part of the ECB banks' refinancing programme (TLTRO-II, Targeted Longer-Term Refinancing Operations).[12]

On the other hand, GLS Bank's ROA and ROE have been lower than the European ethical banks average over the decade, although having been slightly higher than the European banking system average (**TABLE 7**).

GLS Bank, which is a cooperative bank, also appears to be much more oriented to the real economy than European ethical banks, as shown by the percentages of assets and liabilities allocated to loans and deposits respectively, in both cases above 80% (**TABLE 8**).

TABLE 7 ROA and ROE, a comparison between German ethical banks and the German banking system

ROA	AVERAGE 10 YEARS (2008-2018)	STANDARD DEVIATION
GLS Bank	0.16%	0.04%
Umweltbank	0.97%	0.20%
German banks	0.05%	0.14%
European ethical banks	0.40%	0.40%
European banks	0.13%	0.20%
ROE	**AVERAGE 10 YEARS (2008-2018)**	**STANDARD DEVIATION**
GLS Bank	2.40%	0.88%
Umweltbank	19.26%	4.73%
German banks	0.41%	4.19%
European ethical banks	3.57%	0.41%
European banks	1.79%	3.28%

[7] See Gabv, Members profile: Umweltbank: http://www.gabv.org/members/umweltbank

[8] See Umweltbank, *Nachhaltigkeits- und Geschäftsbericht 2017*, December 2017, page 9.

[9] Source: Bureau van Djik, January 15. 2019.

[10] Ibidem.

[11] See Umweltbank, *Nachhaltigkeits- und Geschäftsbericht 2018*, December 2018, page 139.

[12] Ibidem, page 142.

TABLE 8 **Loans and deposits. Comparison between German ethical banks and the German banking system**

LOANS AS % OF ASSETS	2018	2008
GLS Bank	84.39%	84.34%
Umweltbank	67.96%	81.84%
German banks	41.09%	36.74%
European ethical banks	76.11%	72.18%
European banks	39.80%	37.12%
DEPOSITS AS % OF LIABILITIES	**2018**	**2008**
GLS Bank	82.16%	81.37%
Umweltbank	66.18%	64.77%
German banks	46.86%	36.23%
European ethical banks	71.31%	63.71%
European banks	40.96%	31.26%

FRANCE: THE ROLE OF CREDIT COOPERATIF

In France, the comparison of ethical and sustainable banks with the national banking system is negatively impacted by the disappointing results of La Nef and Caisse Solidaire, while Crédit Coopératif achieved a satisfactory profitability over the last ten years, although slightly lower than European ethical banks average.

As we can read in the 2017 financial statements, which reported a profit of just €50,000 (after a loss of €1.42 million in 2016), "in 2014 La Nef chose to take a path to become a operative bank (independent, therefore, from other banks. Today, banking operations rely in particular on Credit Cooperatif, ed). This is a challenging path that has made it necessary to invest heavily in the new banking structure"[13]. In 2018, La Nef recorded a loss of €813,000. The restructuring phase is not yet delivering the expected results, but net interest and other BANKING INCOME has reversed the negative trend and increased by 5% compared to 2017[14]. This bodes well for the bank's performance in the coming years.

More controversial is the situation of Caisse Solidaire, which posted losses for five consecutive years until 2018. The bank recorded the worst result (a €252,000 loss) in 2018, with a 13% drop year on year in net interest and other banking income[15]. After an attempt to revitalise the bank through the cooperation with France Active (a French ethical and sustainable financial institution), which failed in February 2019, Caisse Solidaire is back to operational management by Crédit Coopératif, which is also its largest shareholder, with a 43.56% stake. A new strategic recovery plan, presented at the end of 2019, should be implemented in 2020[16].

TABLE 9 **ROA and ROE, comparison between French ethical banks and the French banking system**

ROA	AVERAGE 10 YEARS (2008-2018)	STANDARD DEVIATION
Crédit Coopératif	0.27%	0.07%
La Nef*	0%	0.18%
Caisse Solidaire	-0.01%	1%
French banks	0.12%	0.43%
European ethical banks	0.40%	0.40%
European banks	0.13%	0.20%
ROE	**AVERAGE 10 YEARS (2008-2018)**	**STANDARD DEVIATION**
Crédit Coopératif	2.86%	0.72%
La Nef*	-0.20%	2.03%
Caisse Solidaire	-0.14%	3.11%
French banks	0.97%	1.61%
European ethical banks	3.57%	0.41%
European banks	1.79%	3.28%

* From 2009 to 2018 (Data of La Nef for 2008 are not available)

La Nef and Caisse Solidaire total assets and deposits to liabilities ratios are also far from the European ethical banks average. For La Nef, loans to customers represent only 36.93% of assets (**TABLE 10**), while the European ethical banks average is 76.11%, and the French banking system average is 33.12%. This is a consequence of La Nef decision to invest 50.5% of its assets in term deposits with other banking institutions, in particular the Caisse d'Épargne Rhône-Alpes (83% of the total)[17]. Caisse Solidaire, which has an even lower loans to total assets ratio (25.69%), also acts in the same way:

[13] See La Nef, *Rapport Annuel 2017*, December 2017, page 5.

[14] See La Nef, *Rapport Annuel 2018*, December 2018, page 9.

[15] See Caisse Solidaire, *Rapport Annuel 2018*, December 2018, page 22.

[16] Ibidem, page 16.

[17] See La Nef, *Rapport Annuel 2018*, December 2018, page 33.

The results of all French ethical banks are lower than the European average for the sector. Those of Caisse Solidaire and La Nef are particularly disappointing

50.4% of assets is held at other banks, while 16.78% is invested in bonds and other fixed-income securities[18].

While La Nef is close to European ethical banks average (and exceeds by far the French banking system average) in the ratio of deposits to total liabilities, Caisse Solidaire has a very low percentage of deposits on liabilities (21.96%) which is lower than the French banking system average (28.86%), and far below the European banking system average (40.96%).

This is explained by a high amount of "debts to other banking institutions" (31.9% of TOTAL ASSETS), "debts represented by securities" (i.e. bonds, 10% of total assets) as well as a high incidence of equity (28%) which, however, is progressively eroded by operating losses[19].

TABLE 10 Loans and deposits. Comparison between French ethical banks and the French banking system

LOANS AS % OF ASSETS	2018	2008
Crédit Coopératif	86,42%	74,55%
Caisse Solidaire	25,69%	15,43%
La Nef*	36,93%	-
French banks	33,12%	27,50%
European ethical banks	76,11%	72,18%
European banks	39,80%	37,12%
DEPOSITS AS % OF LIABILITIES	**2018**	**2008**
Crédit Coopératif	59,90%	56,09%
Caisse Solidaire	21,96%	40,28%
La Nef*	63,98%	-
French banks	28,86%	19,95%
European ethical banks	71,31%	63,71%
European banks	40,96%	31,26%

* 2008 data for La Nef are not available.

[18] See Caisse Solidaire, *Rapport Annuel 2018*, December 2018, page 21.
[19] Ibidem.

ITALY: THE BANCA ETICA CASE

In Italy, Banca Etica's results show an higher average annual profitability than the Italian banking system

In contrast to what happens in Germany and France, in Italy there is only one ethical bank: Banca Popolare Etica which also operates in Spain as Fiare Banca Etica. In the last ten years the Banca Etica group has had a significantly higher annual profitability than the Italian banking system's average. In particular, the ROE was 2.97% vs. an average for Italian banks of -1.09%. Italian banks' results also suffer a greater volatility (and therefore a greater level of risk) as measured by standard deviation: 7.73% vs. 1.55% of Banca Etica (TABLE 11).

Banca Etica's average profitability was slightly below the European ethical banks average with a 2.97% 10-year ROE vs. 3.57% and a 0.17% ROA vs. 0.40%.

TABLE 11 ROA and ROE, comparison between Italian ethical banks and the Italian banking system

ROA	AVERAGE 10 YEARS (2008-2018)	STANDARD DEVIATION
Banca Popolare Etica	0.17%	0.09%
Italian Banks	-0.05%	0.55%
European ethical banks	0.40%	0.40%
European banks	0.13%	0.20%
ROE	**AVERAGE 10 YEARS (2008-2018)**	**STANDARD DEVIATION**
Banca Popolare Etica	2.97%	1.55%
Italian Banks	-1.09%	7.73%
European ethical banks	3.57%	0.41%
European banks	1.79%	3.28%

The total amount of loans to customers as a percentage of Banca Etica's total assets is slightly lower than the Italian banking system average (48.91% vs. 49.54%) and significantly lower than the European ethical banks average (76.11%, TABLE 12). However, this doesn't mean that its commitment to credit is weak: loans grew by 59% between 2014 and 2019 (while, on average, Italian banks decreased their loans by 5% over the same period). The loans to total assets ratio (as the ratio between loans and deposits) is biased by the even stronger growth in deposits recorded in the same period: +67% (compared to +3% for the Italian banking sector). Banca Etica, in fact, is attracting more and more customers and recorded double-digit annual growth rates in the last five years at least.

This means that Banca Etica' s loans have been increasing strongly but deposits's growth has been much higher: that's why the loans to deposits ratio decreased. If deposits (i.e. the ratio's denominator) had been growing at the same average rate of the Italian banking system, today Banca Etica' loans to deposits ratio would be more than 95%.

It is also worth recalling that the money not lent out directly by Banca Etica is managed according to a strict selection policy which excludes any controversial sector and focuses on impact finance and on a rigorous ESG investing universe managed by Etica Sgr (Banca Etica's asset management company).

On the other hand, and as a result of what we mentioned above, the percentage of deposits on Banca Etica's total liabilities (81.38%) far exceeds the European ethical banks average (71.31%) and it's 1.6 times higher the overall Italian Banking system average (48.96%).

TABLE 12 **Loans and deposits. Comparison between Italian ethical banks and the Italian banking system**

LOANS AS % OF ASSETS	2018	2008
Banca Popolare Etica	48.91%	62.01%
Italian banks	49.54%	48.56%
European ethical banks	76.11%	72.18%
European banks	39.80%	37.12%
DEPOSITS AS % OF LIABILITIES	**2018**	**2008**
Banca Popolare Etica	81.07%	89.87%
Italian banks	48.96%	31.26%
European ethical banks	71.31%	63.71%
European banks	40.96%	31.26%

SPAIN: THREE SUCCESSFUL CASES

Three banks included in this report - Fiare Banca Etica, Caixa Colonya and Triodos Bank - are currently operating in Spain. Among the three, only Colonya has its headquarters in the country. Founded in 2014, Fiare Banca Etica is a branch of Banca Popolare Etica. The Spanish bank had started its business as a financial agent in 2005 with the support of several social movements and social economy players and individuals. Its financial data are integrated into those of Banca Etica, that have been described in the previous chapter: the bank recorded €126 million deposits and €44 million in *crédito vivo* (*living credit*, in Spanish), i.e. the sum of money that debtors take out of the maximum amount granted in their credit lines and the remaining share of loans that have not been repaid yet.

Colonya - Caixa Pollença is one of the two savings banks that have survived both the crisis and the reform of savings banks model. The bank, which is based on the island of Mallorca, is the only ethical financial institution in Spain showing disaggregated data in its balance sheet. For this reason Colonya can be compared with the rest of the Spanish and European banking system.

In the last ten years, Colonya has shown a significantly higher average annual profitability than the Spanish banking system (TABLE 13), especially in terms of ROE (6.34% vs. 4.02%), with a much lower volatility (as measured by a 2.14% standard deviation over ten years vs. 10.30%).

TABLE 13 **ROA and ROE, comparison between Spanish ethical banks and the Spanish banking system**

ROA	AVERAGE 10 YEARS (2008-2018)	STANDARD DEVIATION
Colonya - Caixa de Pollença	0.45%	0.15%
Spanish banks	0.30%	0.64%
European ethical banks	0.40%	0.40%
European banks	0.13%	0.20%
ROE	**AVERAGE 10 YEARS (2008-2018)**	**STANDARD DEVIATION**
Colonya - Caixa de Pollença	6.34%	2.14%
Spanish banks	4.02%	10.30%
European ethical banks	3.57%	0.41%
European banks	1.79%	3.28%

The percentage of loans to total assets (TABLE 14) is much higher than the Spanish banking system average (which is already higher than European one): 73.70% vs. 48.58%. The percentage is in line with the European ethical and sustainable banks average. The percentage of deposits (90.46%) on total liabilities is one of the highest of all the ethical banks analysed in this report (the highest is that of Ecology Building Society, with 93.31%) and exceeds by far both the European ethical banks average (71.31%) and the Spanish banking system (54.32%).

TABLE 14 Loans and deposits. Comparison between Spanish ethical banks and the Spanish banking system

LOANS AS % OF ASSETS	2018	2008
Colonya - Caixa de Pollença	73.70%	99.36%
Spanish banks	48.58%	57.19%
European ethical banks	76.11%	72.18%
European banks	39.80%	37.12%
DEPOSITS AS % OF LIABILITIES	**2018**	**2008**
Colonya - Caixa de Pollença	90.46%	100.93%
Spanish banks	54.32%	49.65%
European ethical banks	71.31%	63.71%
European banks	40.96%	31.26%

The third Spanish institution in the group of ethical and sustainable banks is Triodos Bank, whose data are integrated into those of its Dutch parent company. The bank started operating in Spain in 2004 and its 2018 annual report shows a 1.27% growth in customer deposits and a remarkable 18% increase in loans. The lack of disaggregated data regarding the Spanish subsidiary prevented us from making any comparison with Colonya and the Spanish banking system.

CONCLUSIONS

Ethical and sustainable banks remain much more oriented towards the real economy: they are more solid, more profitable and less volatile

Ethical banks are much more oriented towards providing services to the real economy than the average banking system, they are slightly more solid from a capital perspective and have shown higher profitability for both indicators we used (ROA and ROE) and a lower volatility. However, over the last five years (2013-2018), European banks are back to growth in terms of returns, outperforming, albeit slightly, ethical and sustainable banks. While, on average, the European banking system seems to have recovered from the crisis and follows the path of a progressive profitability growth, ethical and sustainable banks continue to have almost constant returns, with a slight decline in 2018, largely due to the decrease of Crédit Cooperatif's net profit, as explained above.

Finally, ethical banks have experienced considerable growth in all items measured by our research over the last ten years, while the European banking system has grown much less or has remained stagnant in terms of assets (-0.31% per annum from 2008 to 2018) and loans (0.39% per annum over the same period).

The comparison between ethical and sustainable European banks and the respective banking systems in some individual European countries (Germany, France, Italy and Spain) highlighted, in particular, the following aspects:

- in some countries, such as Germany and France, the existing ethical banks are closely related to each other. In Germany, GLS Bank is the largest shareholder of Umweltbank, while in France, La Nef and Caisse Solidaire are linked to Crédit Coopératif which is the main shareholder of Caisse Solidaire and still plays an important, albeit gradually smaller role, in ensuring La Nef's operations;
- among the analysed countries, France seems to be currently the most problematic amid ethical and sustainable banks. This is partly due to non-recurring factors (sale of assets by Crédit Coopératif, extraordinary investments by La Nef), which are however associated with cyclical economic problems, the main one being the erosion of the interest margin, due to persistently low interest rates in the market.
  This is a common problem to all European banks, but it affects in particular ethical banks, since they are structurally more exposed to the interest margin because, as we have seen, they focus more strongly on the classical banking activity (granting loans and collecting savings) than the banking system as a whole;
- with the exception of La Nef and Caisse Solidaire, ethical banks in Germany, France, Italy and Spain have had a significantly higher profitability than their national banking systems over the last decade.

Of the 4 countries analysed, France has the most problematic situation for ethical and sustainable banks due to non-recurring factors and cyclical economic problems

BANCA ETICA IN COMPARISON WITH EUROPEAN ETHICAL AND SUSTAINABLE BANKS

Banca Popolare Etica's growth was generally in line with the European ethical and sustainable banks average in both timeframes (2013-2018 and 2008-2018, **TABLE 15**). The amount of money collected by Banca Etica (Deposits) has grown on average by 10.87% per year over the last decade, compared to 11.17% of European ethical and sustainable banks. Total assets, equity and net profit growth over the period 2008-2018 outperformed European ethical banks on average by two to three percentage points per year. Only loans granted by Banca Etica grew slightly less than other ethical banks.

TABLE 15 **Growth in assets, loans, deposits, equity, net profit**

Comparison between banca Etica and European ethical banks

GROWTH*	5 YEARS (2013-2018)	10 YEARS (2008-2018)
Total assets		
Banca Popolare Etica	11.67%	12.02%
European ethical and sustainable banks	7.94%	9.91%
Loans		
Banca Popolare Etica	7.55%	9.39%
European ethical and sustainable banks	8.69%	10.55%
Deposits		
Banca Popolare Etica	11.81%	10.87%
European ethical and sustainable banks	6.31%	11.17%
Net equity		
Banca Popolare Etica	8.85%	13.59%
European ethical and sustainable banks	9.30%	10.40%
Net profit		
Banca Popolare Etica	19.88%	9.98%
European ethical and sustainable banks	2.51%	7.93%

* Compounded Average Growth Rate or CAGR

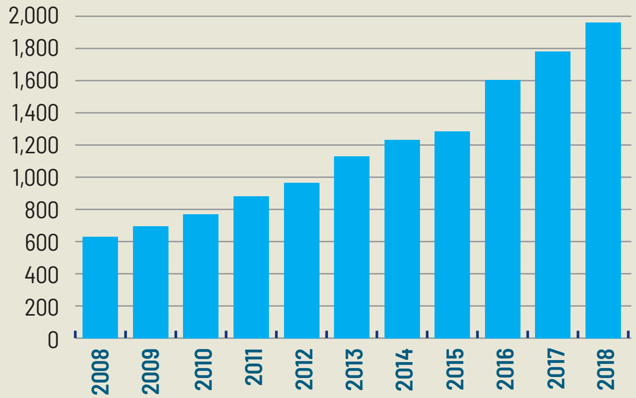


CHART 3 **Growth of Banca Etica's assets from 2008 to 2018**

Data in millions of euros

As shown by **CHART 3**, Banca Etica's assets (and thus the size of its balance sheet) grew steadily from 2008 to 2018: growth did not stop during the worst phases of the last financial crisis (2008 and 2009). In absolute terms, assets have grown by 211% over the last ten years.

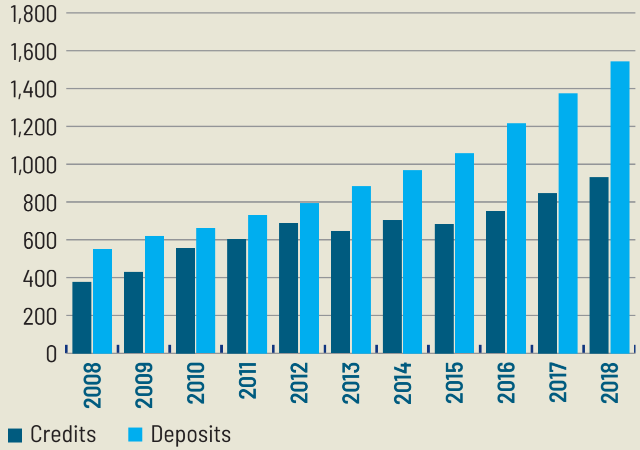


CHART 4 **Growth in Banca Etica deposits and loans from 2008 to 2018**

Data in millions of euros

The growth in deposits has also been steady (**CHART 4**). In absolute terms, deposits grew by 180.55% from 2008 to 2018, while loans rose by 145.30% over the same period.

CHART 5

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

Source: 2018 financial statements of the banks

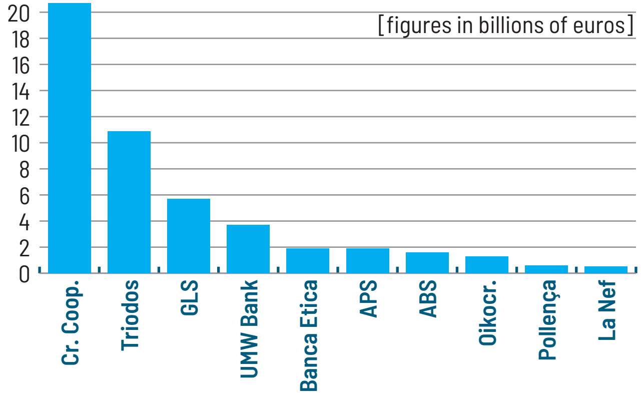


CHART 6

Aggregate numbers of ethical and sustainable banks in Europe*

Source: 2018 financial statements of the banks

* Figures are relative to 2018 and are taken from the financial statements of the 23 ethical and sustainable banks. To these figures have been added the 2018 data of Femu Qui (Corsica, France), Etika (Luxembourg), UCIT (United Kingdom), SIDI (France) and SIFA (France).

APPENDIX I THE TWO TEAMS COMPARED IN THE RESEARCH

EUROPEAN ETHICAL AND SUSTAINABLE BANKS

Alternative Bank Schweiz (Svizzera)
APS Bank (Malta)
Banca Popolare Etica (Italy and Spain)
Caisse Solidaire (France)
Caixa de Pollença (Spain)
Charity Bank (UK)
Cooperative Bank of Karditsa (Greece)
Credal (Belgium)
Cultura Bank (Norway)
Ecology Building Society (UK)
Ekobanken (Sweden)
Freie Gemeinschaftsbank (Switzerland)
GLS Bank (Germany)
Group Crédit Coopératif (France)
Hefboom (Belgium)
La Nef (France)
Magnet Bank (Hungary)
Merkur Cooperative Bank (Denmark)
Oikocredit (Netherlands)
Opportunity Bank Serbia (Serbia)
Tise (Poland)
Triodos Bank (Netherlands)
UmweltBank (Germany)

EUROPEAN BANKS

Aggregated data on the approximately 4,500 banks operating in the euro area, based on data provided by the European Central Bank

METHODOLOGICAL NOTES

In the first two reports on ethical and sustainable finance, European ethical banks have been compared with systemically important European banks, whose list is compiled and regularly updated by the Financial Stability Board (FSB). As mentioned at the beginning of this chapter, this year we preferred to compare ethical and sustainable banks with the European banking system as a whole which comprises also thousands of non-systemic banks. In the transition from one methodology to another, we decided to include systemic banks in the comparison for the last time, to see how the results may change with the new sample. We selected European banks from the list of systemic banks published by the FSB[20], including the two Swiss systemic banks (UBS and Credit Suisse). A total of 15 banks are included in our sample.

TABLE 16 ROA, ROE, loans and deposits. Comparison with European systemic banks

ROA	AVERAGE 10 YEARS (2008-2018)	STANDARD DEVIATION
European ethical banks	0.40%	0.40%
European banks	0.13%	0.20%
European systemic banks	0.24%	0.10%
ROE	**AVERAGE 10 YEARS (2008-2018)**	**STANDARD DEVIATION**
European ethical banks	3.57%	0.41%
European banks	1.79%	3.28%
European systemic banks	4.89%	1.91%
LOANS AS % OF ASSETS	**2018**	**2008**
European ethical banks	76.11%	72.28%
European banks	39.80%	37.12%
European systemic banks	40.26%	29.10%
DEPOSITS AS % OF LIABILITIES	**2018**	**2008**
European ethical banks	71.31%	63.71%
European banks	40.96%	31.26%
European systemic banks	44.04%	27.38%

With regard to profitability, the 10-year ROA of European systemic banks was slightly higher than the European banks' average (**TABLE 16**). The same is true for ROE (4.89% compared to 1.79% for the European banking system), which for the first time also exceeded the average ROE of ethical and sustainable banks (4.89% vs. 3.57%), at the expense, however, of higher volatility, and therefore of a higher level of risk (1.91% vs. 0.41%). The ROE of European systemic banks soared in 2018, thanks in particular to the excellent results of Barclays, Credit Suisse and UBS.
In other words, ethical and sustainable banks win the race to profitability (2008-2018) over the European banking system but lose the same race against European systemic banks, although only marginally and just in terms of ROE.
In terms of asset and liability structure, European systemic banks figures are very similar (in 2018) to the European banking system's average and therefore there were no significant differences in the final comparison. European systemic banks have only come close to the European banking system's average (in terms of loans/assets and deposits/liabilities ratios) in recent years, when, as a result of the 2007-2008 crisis, systemic banks started to focus more on the real economy, with loans to total assets ratio growing from 29.10% to 40.26% between 2008 and 2018 (**TABLE 16**).

All 15 European are members of GABV (Global Alliance for Banking on Values), 14 members of Febea (seven of which are also members of GABV) and two members of Inaise were included in the sample "European Ethical and Sustainable Banks". Only those institutions that carry out banking activities (collection of savings, lending and investment) with a prevalent social and environmental orientation and have published online (or sent us) financial statements for at least seven of the last ten years have been included. Historical data sets of the banks that are part of GABV have been provided by GABV.
The sample "European Banks" corresponds to the aggregate of the approximately 4,500 banks operating in the euro area, based on the data provided by the European Central Bank.

[20] FSB, *2017 list of global systemically important banks (G-SIBs)*, November 21, 2017. Link: https://www.fsb.org/wp-content/uploads/P161118-1.pdf. We have choses the 2017 list because it covers the period November 2017 - November 2018 and is therefore in line with the time frame considered in our research.

ACKNOWLEDGEMENTS

The collection and systematisation of all data on ethical and sustainable banks and European banks and the calculation of balance sheet indices and growth trends were carried out in cooperation with Leone Di Stefano and Barbara Setti and under the supervision of Carlo Milani, Data Governance Manager of Banca Popolare Etica, and Tommaso Rondinella, Head of the Impact and VSA Models Office at Banca Etica. Finally, we would like to thank Federica Masut of Gabv for having kindly provided data on the ethical banks that are members of the Global Alliance for Banking on Values.

ETHICAL BANKS VS MAINSTREAM BANKS: A 3-0 VICTORY

LOANS

(AS % OF TOTAL ASSETS)

76.1%
ETHICAL BANKS

39.8%
MAINSTREAM BANKS

DEPOSITS

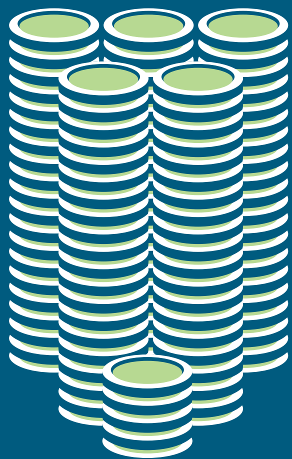
(AS % OF TOTAL LIABILITIES)

71.3%
ETHICAL BANKS

41%
MAINSTREAM BANKS

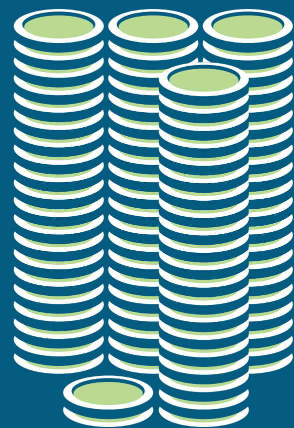
NET EQUITY

(AS % OF TOTAL LIABILITIES)



10.5%
ETHICAL BANKS

8.2%
MAINSTREAM BANKS



CHAPTER 2

THE FAIR WAGES OF ETHICAL BANKS' EMPLOYEES

In this third report on ethical and sustainable finance in Europe, we decided to analyse for the first time a number of issues about the remuneration schemes of ethical banks' employees, trying to make a comparison with the compensation policies implemented by European systemic banks. For this purpose, we sent a questionnaire to all 23 ethical and sustainable banks that have been analysed, with the help and supervision of SEC (Scuola di Economia Civile, School of Civil Economics), which has prepared a broader report on the "Metrics for the evaluation of workers' and managers' wages ", as part of a research project realised in collaboration with Fondazione Finanza Etica and funded by Etica Sgr - Investimenti Responsabili (Etica Sgr - Responsible Investments), the asset management company of Banca Etica group, in 2018[21].

The survey included six questions on:

1. the ratio between maximum and minimum wages paid to employees;
2. the ratio between maximum and average wages;
3. the presence of a cap on the maximum to minimum (or average) remuneration ratio;
4. the presence of a cap on the variable to fixed remuneration ratio;
5. the presence of ESG criteria (environment, social, GOVER-

A questionnaire was sent to 23 ethical banks to analyse employee remuneration policies

[21] See Scuola di Economia Civile, *Metriche per la valutazione delle retribuzioni dei lavoratori e dei manager*, (School of Civil Economics, *Metrics for the evaluation of workers' and managers' wages*), November 2019.
Link: https://finanzaetica.info/wp-content/uploads/2020/02/Abstract_Metrics-workers-manager-compensation.pdf

Almost half of surveyed ethical banks have an highest to lowest pay ratio policy. This is a unique case in the European banking system

NANCE) as parameters for the definition of variable remuneration;

6. equal opportunities policies, in particular to reduce gender gap.

14 of the 23 surveyed banks answered to the questionnaire (61%). TABLE 17 summarises the answers to the first three questions. As we can see, six of the 14 banks that answered (ABS, Banca Etica, Ecology Building Society, Freie Gemeinschaftsbank, La Nef and Triodos, representing 43% of the aggregate) have a policy on the ratio between the highest remuneration (which is usually awarded to the CEO) and the lowest or average remuneration within the bank. Two other banks, despite not setting any cap on pay ratios, still claim to monitor wage differences (GLS Bank) or to disclose them in their balance sheets (Merkur Bank). The French company La Nef, has decided to follow the policy of the French agreement ESUS (Entreprise solidaire d'Utilité sociale, Social Utility Solidarity Company). According to this policy, the average amount (including variable remuneration) awarded to the five best paid managers must remain below a maximum value, equal to seven times the amount of the SMIC, the French minimum wage (currently corresponding to €1,521.25 gross per month) while the highest wage must remain below a maximum amount equal to ten times the SMIC.

The cap on the maximum to minimum (or average) remuneration ratio is a unique case within the European banking system and is one of the distinguishing marks of ethical and sustainable banks. In Italy it is also one of the six criteria defining "ethical and sustainable finance operators" at the regulatory level. In fact, Article 111-bis/letter f of the *Testo Unico Bancario* (*Banking Act* or TUB), requires ethical and sustainable banks to "adopt remuneration policies aimed at minimising the difference between the highest and average remuneration of the bank, whose ratio may not exceed 5"[22].

[22] See Banca d'Italia, *Testo Unico Bancario. Decreto legislativo 1° settembre 1993, n. 385. Versione aggiornata al decreto-legge 25 marzo 2019, n. 22*, (Bank of Italy, *Banking Act. Legislative decree September 1, 1993, no. 385. Updated with the legislative decree March 25, 2019, no. 22*), converted into law with further modifications, according to the law no. 41, May 20, 2019 on June 2019, art. 111-bis, pag. 195.

TABLE 17 **Remuneration policies of European ethical banks. Remuneration ratios**

BANK	COUNTRY	HIGHEST/ LOWEST COMPENSATION	HIGHEST/ AVERAGE COMPENSATION	WAGES RATIO POLICY
ABS	CH	3.5 : 1	n.d.	highest/ lowest 5 : 1 max
Banca Etica	I	4.87 : 1	3.17 : 1	highest/ lowest 6 : 1 max
Cultura Bank	N	2 : 1	1.5 : 1	No
Ecology Building Society	GB	5.44 : 1	n.d.	highest/ lowest 8 : 1 max
Ekobanken	S	2.4 : 1	1.51 : 1	No
Freie Gemeinschaftsbank	CH	2.77 : 1	1.58 : 1	highest/ lowest 3 : 1 max
GLS Bank	D	8.4 : 1	n.d.	Monitoring but not applying any cap on max/minimum wage ratio
La Nef	F	4.6 : 1	2.84 : 1	highest/ lowest 10 : 1 max Follows ESUS policy
Magnet Bank	H	12.6 : 1	5.7 : 1	No
Merkur Bank	DK	3.3 : 1	2.2 : 1	No (Wage ratio is reported in financial report)
Opportunity Bank Serbia	SRB	10 : 1	7 : 1	No
Tise	PL	4 : 1	n.d.	No
Triodos Bank	NL	10 : 1	5.6 : 1	highest/median 7 : 1 max
UmweltBank	D	7.3 : 1	4.93 : 1	No

The focus on wage equity by ethical and sustainable banks is particularly remarkable given that compensation schemes are perceived as "the most noticeable and effective ways in which organisations can reduce (or increase) economic inequality in the society"[23], especially the portion of inequality originating from wage disparity[24].

Answers to questions 4 and 5 on the relationship between variable and fixed remuneration and the use of ESG criteria (in addition to economic-financial criteria) for variable remuneration are not shown in the table. Half of the banks that replied to the questionnaire do not have variable compensation. For three banks that replied to the questionnaire, variable remuneration is marginal less than 10% of total remuneration for Triodos and Freie Gemeinschaftsbank, and less than 15% for Banca Etica)[25]. Among the five banks (36%) that have variable remuneration, only two (Banca Etica and Magnet Bank) specifically refer to ESG criteria: e.g. social impact, participation and environmental impact for Banca Etica; 10% of the bonus based on a score related to the so-called "Triple Bottom Line" ("triple" performance: economic, social and environmental) for Magnet Bank. While one bank, Ecology Building Society, clearly explains that ESG criteria for variable remuneration are not viewed as necessary because the bank's activity is already fully oriented to granting loans to projects selected for their positive environmental and social impact.

[23] See Bapuji, Hari e Lukas Neville, *Income inequality ignored? An agenda for business and strategic organization*, Strategic Organization 13.3, 2015, quoted in Scuola di Economia Civile, *Metriche per la valutazione delle retribuzioni dei lavoratori e dei manager* (School of Civil Economics, *Metrics for the evaluation of workers' and managers' wages*) November 2019 (**NOTE 21**).

[24] See Cobb, J. Adama. *How firms shape income inequality: Stakeholder power, executive decision making, and the structuring of employment relationships*, Academy of Management Review 41.2, 2016, quoted in Scuola di Economia Civile, *Metriche per la valutazione delle retribuzioni dei lavoratori e dei manager* (School of Civil Economics, *Metrics for the evaluation of workers' and managers' wages*) November 2019 (**NOTE 21**).

[25] See Banca Popolare Etica, *Politiche e prassi di remunerazione del gruppo Banca Popolare Etica. Documento collegato al Punto 5 dell'ordine del giorno dell'assemblea dei soci 2019 (Remuneration policies and practices of the Banca Popolare Etica group. Document linked to Point 5 of the 2019 shareholders' meeting agenda)*, May 18, 2019.

GLS BANK: ADVANCE PAYMENT OF SALARY AND YOGA COURSES

The remuneration scheme of the German ethical bank GLS Bank, founded in 1974, does not include any variable remuneration.
The system is based on three main components: the basic salary (the same for each employee of the bank); the social salary (fixed amounts paid according to some specific conditions of the employee: minor children, other dependent relatives, use of public transport, cost-of-living adjustment on a geographical basis); eight different levels of salary supplements linked to role, responsibility and experience. There are also: extra salary (fixed sum) based on the number of years spent in the company and contributions for supplementary pension schemes.
The ratio between maximum and minimum wage is currently 8.4:1.
The bank pays salaries in advance at the beginning of the month (rather than at the end of the month, as it usually happens) in order to allow employees to dispose of the necessary financial resources and therefore to be able to focus on their work more comfortably. After a minimum level of seniority, GLS Bank provides the possibility of taking paid sabbaticals of approximately one week for each year spent in the company. This time off can be added to regular holidays resulting in up to three months' sabbatical.
Finally, the bank pays great attention to promoting psychophysical wellness of its employees, providing several benefits such as yoga courses, organic food and healthy working spaces.

The answers to question 6 (equal opportunities policies, in particular in order to reduce gender pay gap) were not seen as relevant. While ABS explicitly stated that it has no problem with the gender pay gap, Cultura, Ekobanken, Magnet and Freie Gemeinschaftsbank explained they do not have a specific policy and refer to national regulations on the subject (Ekobanken also carries out annual surveys of wages with a focus on gender gap). Only Umweltbank, Opportunity and Merkur have adopted a specific policy with the goal of reducing gender pay gap.

A PAY GAP BETWEEN ETHICAL AND MAINSTREAM BANKS

As pointed out by Scuola di Economia Civile, "in the last decades companies have shifted from organisation-oriented remuneration procedures to market-oriented practices (and therefore to the offer and the demand of certain roles and skills in the market), which, among other reasons, facilitate wage dispersion and are therefore viewed as positively correlated with income inequality"[26]. Based on the data collected in this study, ethical banks show an opposite trend, since they still clearly align their wage policies to organisational criteria (merit, responsibility, seniority, internal recruitment) in order to ensure internal wage equity. In contrast, as we will see below, the remuneration policies of the large mainstream banks are mainly market-oriented, with the use of mechanisms based on external benchmarks, which "have the potential to push executive income higher than suggested by the sole increase in company profits"[27]. This shift towards a market-oriented approach to remuneration practices "has a radical impact on general disparity, since income inequality from wages accounts for 75% of income among working age adults"[28].

Wage increases in the upper part of the wage spectrum has had a crucial impact on overall income inequality and rich workers have replaced rentiers at the top of the income distribution[29].

Moreover, business management research has provided theoretical arguments and empirical evidence that "market-oriented remuneration practices, by producing disparities in labour income, have negative effects on the social legitimacy of companies and therefore on their long-term financial performance"[30]. "Social movements such as Occupy Wall

ABS: HIGHEST TO LOWEST SALARY RATIO IS 3.5 TO 1

ABS, the Swiss ethical bank founded in 1990, does not provide any form of variable remuneration but only a fixed salary, based on employees' responsibility and expertise.
The remuneration package includes welfare benefits, such as accident and health insurance (fully financed by the bank) as well as a supplementary pension scheme (with a contribution of 80%, which is above the national average).
ABS has set a 5 to 1 cap to highest to lowest salary ratio; the current ratio is 3.5 to 1.
According to ABS, there is no gender pay gap within the bank. This goal has been achieved thanks to a clear focus on the issue. The organisation shows a peculiar culture of workers' participation, with regular quarterly meetings in which all employees can access to the company's intranet to get all relevant information on the management's decisions.
Employees are involved in the discussion of key decisions with a top-down - bottom-up approach.
The bank's remuneration policy reflects principles such as pay transparency, attention to gender pay gap and a focus on employees' motivations (especially when hiring).
The resulting wages are lower than the Swiss banking sector average.

TRIODOS: REGULAR SURVEYS ON EMPLOYEE SATISFACTION

The remuneration policy of Triodos Bank, a Dutch ethical bank founded in 1980, with branches also in Belgium, UK, Spain and Germany, has a strong focus on the intrinsic motivations of its employees: this is also why the bank doesn't really pay bonuses.
The key component of the policy is the fixed wage, with annual adjustments related to additional experience (and therefore skills).
Adjustments are not related to performance, which is considered as extremely difficult to measure, especially when linked to specific targets for which individual contributions are hard to identify. Wage adjustment is not awarded only if the employee performance doesn't meet the standards required by his or her position. There are also the so-called "Collective tokens of appreciation" , a sort of discretionary "performance" bonus agreed once a year by the Board of Directors and awarded equally to all employees (the maximum amount is €500 and the bonus is intended as a symbolic reward of the employees contribution in achieving the corporate goals).
Another kind of bonus consists in "Individual tokens of appreciation" that can be given to individuals or teams. These awards are linked to specific circumstances and extraordinary behaviour and may include money (up to one month's salary) or vouchers that can be spent at some affiliated entities which are also clients of the bank.
Other elements of the remuneration scheme are: insurance coverage (supplementary pension, health insurance), mobility programmes and facilities (e.g. electric bikes, public transport subscriptions), prevention programmes and promotion of health and physical and psychological wellness (e.g., the "health and well-being" programme), coaching for building up resilience, training programs, increased parental leave, partially paid sabbaticals (up to 2 months, every 7 years), 2 weeks of paid leave per year for voluntary work and promotion of well-being among employees (e.g. sports courses, meditation, yoga, organic food in the company canteen). The pay system provides for a maximum 7 to 1 ratio between the highest and median pay; the value of this ratio is currently 5.6 to 1.
Workers' participation is enhanced by moments of discussion within the work teams every Monday morning; in these meetings, issues of both corporate and civil interest are introduced and discussed. Employee satisfaction is monitored every two years by measuring the level of "commitment" ("How proud are you to belong to a company with this mission and values?") and the engagement degree ("How passionate are you about the work you are doing?").
Generally the level of "commitment" is higher than the level of "engagement".

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[26] See Scuola di Economia Civile, *Metriche per la valutazione delle retribuzioni dei lavoratori e dei manager* (School of Civil Economics, *Metrics for the evaluation of workers' and managers' wages*) November 2019.

[27] See Kim, Jerry W., Bruce Kogut e Jae-Suk Yang, *Executive compensation, fat cats, and best athletes*, American Sociological Review 80.2, 2015.

[28] See Scuola di Economia Civile, *Metriche per la valutazione delle retribuzioni dei lavoratori e dei manager* (School of Civil Economics, *Metrics for the evaluation of workers' and managers' wages*) November 2019.

[29] See Piketty, Thomas e Emmanuel Saez. *Inequality in the long run*, Science 344.6186, 2014.

[30] See Scuola di Economia Civile, *Metriche per la valutazione delle retribuzioni dei lavoratori e dei manager* (School of Civil Economics, *Metrics for the evaluation of workers' and managers' wages*) November 2019.

None of European systemic banks has caps on the maximum to minimum (or average) remuneration ratio

Street and 15-M Outraged have accused a number of companies for implementing wage policies with effects on economic inequality"[31].

In order to understand the trends in the remuneration plans of large mainstream banks, we analysed the compensation policies of the 14 global systemically important banks based in Europe[32]. There are four clear trends:

- no systemic bank has set a cap on the highest to lowest (or average) remuneration ratio;
- the total remuneration of systemic bank executives is based on a very remarkable variable component (e.g. up to 120% of the fixed component for Crédit Agricole, up to 100% for Deutsche Bank, around 200% for Santander and Société Générale, up to 200% for Nordea and Standard Chartered, around 76% for UBS);
- the Key-Performance-Indicators (KPIs) on which the variable remuneration is calculated are mainly defined by market financial indicators, such as the stock performance (in particular for the top management) and internal financial indicators, such as the bank's profitability, improved capital ratios, etc.), while organisational indicators (integrity, collaboration with colleagues, etc.) have less or no weight;
- CEO and other key executives are generally remunerated according to benchmarks based on a number of peer banks similar in size, business structure, geographical presence and ability and interest in attracting top managers. This is not the case for ethical banks: those who work for an ethical bank follow an intrinsic motivation rather than chasing the highest remuneration for the same position in the market.

In order to better understand these last two points, let's consider the case of the Swiss banking group UBS. In 2018, 65% of the CEO's variable remuneration was linked to internal financial indicators (pre-tax profit, cost to income ratio, ROE, improved capital ratios) and 35% to organisational indicators (integrity, collaboration, "challenging" approach). The introduction of organisational indicators with a significant weight is definitely positive, just like the fact that financial criteria are exclusively related to the bank's economic and equity results rather than the stock performance.

[31] Ibidem.

[32] See the details on this aggregate on pag. 34, **NOTE 20**.

However, the CEO's remuneration (and the compensation of all the other members of the executive board) is calculated on a benchmark represented by a group of competitors such as banks and financial companies which, in 2018, included the following companies[33]:

Bank of America	Goldman Sachs
Barclays	HSBC
BlackRock	JPMorgan Chase
BNP Paribas	Julius Baer
Citigroup	Morgan Stanley
Credit Suisse	Standard Chartered
Deutsche Bank	State Street

This is the "market" element which, according to the SEC analysis, would encourage wage dispersion within an organisation (such as a banking istitution in this case) and therefore income disparities. With the introduction of market elements in remuneration plans, managers also tend to feel less intrinsically tied to the organisation they belong to and to be motivated, instead, by their personal economic and market value.

Crédit Agricole offers an interesting example, linking deferred compensation[34] to three different types of objectives, each weighing for a third of the total:

- intrinsic company performance (operating profit);
- stock exchange performance (compared with industry benchmarks, in this case a stock index including European banks securities);
- social performance (based on an internal index, called FreD, which takes into account trust and customer relations, respect for employees and the company's ecosystem and environmental protection)[35].

[33] The information on the Swiss banking group UBS is based on the UBS Compensation Report 2018, which was approved by the Bank's Shareholders' Annual General Meeting on May 2, 2019. See: UBS Group AG, Compensation Report 2018, May 2, 2019.

[34] The compensation is based on the goals achieved over a time horizon longer than a single year and it's linked to the manager's presence within the group during the same period.

[35] See Crédit Agricole, "FReD an original CSR approach" at https://www.credit-agricole.com/en/responsible-and-committed/our-csr-strategy-partnering-a-sustainable-economy/fred-an-original-csr-approach

A link between ESG criteria and remuneration has been introduced only by a few systemic banks, such as ING and Crédit Agricole

Differently from UBS, Crédit Agricole does not disclose the list of peers on which the benchmark to calculate its top managers' pay is based, but merely states that "for its activities, the Remuneration Committee (which defines the levels of compensation, editor's note) shall refer to studies, if necessary, and to benchmarks provided by independent experts"[36].

Crédit Agricole is one of the few systemic banks to have introduced ESG criteria in its variable remuneration. Other examples include ING, which refers to the objective of "improving the social and environmental impact of the bank through its sustainability activities" (in particular the climate impact of the loan portfolio, although without specifying how much the same objective weighs on the total[37]) and Barclays, which includes the reduction of CO_2 emissions (though only from operating activities and not from its loan portfolio) in a list of criteria called "citizenship", which however represents only 6% of the total variable remuneration and also includes prompt "payment to the suppliers"[38]. On the other hand, Santander and BNP Paribas declared that they will start including ESG targets in their compensation schemes as of 2019 (i.e. for remuneration policies that will be approved by shareholders in 2020). These are definitely positive signs, although still symbolic compared to total compensations mainly based on market-oriented policies which are ultimately pushing top managers' compensation to a higher level than would be justified by the increase in company profits alone. This is the impression we get, at least, when we look at the maximum to average remuneration ratio of the top ten European systemic banks by revenues, which we have calculated dividing the maximum remuneration for 2018 (generally the CEO's pay) by the average remuneration (total cost of staff divided by the number of employees). As can be seen (**TABLE 18**), for all the systemic banks we analysed, except for Unicredit (which is going through a difficult period of corporate restructuring resulting in a significant drop in top management compensation), the reference to "market" criteria has brought the ratio between maximum and average compensation to high levels, always exceeding 30 (for ethical banks the maximum is currently 7, while for Italian regulatory standards it should be 5) with peaks well above 100 (HSBC 120, Santander 148).

TABLE 18 **Ratio between highest and average compensation in the top 10 European systemic banks (by revenues). Our elaboration based on the banks' 2018 financial reports**

Data in euro

BANK	TOTAL REVENUES	HIGHEST COMPENSATION (CEO)	TOTAL STAFF COSTS	NO. OF EMPLOYEES	AVERAGE SALARY	HIGHEST TO AVERAGE SALARY RATIO
HSBC	71,780,000,000	7,730,015	15,131,361,810	235,217	64,329	120
Santander	48,200,000,000	8,645,000	11,865,000,000	202,713	58,531	148
Crédit Agricole	44,220,000,000	2,214,767	7,123,000,000	141,000	50,518	44
BNP Paribas	42,520,000,000	3,381,320	16,617,000,000	202,624	82,009	41
Société Générale	41,920,000,000	3,005,562	9,561,000,000	149,000	64,168	47
UBS	26,741,000,000	12,501,995	14,239,568,920	66,888	212,887	59
Deutsche Bank	24,790,000,000	8,618,003	10,633,000,000	91,737	115,907	74
Barclays	23,448,488,000	3,729,130	9,571,286,800	83,500	114,626	33
Unicredit	19,723,000,000	1,222,158	6,423,000,000	86,786	74,010	17

[36] See Crédit Agricole, *Annual report on remuneration policies and practices*, 2018.

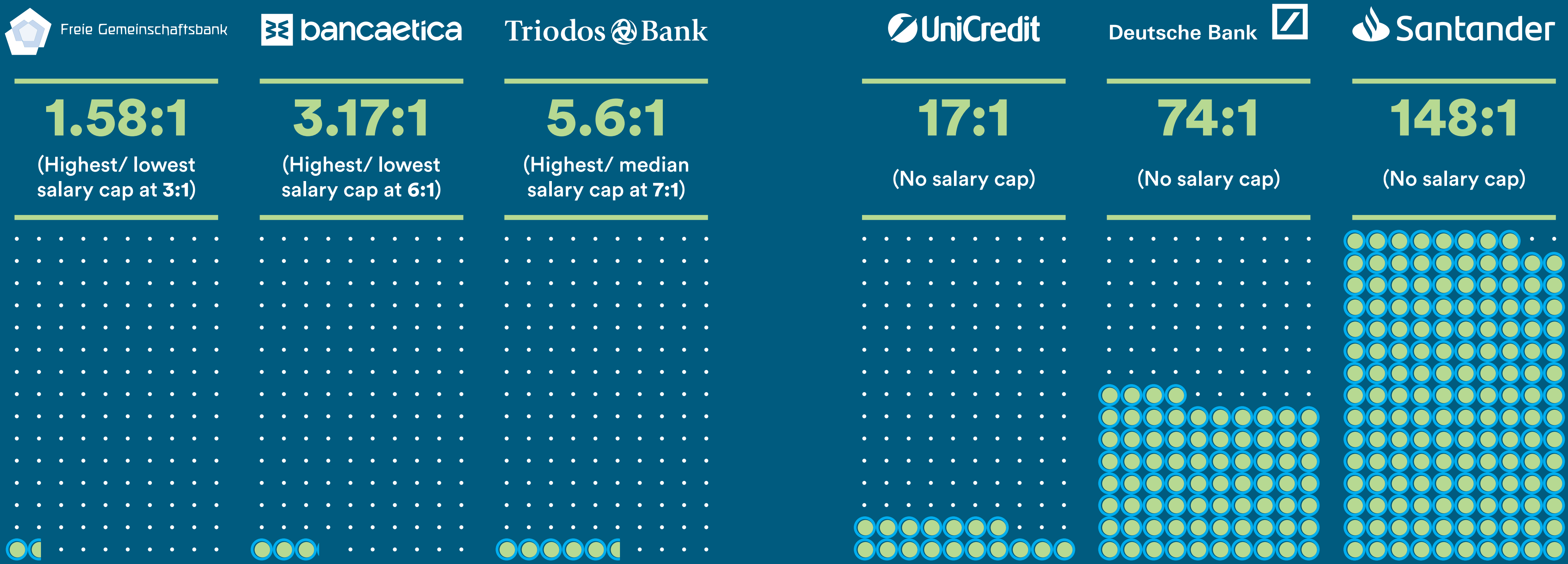
[37] See ING, *Group Annual Report 2018*, December 31, 2018.

[38] See Barclays PLC, *Annual Report 2018*, December 31, 2018.

PAY GAP

Top to average compensation ratio: a comparison between ethical and mainstream banks

The remuneration policies of ethical banks are still clearly oriented to organisation-related criteria (merit, responsibility, seniority, internal hiring) in order to ensure an internal wage equality. Big mainstream banks policies, instead, are market-oriented: they refer to external benchmarks, which finally push top managers' incomes higher than would be justified by the sole increase in company profits.



CHAPTER 3

SUSTAINABLE FINANCE: EU SETS THE RULES

2019 has been a year to remember for sustainable finance: after months of negotiation, lobbying pressure and leaps forward, a deal has finally been agreed. The parliament, the Council and the EU Commission have come to an agreement on the European regulatory framework which will determine which financial activities can be defined as 'sustainable'. The European Commission advocates for sustainable investments and considers them crucial tools to shape a more environmental friendly EU economy and fight climate change.

The top story, of course, is the exclusion of nuclear assets from sustainable financial portfolios. Just a few hours before this agreement, the decision wasn't taken for granted. Nuclear power, in fact, was the main critical issue during the discussion and it seriously risked to blow the negotiations.

A CRUCIAL STEP BACK BY UK AND FRANCE

Let's start from the beginning: in September 2019, the EU Council of Ministers approved a position paper calling for both nuclear power and coal (!) to be included in the 'green' activities' list. Environmental associations expressed outrage and members of the European Parliament strongly opposed the decision. The nuclear issue became the stumbling block in the negotiations and at the beginning of December the tripartite meetings (the so called 'trilogues') between Parliament, the Council and the Commission were thus post-

The three main EU institutions (Commission, Parliament and Council) have set criteria to define responsible investments

CHART 7
The 5 targets of EU taxonomy

TARGET

- Provide a **common definition** of which economic activities can be unequivocally regarded as eco-sustainable
- Giving **appropriate guidance** to economic actors on which activities are considered sustainable
- Protect private investors by preventing risks of **"greenwashing"**
- Avoid market **fragmentation**
- Provide a **basis for further action** in the field of sustainable finance

poned. Opponents' greatest fear was that pro-nuclear countries would finally prevail and thus succeed in including the atomic sector in the green list or, at least, they could block negotiation.

The turning point to the happy ending came in mid-December. "A few words of the regulatory text have been changed" said at the time a source of the European Parliament[39]. "These are minimal changes and they do not alter the heart of the matter: nuclear power remains *de facto* excluded from the definition of sustainability because nuclear waste does not comply with the 'not significant damage' principle". A step back by France and UK was crucial to alter the equilibrium thus allowing the negotiators to reach a deal on keeping nuclear power out. In this way, despite the opposition of Eastern European countries (which still support the inclusion of nuclear power), there was no longer a majority. That's how the final text has been approved".

NOT JUST NUCLEAR POWER: THE DANGER OF COAL HAS ALSO BEEN AVERTED

Success was completed by the elimination of coal, which has been explicitly excluded from the list of green investments. The dismissal of nuclear power has been much more complicated: the atomic sector has been excluded because it does not meet the technical requirements for green activities.

Nuclear power, in fact, can't comply with the 'do no significant harm' rule which states that, in order to be defined as sustainable, an economic activity must not cause significant damage to any other goal that has been set by the EU. The rule doesn't mention nuclear waste but the implicit reference is clear. That's why, for nuclear energy, being compliant with polluting emissions is definitely not enough.

WHO HAS THE LAST WORD

The three Community bodies also came to an agreement on the kind of act that will define the details of the European regulation on sustainability: the legal instrument of *delegated* act was finally chosen over the *implementing* act. It may sound pretty much insignificant, but it isn't. This choice, in fact, also determines who will have the last word on the definition of those activities that can be considered as sustainable. With a delegated act, the European Parliament will have a veto right. This definitely averts the possibility that political positions (and economic interests) of individual countries could influence the thresholds according to which an economic activity could be admitted to the green list.

NOT JUST SUSTAINABLE INVESTMENTS

Another controversial aspect was the scope of the new European regulation: the final deal foresees that the new rules for green finance will cover all financial products, not only those already defined as 'sustainable'. "Although with different scales, the environmental impact will have to be indicated for all financial products", said a source close to the talks[40]. "Investors should have the opportunity to know if their investments are 'sustainable' according to the EU taxonomy".

The new rules require that all financial products indicate their impact on the environment. Investors will then know how sustainable their investments really are

[39] See Valori.it, "L'Ue trova l'accordo sull'economia green. Il nucleare resta fuori" ("UE Come To an Agreement on Green Economy. Nuclear Energy Excluded", December 17th 2019 at https://valori.it/lue-trova-laccordo-sulleconomia-green-il-nucleare-resta-fuori/

[40] Ibidem.

The current definition of sustainable activities does not take social criteria into account. This will be discussed again in 2021. The Commission will have to approve the delegated acts within one year

SOCIAL CRITERIA: SEE YOU IN 2021

It happens all the time with every negotiation: everybody has to give up something in order to get something else. The trilogue between Commission, Parliament and European Council was no exception. At least for the moment, social requirements have been the sacrificial lamb on the agreement's altar: the current EU definition of sustainable activities does not include them, except for some references to the main international conventions on human rights (UN and ILO): basic safety clauses must be respected in order to protect these rights. According to the final agreement, a report will be published in 2021 and the Commission will have to examine it. At that time commissioners may decide to include in the taxonomy also social requirements and the 'brown' sector, i.e. those activities that do not comply with environmental sustainability criteria but could tend to do so.

THE REACTIONS[41]

"The taxonomy for sustainable investment will mark a turning point in the fight against climate change," said EPP MEP Sirpa Pietikainen, one of the two negotiators for the taxonomy chapter.

"We have managed to clearly exclude any activity involving fossil fuels from the definition of sustainability" said MEP Simona Bonafè of Socialists & Democrats. "In order to save the planet, Europe needs at least 180 billion euros of new green investments per year. The new standards set by the agreement will allow investors to make informed decisions and play their part in the fight against climate change".

"The agreement on the classification of sustainable investments is a breakthrough for sustainable financial markets" said MEP Sven Giegold, the spokesperson for the German *Greens*. "The final compromise is a great success because it brings a European market for sustainable financial products. The way is now clear for credible sustainable financial products without nuclear greenwashing. This brings sustainable financial products into the mainstream of financial investments".

[41] Ibidem.

SEC IS TARGETING 'SUSTAINABLE' FUNDS IN THE USA

The U.S. Securities and Exchange Commission (SEC) is investigating ESG products (financial instruments compliant with environmental, social and governance criteria) that some US assets managers are offering to their clients. The investigation, according to Wall Street Journal[42], aims to deeply analyze the criteria adopted by managers to select investments. "One letter the SEC sent earlier this year to an investment manager with ESG offerings asked for a list of the stocks it had recommended to clients, its models for judging which companies are environmentally or socially responsible, and its best- and worst-performing ESG investments" the WSJ wrote. The full list of sustainable funds under scrutiny is still unknown.
SEC sent similar letters to other fund managers last year and now wants to look further into the matter. SEC examiners do not have the power to impose fines but they can send the collected files to other SEC officials who may decide then to open a formal investigation.
The SEC's suspicion is that some funds that qualify themselves as sustainable may have included assets non compliant with ESG criteria. The assumption, in other words, is that the proposed investments could actually be a greenwashing operation (in this case a marketing strategy to make controversial assets look sustainable).
According to the latest report of the Global Sustainable Investment Alliance (GSIA)[43], there are currently 30.7 trillion dollars of sustainable investments in the world (a 34% increase from two years earlier) and the ESG market growth makes the problem even more relevant. According to Harvard Business School professor George Serafeim[44], without commonly accepted standards on how to define what is 'sustainable' "There are now stronger incentives for asset managers to greenwash".

NEXT STEPS

Now *the die is cast*, at least from a political perspective. It is a matter of time before the European regulation is finally adopted by the EU and its Member States. And it's up to the European Commission to publish the delegated acts which will define technical details by the end of 2020. The final decision will be taken by a platform (yet to be formed) which will work throughout next year.

[42] See Wall Street Journal, "ESG Funds Draw SEC Scrutiny", December 16th 2019 at https://www.wsj.com/articles/esg-funds-draw-sec-scrutiny-11576492201

[43] See The Global Sustainable Investment Alliance, "Global Sustainable Investment Review 2018" at http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

[44] See Quartz, "Sustainable investing risks becoming a victim of its own success", December 13th 2018 at https://qz.com/1490365/esg-investing-risks-becoming-a-victim-of-its-own-success/

HISTORY AND ACHIEVEMENTS OF SHAREHOLDER ENGAGEMENT

SECOND PART

GLOSSARY

ASSET MANAGER
The company or more generally the intermediary who is required to manage investments on behalf of investors. Investors' capital flows into funds headed by a management company.

COMPOUND ANNUAL GROWTH RATE (CAGR)
The percentage value showing the average growth of an asset in a given time frame. It is used, for example, to calculate the profitability of an investment (a set of shares for example).

DISCRETIONARY BONUS
A cash bonus paid to a worker at the sole discretion of a manager or supervisor when a certain goal is achieved.

ENGAGEMENT
The activity conducted by a group of shareholders represented by entities, associations or asset management firms with the purpose of influencing positively the company's conduct or exposing its controversial activities.

GENDER GAP
The difference between the way men and women are treated in terms of opportunities and safeguards provided by the society.

INSTITUTIONAL INVESTORS
Major players investing large amounts of capital. Unlike small operators, institutional investors can also invest in more sophisticated securities.

LIVING WAGE
The minimum wage that a worker should receive to cover his/her basic needs.

LOW CARBON ECONOMY
An economic system that produces a low level of CO_2 or greenhouse gas emissions due to its limited exposure to the fossil sector.

OIL SANDS
Sands located at a shallow depth and containing oil mixed with water and clay. The fuel extraction process requires mechanical operations and chemical reactions involving the use of solvents causing serious harm to the environment.

SAY ON PAY
The right of shareholders to express a binding opinion on management remuneration measures. This principle, explicitly recommended by the OECD, is recognised by the law in many countries.

SCREENING
Early stage of the analysis carried out by investors in order to identify potentially investable companies compliant with some social, environmental and governance sustainability criteria.

STOCK INDEX
A synthetic value measurement of a pool of shares.

SUSTAINABLE AND RESPONSIBLE MUTUAL FUNDS
Funds investing in productive or financial operations that take into account not just the profit or yield expectations but also the operations' compliance with ethical principles and the direct or indirect impact of the investment in social and environmental terms.

TAX AVOIDANCE
All the operations carried out by a company or an individual in order to reduce the tax base and to pay less taxes without breaking the law.

CHAPTER 1

FIFTY YEARS OF ENGAGEMENT

Engagement has become a very popular concept in the world of ethical finance. With the word ENGAGEMENT we refer to all activities involving shareholders who commit themselves to promote corporate social responsibility issues through campaigns and other initiatives. Their goal is to bring these issues at the shareholders' meetings, submitting questions and resolutions in order to change a company's policy. Sometimes the company management may agree on these proposals and then make a formal commitment; in other cases, resolutions are submitted to shareholders' vote. Engagement strategies, as we will explain, can be classified as *critical* or *active* shareholding. The distinction between these approaches is mainly a matter of actors involved. In general, active shareholding consist in a dialogue promoted by ASSET MANAGERS, pension funds, insurance companies and INSTITUTIONAL INVESTORS. Critical shareholding, on the other hand, normally involves NGOs, movements and campaigns. The differences between critical and active shareholding will be discussed in chapter 3 of this section. In this chapter we will present a brief history of responsible shareholder engagement, while in chapter 2 we will analyse ten cases of critical/active shareholder engagement with companies on social, environmental and governance (ESG) issues.

Engagement brings together all activities involving shareholders interested in making companies more sustainable

History of engagement - the commitment of critical and active shareholders - dates back to the 1970s, although the idea of engagement is much older. In western countries, religious orders were the first organisations to cope with the

It was with campaigns against companies investing in South Africa during apartheid that active shareholders made a quantum leap thanks to ICCR's activities

social impact of investments. In the 1920s, the Quakers and Methodists promoted the creation of the first ethical investment funds in the United States, excluding alcoholic beverages and gambling companies from their investments portfolios[1]. The first "positive" strategies emerge in the following years when religious organisations take start selecting securities of companies which they believe are most sensitive to human rights and environmental issues (today we would call it "best-in-class strategy")[2]. But the real breakthrough will come only a few decades later.

ICCR VS SOUTH AFRICAN APARTHEID

ICCR or Interfaith Center on Corporate Responsibility was founded in 1971[3]. The New York City based organisation, representing a coalition of religious orders, began to be well known in the annual general meetings of the US financial and non-financial companies investing in South Africa[4] where the apartheid regime, at the time, was still in force.

The goal of ICCR is not just to exclude "bad" investments or to select "good" ones, but to promote a new strategy, a "more nuanced and much more powerful tactic, in order to respond to the human rights abuses that were taking place in that country"[5]. In its first year, ICCR takes part to the annual general meeting of automotive giant General Motors and ICCR representatives from the Episcopal Church submit a shareholder resolution. The request is simple: suspend all activities of the corporation in South Africa until the government will cancel racial segregation. That is the first social resolution ever recorded in the corporate world. And also the official debut of shareholder engagement. Between 1971 and 1994, when apartheid is finally abolished, more than 200 US companies active in South Africa are put under pressure for the same reason. Although no resolution ever gained the support of the majority of shareholders, the cultural impact of the initiatives is huge. Between 1985 and 1990, more than 200 US companies completely divested from South Africa, which resulted in $1 billion loss for the apartheid regime's economy[6].

ICCR's commitment continues to this day. In 2019 ICCR members attended the meetings of 184 listed companies and submitted 277 resolutions[7]. Among these, more than a third (108) led to some change in corporate policies and corporate practices on inclusion and equal opportunities, climate change and human rights, after ICCR reached an agreement with the companies' management[8]. 114 resolutions were voted without a previous agreement between ICCR and the companies: 10 of these have been approved.

In 2019 ICCR participated in the annual general meetings of 184 listed companies submitting 277 resolutions

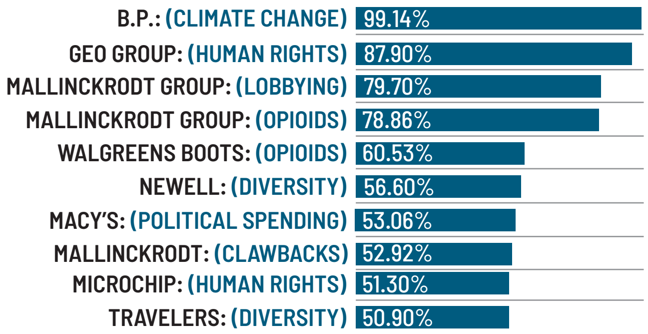


CHART 1

Ten ICCR resolutions achieving majority votes in 2019

Source: ICCR, "Catalyzing Corporate Change. ICCR Members Celebrate A Successful 2019 Proxy Season", October 2019 at https://www.iccr.org/sites/default/files/page_attachments/catalyzing_corporate_change_2019_10.17.19.pdf

[1] See Fabio Salviato, Mauro Meggiolaro, "Ho sognato una banca. Dieci anni sulla strada di Banca Etica" ("I Dreamt of a bank. Ten Years on the Road to Banca Etica"), Feltrinelli, 2010.

[2] The so-called best-in-class strategy is based on selecting companies that achieve the highest ESG scores within their economic sector. See EUROSIF, "European SRI Study 2012", November 2012 at http://www.eurosif.org/sri-study-2012/

[3] See ICCR, History of ICCR, at https://www.iccr.org/about-iccr/history-iccr

[4] Ibidem.

[5] Ibidem.

[6] See Gregory Gethard, "Protest Divestment and the End of Apartheid. Socially Responsible Investing (Sri), Guide To Socially Responsible Investing", at https://www.investopedia.com/articles/economics/08/protest-divestment-south-africa.asp

[7] See ICCR, "Catalyzing Corporate Change. ICCR Members Celebrate A Successful 2019 Proxy Season", October 2019 at https://www.iccr.org/sites/default/files/page_attachments/catalyzing_corporate_change_2019_10.17.19.pdf

[8] Ibidem. Among the biggest achievements: Amazon has committed to reach carbon neutrality for 50% of its deliveries by 2030; Bank of America, BNP, JPMorgan Chase, PNC, Sun Trust and Wells Fargo announced that they will no longer be funding private prisons; Sanderson Farms has agreed not to provide more than two antibiotics to its chicken unless strictly necessary; Biogen has recognised the existence of a financial risk related to the high price of its drugs.

THE 80'S: THE NEW GERMAN WAVE OF KRITISCHE AKTIONÄRINNEN UND AKTIONÄRE

The first major engagement experience in Europe dates back to the 1980s. In 1986 the DKA, or Dachverband der Kritischen Aktionärinnen und Aktionäre (Coalition of Critical Shareholders), was founded in Cologne, Germany. The network brings together 28 different entities representing environmental organisations, pacifist coalitions, consumer associations and corporate whistleblowers. German law doesn't support activists very much: in order to submit a resolution to a general meeting, for example, it is mandatory to control at least 5% of a company's shares or, at least, a minimum amount of them, which is currently set at 500,000 euros[9] (in the USA you just need to own $2,000 in shares[10]). Often unable to meet such requirements, DKA follows the strategy of demonstrative actions. When they take part to the meetings, Dachverband activists ask critical questions to companies often using a particularly harsh language. They use to call managers "capital representatives" and companies "Klimakiller" (climate killers) or "Jobkiller"[11].

In 2019, DKA activists attended the meetings of nearly 50 German listed companies including Adidas, Bayer, Volkswagen and Rheinmetall. This latter company, in particular, supplied to Saudi Arabia the bombs used in Yemen war, a conflict with no international legitimacy in which tens of thousands of civilians have been killed so far. On May 28th 2019, with the support of movements such as Urgewald and Greenpeace, DKA representatives demonstrated in front of the Saudi embassy in Berlin and then reached the location of Rheinmetall general assembly. Unsatisfied with the generic answers to their questions, about fifty activists jumped on stage and performed a protest for about an hour before the intervention of the police[12].

[9] See Share Action, "A guide to shareholder rights across six European countries", April 2017 at https://shareaction.org/wp-content/uploads/2017/03/ShareholderRightsEurope.pdf

[10] See Mauro Meggiolaro, "L'azionariato critico. Storie, strumenti, successi" ("Critical Shareholdings: Stories, Instruments, Achievements"), September 2019 at https://finanzaetica.info/1748-2/

[11] Ibidem.

[12] See Valori.it, "Assemblea RWM: azionisti attivi contro le bombe in Yemen. Irrompe la polizia" ("RWM General Meeting: Active Shareholders Against Bombs in Yemen. Police Breaks in"), May the 30th 2019 at https://valori.it/assemblea-rwm-azionisti-attivi-contro-le-bombe-in-yemen/

May 2019, German police breaks in at Rheinmetall general meeting in Berlin. Critical shareholders were protesting against the production of bombs used by the Saudi army in the Yemen war.

Credits: Valori.it in https://valori.it/assemblea-rwm-azionisti-attivi-contro-le-bombe-in-yemen/

LEGAMBIENTE STARTS CRITICAL SHAREHOLDING IN ITALY

Italy experienced its first critical shareholding initiatives in 1989 when the environmental organisation Legambiente launched the "ecologist shareholders" project. The network buys a symbolic number of shares of large Italian companies linked to the fossil industry such as Montedison, Enimont, Enichem, Fiat, Sme, Sip and Enel in order to promote a green conversion of their business. The first target is the chemical giant Montedison: on January 27 1989 Legambiente purchased 2,000 shares of the company for 5 million lire (the equivalent of less than 5,500 euros today)[13]. In this way, "green" shareholders get the right to attend and vote at the annual meeting.

Their debut comes in June 1990, when 400 activists take part to Montedison meeting asking the company to close a chemical plant in Cengio (in the province of Savona) managed by Azienda Coloranti Nazionali e Affini (ACNA), controlled by Montedison. One year earlier, on July 23rd 1988, an accident at the plant had caused the spread of a toxic cloud, affecting the environment and the population in a vast area of north-western Italy, between the Ligurian region of Val Bormida and Lower Piedmont. The damage is still producing

In Italy, critical shareholding started at the end of the 1980s and was focussed on environmental issues

[13] See ISTAT, "Calcolatore rivalutazioni monetarie" ("Monetary revaluation calculator") at http://rivaluta.istat.it:8080/Rivaluta/

adverse impacts today[14]. During the annual general meeting in Milan critical shareholders belonging to Legambiente also invited the Italian corporation to "gradually dismiss the production of pesticides and non-biodegradable plastics"[15].

Further initiatives with other companies have been taken since then. The goal has always been the same: "starting a dialogue with those small shareholders often excluded when important decisions are taken" said the then president of Legambiente Roberto Della Seta[16]. "The strategy — he argued - has paid off. In 1991, for example, thanks to Legambiente intervention in front of the board of directors, the automotive company Fiat[17] committed itself to increase its investments in order to improve the quality of its products and protect the health of its workers".

Legambiente activists protest against nuclear energy in May 1986. Three years later, the organisation launched the project "ecologist shareholders", the first example of critical shareholding in Italy.

Credits: Own work personal archive indeciso 42, Wikipedia in Italian[18], Attribution-ShareAlike 4.0 International (CC BY-SA 4.0)

The first battle was fought in 1990. The ecologist shareholders asked Montedison to close its ACNA plant in Cengio, where an accident produced a very dangerous toxic cloud

[14] See Il Post, "La nube tossica dell'ACNA, 30 anni fa" ("ACNA's Toxic Cloud, 30 Years Ago"), July 23rd 2018, at https://www.ilpost.it/2018/07/23/acna-inquinamento-val-bormida/

[15] See Alberto Fiorillo, "Ricomincio da trenta. Dal 1980 al 2010, la storia di Legambiente. Trent'anni vissuti ecologicamente" ("Starting Again From Thirty. From 1980 to 2010, The History of Legambiente. Thirty Years of Living Ecologically"), Legambiente, May 6th 2000.

[16] See Vita non profit magazine, "Ma la via della borsa non entusiasma gli italiani" ("Italians Are Not Excited by a Stock Listing Solution"), April 21st 2000 at http://www.vita.it/it/article/

[17] Today FCA.

[18] See https://it.m.wikipedia.org/wiki/File:Legambiente1.jpg

CRITICAL WITH KINDNESS. THE CASE OF VBDO

Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO), or Association of Investors for Sustainable Development, was founded in Utrecht, Netherlands, in 1995 with the aim of encouraging companies to implement more sustainability-oriented strategies. Over the years VBDO has attended the general meetings of the major companies listed on the Amsterdam stock exchange such as Unilever, Philips, Heineken and ING and has published reports and indices. The organisation, which includes over one thousand private members and about 40 institutional partners, adopts a so called "constructive criticism approach". That means "to be critical when necessary and congratulate companies when progress has been made" says VBDO, as well as "to dialogue with both good and bad companies, because good initiatives in sustainable firms could be suitable even for less sustainability-oriented enterprises"[19].

VBDO statement at Unilever's Annual Meeting in 2017 is a clear example of this approach. The speaker shows appreciation for the goals achieved so far[20], but also asks very specific questions:

- In 2016 Unilever didn't make much progress on the company's target to half water use in manufacturing. What actions is Unilever taking in order to achieve its target by 2020?
- In 2016 Unilever has committed itself to pay a LIVING WAGE to all the company's employees by 2020. VBDO was not able to find out how many employees are currently being paid a living wage, nor how much progress will be needed on this subject in the coming years to achieve this goal. Is Unilever willing to provide information about this and start reporting on living wages next year?

Some organisations, such as the Dutch VBDO, adopt a constructive approach: they congratulate companies for achieving some objectives while asking very specific questions on critical points

[19] See VBDO, Critical shareholder activism, Ernst van Weperen presentation at "Azionariato critico: una opportunità per la democrazia e la trasparenza" ("Critical shareholding as an opportunity for democracy and transparency") roundtable, Milan, Università Cattolica del Sacro Cuore, January 21st 2007.

[20] Here is the typical VBDO-style incipit: "Thank you, my name is Angélique Laskewitz, I am the director of VBDO. (...) VBDO wants to compliment Unilever on the ambitious Unilever Sustainable Living Plan. VBDO recognises that Unilever initiates a lot of projects and partnerships in order to contribute to a sustainable future. (...) However, VBDO does have some questions regarding Unilever's sustainability strategy". See Proces-Verbaal Van De Algemene Vergadering Van Aandeelhouders Unilever N.V., April 2017 at https://www.unilever.com/Images/unilever-nv-minutes-agm-2017_tcm244-510776_en.pdf

A typical VBDO approach was used at Unilever's meeting, with questions on the use of water resources and the provision of a minimum wage to all employees

- VBDO was not able to find a clear strategy and targets on sustainable development goals. Is Unilever willing to report more extensively on the company's targets and strategy regarding the realisation of SDGs?

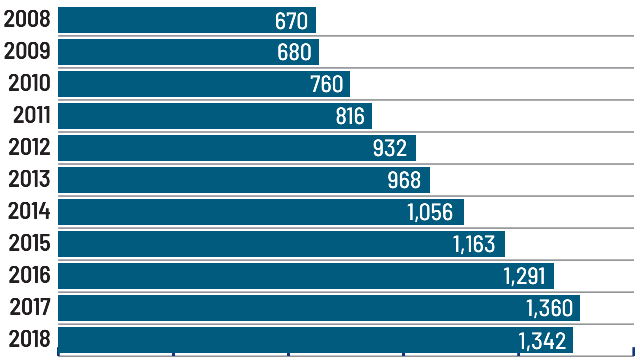
Unilever replied with relatively vague[21] answers while making a general commitment to provide further clarification in the future ("We will try to disclose more information in the next reporting, there are some people working on that. There are no global standards on this. Nevertheless, we committ to be more transparent on the achievement of sustainable development goals").

In order to promote social responsibility, VBDO also carries out "complementary" analysis activities. Once a year, for example, the organisation reviews the performance of the responsible investment policies of Dutch pension funds. This is particularly significant because of the systemic importance of these operators. In 2017, Dutch pension funds' assets under management (AUM) reached $1.6 trillion (more than €1.3 trillion) or 182.5% of the country GDP, the highest percentage among OECD members[22]. The value of AUM more than doubled between 2008 and 2018[23].

CHART 2

Dutch pension funds: assets under management (billions of euro) 2008-2018

Source: OECD, "Global pension statistics 2019", in http://www.oecd.org/daf/fin/private-pensions/globalpensionstatistics.htm. Data in billions of euro



[21] See Mauro Meggiolaro, "L'azionariato critico. Storie, strumenti, successi" ("Critical Shareholdings: Stories, Instruments, Achievements"), September 2019 at https://finanzaetica.info/1748-2/

[22] See OECD, "Pension Funds in Figures", June 2018 at https://www.oecd.org/daf/fin/private-pensions/Pension-Funds-in-Figures-2018.pdf

[23] See OECD, "Global pension statistics 2019", at http://www.oecd.org/daf/fin/private-pensions/globalpensionstatistics.htm

UK SHAREACTION MEETS PENSION FUNDS

British charity ShareAction (previously FairPensions) was founded in London in 2005 as an initiative of a campaign promoted by student organisation People & Planet. The initial goal was to help UK largest pension scheme - the University Superannuation Scheme (USS) - to adopt responsible investment policies. ShareAction brings together key institutional partners such as the Transport Salaried Staffs' Association -Tssa, Unite (UK's second largest trade union) and UCU; environmental associations such as WWF, Greenpeace and Friends of the Earth; and human rights organizations such as Amnesty International, Oxfam and Christian Aid.

ShareAction on Twitter https://twitter.com/shareaction/status/1169887788239474690

ShareAction's engagement strategy is based on cooperation with large institutional investors such as British pension funds for professional workers. ShareAction activists take part at companies' annual general meetings and ask questions about environmental, social and governance issues (ESG) including management compensation schemes, TAX AVOIDANCE, corporate lobbying, digital rights, fight against human trafficking, renewable energy and gender equality on boards.

2010S: A TURNING POINT FOR FONDAZIONE FINANZA ETICA

Founded in 2003 (as Fondazione Culturale Responsabilità Etica), Fondazione Finanza Etica (FFE, from 2016) is an organisation committed to shareholder engagement and a member of a network including Banca Etica, Etica Sgr and the Spanish Fundación Finanzas Éticas[24]. Until 2016, FFE acted as critical

ShareAction's strategy is based on cooperation with large institutional investors such as pension funds

[24] See Fondazione Finanza Etica at https://finanzaetica.info/la-fondazione/

Fondazione Finanza Etica has started its activity as critical shareholder in the meetings of Finmeccanica (now Leonardo), Eni and Enel. In 12 years it has taken part to 37 shareholders' meetings of seven listed companies

shareholder in the AGMs (Annual General Meeting) of the two main Italian energy corporations: Eni and Enel. After acquiring one share of Finmeccanica (now Leonardo), the organisation began to diversify its presence. In 2017, in cooperation with the Forum Italiano per l'Acqua (Italian Forum on Public Water), Fondazione participated in the annual general meeting of Acea, the water services company of the municipality of Rome. The initiave was followed by the participation at the general meetings of German defence company Rheinmetall in Berlin, Italian insurance company Generali (with the support of Re:Common) and Swedish fast fashion major H&M (in cooperation with Clean Clothes Campaign). The real turning point came in 2017, when Fondazione joined the international network SfC - Shareholders for Change and could thus expand the list of topics discussed at the meetings (including management compensation schemes) and, most important, increase the "real" weight of its engagement activities. Since it has the possibility to participate on behalf of all SfC's members, in fact, in some cases Fondazione represents now thousands of shares.

Resolution 15 submitted by Fondazione Finanza Etica with Meeschaert Asset Management at H&M annual general meeting on May 7th 2019.

Credits. Valori.it at https://valori.it/hm-insensibile-agli-azionisti-critici-il-fast-fashion-vota-no-a-una-moda-piu-equa/

Requests to the annual general meeting 2019

Item 15

Shareholder proposals from Fondazione Finanza Etica and Meeschaert Asset Management

Whereas: as long-term shareholders, we believe that compensation metrics should incentivise the creation of sustainable, long term value. Furthermore, we believe that disclosing sustainability targets for the remuneration of senior executives would increase company responsiveness to shareholders who are seeking information about the company's response to the current social and environmental challenges in the apparel and footwear sector.

Be it resolved: we request that H&M fully discloses the sustainability targets that must be fulfilled to trigger variable remuneration of senior executives and annually reports the performance of senior executives against those targets.

Supporting statement: we recommend that the above mentioned sustainability targets:

- are disclosed in the board's proposals to the AGM for guidelines for remuneration of senior executives or, in alternative, in the H&M group sustainability report;

- include precise targets on the improvement of worker health, safety and wage practices along the group's supply chain.

Born as a symbolic initiative based on the ownership of a small number of shares, FFE's critical shareholding strategy is thus being converted into "active shareholding", a more powerful engagement instrument that may lead companies to change their policies[25]. In the last twelve years, Fondazione Finanza Etica has attended 37 meetings of seven listed companies, in cooperation with Italian and international civil society organisations thus getting some important results[26].

[25] See Chapter 3.

[26] Ibidem.

A HISTORY OF ENGAGEMENT

How shareholders' movements engage worldwide to promote social responsibility initiatives. The key milestones

1920s

Quakers against gambling and alcohol

American Quakers and Methodists launch the first ethical investment funds excluding alcohol producers and gambling companies from the investments.

1971

ICCR was born

Several religious orders, gathered in the Interfaith Center on Corporate Responsibility in New York, participate in the shareholders meetings of the main companies investing in South Africa during the apartheid era in order to halt financial and entrepreneurial activities until the end of racial segregation.

1986

DKA is founded in Germany

28 environmental organisations, coalitions for peace, consumer associations and whistleblowers founded the Dachverband der Kritischen Aktionärinnen und Aktionäre (Coalition of Critical Shareholders). In response to the German law which prevents shareholders holding less than 5% of company stake from filing resolutions at annual general meetings, the activists organise several protest demos.

1989

Critical shareholders make their debut in Italy

Legambiente launches the "ecologist shareholders" project targeting companies directly and indirectly linked to the fossil fuel industry: Montedison, Enimont, Enichem, Fiat, Sme, Sip and Enel.

1995

VBDO

VBDO and its "constructive criticism approach"

In the Netherlands the Vereniging van Beleggers voor Duurzame Ontwikkeling (Association of Investors for Sustainable Development) starts its activities with more than 1,000 private members and 40 institutional partners. Their motto: "Be critical when necessary, congratulate when progress has been made".

2005

UK: a call to action for pension funds

The charity FairPensions (now ShareAction) is founded in London. Among its members trade unions, environmental associations, NGOs for human rights. Its first purpose is to help the pension fund for university employees - the largest in the country - to introduce sustainability criteria in its investments.

2016

Fondazione Finanza Etica

Founded in 2003 (as Fondazione Culturale Responsabilità Etica), Fondazione Finanza Etica has been engaging Eni and Enel for several years to then enhance its action in further companies such as Leonardo, Acea, Rheinmetall, Generali and H&M.

2017

The SfC network

Engagement activities spread across Europe. Seven institutions, with €22 bn assets under management, establish SfC-Shareholders for Change. Last year, the network engaged 74 companies, especially in Italy, France, USA and Germany.

CHAPTER 2

TEN SUCCESSFUL STORIES

1. WHEN “CRITICAL” NUNS ARE STRONGER THAN A FIREARMS MANUFACTURER

On May 9th 2018, critical shareholders achieved an historic success against Sturm Ruger, one of the largest firearms manufacturer in United States. At the annual general meeting, 69% of shareholders - including BlackRock, the world's largest global investor with $6.5 trillion assets under management[27] - supported a resolution[28] promoted by the Interfaith Center on Corporate Responsibility (ICCR), the first international network of responsible shareholders which include mostly US and religious institutional investors. Founded in 1971[29], the network operates in shareholder engagement, using financial investments to promote social, environmental and good governance values in business management. The resolution will oblige Sturm Ruger to track episodes of violence involving its firearms, reveal what it is doing to make guns safer and to report on the risks that gun violence poses to the company's reputation and finances[30].

“This is our biggest win, by far, in 20 years of pushing corporations for social change,” said Sister Judy Byron, a

The success achieved by the ICCR network with the US defence company Sturm Ruger is one of the organisation's greatest achievements

[27] See https://www.forbes.com/sites/kenrapoza/2019/07/08/why-the-worlds-largest-asset-manager-is-playing-defense/#49a4c3005c63

[28] See https://www.documentcloud.org/documents/4463612-Nuns-Ruger-Proposal.html

[29] See https://www.iccr.org/about-iccr/history-iccr

[30] See https://www.seattletimes.com/seattle-news/politics/meet-the-seattle-nun-who-infiltrated-a-gun-company/

In February 2019, critical investors linked to the Anglican Church were able to limit Glencore Group's coal production

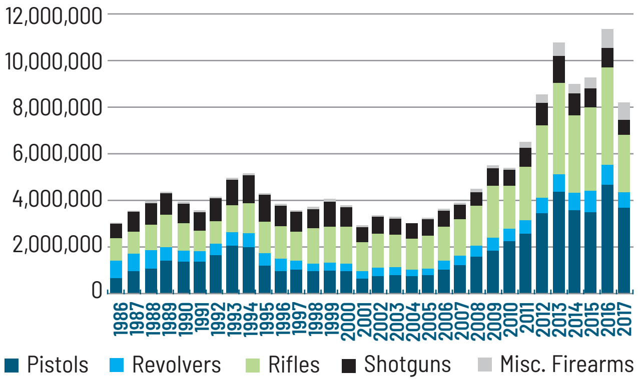
member of the Sisters of the Holy Names of Jesus and Mary in Spokane, an ICCR affiliate and co-filer of the resolution.

The nuns started their battle in 2012, after the massacre at Marjory Stoneman Douglas High School in Parkland, Florida, which took the lives of 17 people[31]. According to the US Centers for Disease Control and Prevention, firearms killed almost 40,000[32] Americans in 2017, the highest number since the mid-1990s. According to the latest annual report of the United States Department of Justice Bureau of Alcohol, Tobacco, Firearms and Explosives[33], almost 11.5 million firearms were manufactured in America in 2016, the highest amount since the survey began. In 2017 production fell to 8.3 million, still over twice as much the amount recorded ten years earlier.

CHART 3

Number of Firearms Manufactured in the USA (1986-2017)

Source: US Department of Justice Bureau of Alcohol, Tobacco, Firearms and Explosives, 2019



2. THE CHURCH OF ENGLAND BEATS GLENCORE ON COAL

In February 2019, Swiss commodities heavyweight Glencore surrendered to critical investors by agreeing to place a cap on its coal production. "Glencore represents one of the world largest diversified mining companies. And it has a crucial role in enabling a transition to a low-carbon economy»," the Swiss group said[34]. The company also stated it would "increase the production of those raw materials which are essential for energy transition and mobility systems", such as copper, cobalt, nickel, vanadium and zinc. This is an important achievement considering that the corporation is also the world's coal leading exporter[35].

The pressure campaign was started by the Church of England along with the "Climate Action 100+"[36] initiative, which aggregates three hundred investors with about $32 trillion dollars of assets under management including the Californian pension fund CalPERS and the Coalition for Environmentally Responsible Economies (CERES)[37].

According to the Church, which, over the years, has acquired a small stake in Glencore worth less than 10 million pounds[38], the company's decision represents a first step in the right direction. " Glencore's commitments on capital investment and expenditure start to provide assurance to investors increasingly focused on climate-related risks and opportunities," said Carlota Garcia-Manas[39], Engagement Manager of the Church's Commissioners & Pensions Board.

The Climate Action 100+ campaign, which brought together more than 300 investors with $32 trillion in assets under management, was crucial to achieve this goal

TABLE 1 **Top Coal Exporting Companies**

Top 5 companies	Mt	% of Global Exports
Glencore	100.7	10.1%
Adaro Energy	41.7	4.2%
SUEK	39.0	3.9%
Anglo American	31.9	3.2%
Bumi Resources	27.5	2.8%

Source: AME Research (https://www.amegroup.com/Website/FeatureArticleDetail.aspx?fald=357), 2017
Mt stands for megatonne. 1 megatonne is equal to 1 billion Kg.

31 See https://valori.it/le-suore-battono-lindustria-delle-armi/
32 See https://www.pewresearch.org/fact-tank/2019/10/22/facts-about-guns-in-united-states/
33 See https://www.atf.gov/firearms/docs/report/2019-firearms-commerce-report/download

34 See https://www.lesechos.fr/finance-marches/marches-financiers/climat-glencore-le-leader-du-charbon-va-geler-sa-production-992738
35 See https://www.lesechos.fr/2017/06/charbon-pourquoi-glencore-investit-quand-ses-rivaux-quittent-larene-172316
36 See http://www.climateaction100.org/
37 See https://valori.it/glencore-si-piega-agli-azionisti-critici-tetto-alla-produzione-di-carbone/
38 See https://www.theguardian.com/business/2019/feb/20/glencore-to-limit-coal-production-after-pressure-from-investors-church-of-england
39 Ibidem.

In 2015, following pressure from Fondazione Finanza Etica, Eni's Board of Directors decided to eliminate extraordinary discretionary bonuses for executives and introduced stricter ESG criteria

3. MANAGERS' COMPENSATION: ENI ACCEPTS FFE'S PROPOSALS

Amending the remuneration policy of Italian oil & gas major Eni. That was one of the main goals of Fondazione Finanza Etica (FFE)[40]. The campaign began in 2012 when FFE representatives spoke at the corporation's annual general meeting[41]. In 2011, Eni's chairman Roberto Poli and CEO Paolo Scaroni received an extraordinary bonus of 1 million euros each, but according to FFE this choice was not justified. "Why 1 million euros and not 950,000 euros or 1.2 million euros?" asked the Foundation. "Why then award a severance payment to Scaroni, who has already been confirmed for a further term of office?".

In 2013 Eni introduced social, environmental and governance (ESG) parameters for its long-term variable compensation scheme. But according to FFE, the chosen criteria (the company's presence in the FTSE4Good index or Dow Jones Sustainability Index) were "generic and arbitrary". Critical shareholders, therefore, asked for more specific criteria to be adopted after a consultation with the company's stakeholders.

The goal was finally reached in 2015 when Eni abolished extraordinary DISCRETIONARY BONUSES and introduced stricter ESG criteria: now managers receive a portion of their compensation (25% compared to 10% previously in force) only if the company both succeeds in reducing CO_2 emissions and workplace accidents. "For the first time we will vote in favour of the remuneration report," said FFE at the 2015 shareholders' meeting. "We are pleased that Eni has accepted our proposal to eliminate any discretionary bonus, such as those awarded in 2011 to the CEO, Paolo Scaroni, and to the Chairman, Roberto Poli. At the time, we criticised Eni for this choice. Three years after, the company listened to us and we are happy about that".

[40] See https://finanzaetica.info/la-fondazione/

[41] See Mauro Meggiolaro, "Azionariato critico: storie, strumenti, successi", Fondazione Finanza Etica, September 2019.

Waiting for Eni's annual general meeting.
(valori.it)

4. ENEL DISMISSES DAM PROJECT IN CHILE FOLLOWING ACTIVISTS' PRESSURE

In 2014, Italian corporation Enel had to dismiss the construction of five big dams in the Aysén region of Chilean Patagonia[42]. That was an inevitable decision after the intervention of the Chilean government and a reason of satisfaction for the critical shareholders of Fondazione Finanza Etica (FFE), who had attended the annual general meetings for five years - from 2009 to 2013 - to challenge the project led by the HidroAysén consortium in which Enel held a majority stake.

FFE conducted its pressure campaign together with CRBM (Campagna per la Riforma della Banca Mondiale, now Re:Common) denouncing the environmental impact of the project in that pristine area. One AGM was also attended by the Bishop of Aysén[43], Luis Infanti, and by representatives of the Mapuche indigenous community threatened by the construction of dams, who led the campaign "Patagonia sin represas" (Patagonia without dams). In Chile, thousands of people protested several times in the capital Santiago. In Italy, questions and protests from critical shareholders were reported by all major media. The campaign was also supported by the Missionary Oblates of Mary Immaculate, a religious order and one of the founders of ICCR.

In 2014, Enel had to abandon the construction of five large dams in Chilean Patagonia. The pressure of Fondazione Finanza Etica and other activists was crucial

[42] See https://altreconomia.it/il-cile-cancellale-5-dighe-enel-in-patagonia

[43] See https://issuu.com/periodicivalori/docs/valori_80

The stop to Chilean big dams has demonstrated the importance of cooperation between activists

For critical shareholders, the stop imposed by the Chilean government, which recognised the project's serious environmental impact, was a clear victory. But this experience also shows that, in some cases, critical shareholders cannot achieve their goals without the support of other organisations[44]. The cooperation of different actors and the launch of an international campaign, in this case, have been able to influence the company's policy.

The Mapuche community flag waves next to the Chilean flag in the Plaza de Maipú in Santiago. (Mulatoenchile Attribution-ShareAlike 3.0 Unported CC BY-SA 3.0).

5. GOODBYE COAL. GENERALI ACCEPTS THE REQUEST OF CRITICAL SHAREHOLDERS

In November 2018, Italian insurance company Generali announced its decision to divest from coal. This surprising move was also determined by the continuous pressure of active shareholders at Generali's AGMs. "It took a two years long pressure campaign led by Greenpeace and Re:Common, promoters of public actions and appeals and critical shareholders at the company's annual shareholders' meetings: that's an historic result, no doubt about it," said Re:Common activist Luca Manes[45]. In an updated version of its document "Strategy on Climate Change", Generali introduced an operational divestment plan in various European countries in order to significantly reduce its exposure to coal.

[44] See Mauro Meggiolaro, "Azionariato critico: storie, strumenti, successi", Fondazione Finanza Etica, September 2019.

[45] See https://valori.it/colpo-di-scena-generali-abbandona-il-carbone/

In particular, Generali's CEO Gabriele Galateri answered to critical shareholders' questions officially announcing that the company will no longer provide insurance coverage for the construction of new coal-fired power plants, without any exception, and that it will not accept companies doing business in the coal sector as new customers. In addition, Generali is currently selling its €2bn investments in the coal sector; the company will also progressively exit from coal bonds.

In addition to Re:Common, other organisations[46] like Grassroots Foundation (Poland), Greenpeace, DKA (Germany), We Move and Fondazione Finanza Etica participated in the AGM as critical shareholders, asking questions on behalf of the European network of active shareholders SfC - Shareholders for Change owning 162,000 shares of Generali.

Generali has declared that it will no longer provide insurance coverage for the construction of new coal-fired power plants, with no exception

Greenpeace activists' protest outside the building hosting Generali annual meeting 2019. (valori.it)

6. BANCA ARMADA CAMPAIGN

Spanish critical shareholders are targeting Caixa Bank, Banc de Sabadell, BBVA and Santander among others. According to the campaign Banca Armada, launched in 2007 and coordinated by the Centre Delàs and SETEM Catalunya, these financial institutions are supporting the so called "war business".

[46] See Mauro Meggiolaro, "Azionariato critico: storie, strumenti, successi", Fondazione Finanza Etica, September 2019.

Spanish critical shareholders are targeting four banks investing in defense companies

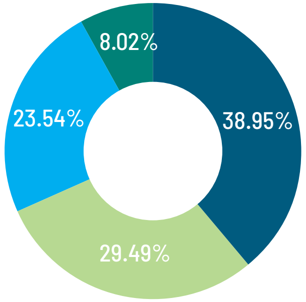
The campaign, which manages a database that sheds light on banks' investments in the weapons sector, attends shareholders' meetings exposing these operations. According to the press agency Crític[47], in 2019 activists were able to attend shareholders' meetings in representation of 3,242 shares of Caixabank and 75,173 of Santander, stakes large enough to ensure their right to ask questions to the boards of directors.

According to the Banca Armada campaign, Caixabank would be funding Spanish bomb manufacturer Maxam and Indra, a state-owned company operating in the defence sector (which contribute to 25% of its total revenues) and whose equipment, according to Fundación Finanzas Eticas, would have been used in Yemen war[48]. Caixabank is not alone in this kind of business where BBVA (with 4.76 billion euros) and Banco Santander (2.82 billion), owned by the Botín family, are also major investors. "Any 'armed bank' cannot be considered as ethical and should be rejected by people who believe in peace and human rights," say the activists of the Banca Armada campaign[49]. "The only alternative to armed banks are ethical banks. These banks are convinced that there can be no financial support for activities affecting people's dignity and violating humang rights, as in the case of defence business".

[47] See Crític, "Què és i com funciona l'activisme accionarial" ("What is shareholder engagement and how it works") October 8, 2019 at https://www.elcritic.cat/mes/diners-a-contrallum/convertir-una-junta-daccionistes-en-un-espai-de-denuncia-i-sensibilitzacio-36146

[48] See Fundación Finanzas Éticas, "Fundación Finanzas Éticas denuncia en la Junta General de Accionistas que Indra suministra tecnología para la guerra en el Yemen" ("At the General Shareholders' Meeting Fundación Finanzas Éticas exposes that Indra is supplying technology for the war in Yemen", June 24, 2019 at https://finanzaseticas.net/2019/06/24/fundacion-finanzas-eticas-denuncia-en-la-junta-general-de-accionistas-que-indra-suministra-tecnologia-para-la-guerra-en-el-yemen/

[49] See Banca Armada, "¿Qué es la Banca Armada?" ("What is the banca Armada campaign?") at http://www.bancaarmada.org/es/campana/que-es-la-banca-armada



- Banco Bilbao Vizcaya Argentaria (BBVA) **4,672 M$**
- Sociedad Estatal de Participaciones Industriales **3,538 M$**
- Santander (includes Banco Popular) **2,824 M$**
- Other banks **962.1 M$**

CHART 4

TOTAL FINANCING BY SPANISH 'ARMED BANKS' OVER THE PERIOD 2011-2017

11,996 million dollars (M$)

Source: Centre Delàs, http://www.centredelas.org/ bancaarmada/es/

1º	Banco Bilbao Vizcaya Argentaria (BBVA)	4,672 M$
2º	Sociedad Estatal de Participaciones Industriales	3,538 M$
3º	Santander (include Banco Popular)	2,824 M$
4º	BFA Holding	197 M$
5º	Banca March (March Group)	179 M$
6º	Banco de Sabadell	162 M$
7º	Caixa Group	109 M$
8º	Bankia (incluye Banco financiero de Ahorro)	100 M$
9º	ICO (Instituto de Credito Oficial)	69 M$
10º	Bankinter	67 M$
11º	Unicaja Banco	34 M$
12º	Acciona	18 M$
13º	Magallanes	17 M$
14º	Fundación Bancaria Ibercaja	11 M$

7. SHAREACTION MAKES SHELL AND BP MORE CLIMATE-FRIENDLY

Climate change poses well known risks to the long-term financial stability of fossil fuels investments[50]. That's a serious problem especially for investors in the United Kingdom where, according to the activists of the ShareAction network, the extraction of fossil fuels is linked to 20-30% of market capitalisation on the London Stock Exchange[51]. British pension funds and institutional investors, ShareAction says, keep significant holdings in fossil majors such as Shell and BP, but in the past both companies "have shown a reluctance to make substantive movement on this issue, continuing to

[50] Think of stranded assets or "fossil fuel supply and generation resources which, at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return (i.e. meet the company's internal rate of return), as a result of changes associated with the transition to a LOW-CARBON ECONOMY." (see https://www.carbontracker.org/terms/stranded-assets/). According to a report by UK think tank Carbon Tracker Initiative, for the major fossil companies estimated losses related to stranded assets could reach up to $2.2 trillion by 2030 (see https://www.carbontracker.org/reports/breaking-the-habit/).

[51] See http://www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-Full-rev2-1.pdf

An alliance of 53 institutional investors pushed Shell and BP to disclose the environmental risk analysis methods they adopted for their respective business models

base public projections on environmentally catastrophic business-as-usual scenarios"[52]. In response, ShareAction has produced a report for investors in order to invite them to support resolutions asking corporations for more transparency on their assessment of business risks related to climate change[53]. After bringing together a coalition of 53 individual and institutional investors in the #SeatAtTheTable campaign, ShareAction has achieved significant results with both companies. "In January 2015 Shell's management came out and recommended their shareholders to vote in favour of the shareholder resolution"[54], ShareAction explained. "BP took a similar initiative shortly afterwards"[55]. The binding resolutions require BP and Shell "to make disclosures on how they are stress-testing their business models against the challenges of a 2°C world"[56].

The dramatic accident that occurred in 2010 at BP's Deepwater Horizon platform in the Gulf of Mexico.
© US Guard Coast/Public Domain

[52] See https://shareaction.org/wp-content/uploads/2016/02/CaseStudy-Shareholder-Resolutions.pdf
[53] See https://shareaction.org/resources/shareholder-resolutions-at-bp-plc-and-royal-dutch-shell-plc/
[54] See https://www.ft.com/content/097b3be8-a7d8-11e4-97a6-00144feab7de#axzz3p6laErHi
[55] See https://shareaction.org/wp-content/uploads/2016/02/CaseStudy-Shareholder-Resolutions.pdf
[56] Ibidem.

8. FUNDACIÓN FINANZAS ÉTICAS – INDITEX: FIRST STEPS FORWARD

Since 2017, Fundación Finanzas Éticas has been engaging with fashion giant Inditex on various issues: from its presence in tax havens to working conditions in Asia

Still long way to go, but the first steps in the right direction have already been taken. "After starting our dialogue with Inditex we can say that we appreciate the extensive information the company has provided to us and we positively value the Framework Agreements signed with the labour union Industriall to verify the standards on minimum acceptable working conditions and risk prevention in its supply chain worldwide and for the commitment to abandon suppliers of polluting rayon in 2019"[57], declared Fundación Finanzas Éticas[58], on October 3rd, 2018. Inditex S.A. is a clothing and fashion company based in Arteixo, in the Spanish region of Galicia. In 2018 the corporation reported revenues of 26.1 billion euros[59], about twice as much the amount recorded at the beginning of the decade. Since 2017, thanks also to the commitment of the international "Clean Clothes Campaign"[60], FFE has started a dialogue with the company on various topics: the presence in tax havens (Inditex operates in Monaco, Macao and Switzerland); the use of rayon in the production chain (Inditex has promised to abandon supplies from companies not complying with the sustainability standards of the Canopy Initiative programme[61]) and labour rights in Asia. The overall assessment by FFE is positive. "We believe that there are still outstanding issues on fiscal transparency (details on business activities and taxation by country) and the provision of more resources for the implementation of framework labour agreements so that they are a truly effective", says the FFE[62]. "Unfortunately, the company's challenges are common to the entire textile sector, despite the great struggles of social, environmental and trade union movements in recent decades. The practice of relocation and subcontracting considerably weakens the quality of work and increases social and environmental risks, also shifting the responsibilities of the company". The dialogue continues.

[57] See https://finanzaseticas.net/2018/10/03/dialogo-accionarial-con-inditex/
[58] See https://finanzaseticas.net/home/quien-somos/
[59] See https://www.inditex.com/investors/investor-relations/financial-data
[60] See https://cleanclothes.org/
[61] See https://canopyplanet.org/
[62] See https://finanzaseticas.net/2018/10/03/dialogo-accionarial-con-inditex/

Inditex store.
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9. DUTCH COMPANIES BECOME MORE SUSTAINABLE THANKS TO VBDO'S COMMITMENT

VBDO is the Dutch Investors Association for Sustainable Development. For years the organisation has been attending the annual shareholders' meetings of the largest listed companies in the country in order to ask questions about environmental, social and governance issues[63]. "The role of companies in addressing worldwide sustainability issues is enormous", said Angélique Laskewitz[64], Executive Director of VBDO. "VBDO engages with the largest Dutch listed companies to express and discuss sustainability concerns and priorities. We stimulate companies to act responsibly and with integrity. It is important to initiate a dialogue, which is relevant and focused on long-term value creation". The results are clear, according to VDBO. The organisation's latest report in 2018 shows that all 35 largest Dutch listed companies VBDO engages with have made significant progress towards their Sustainable Development Goals (SDGs)[65]. "Almost all companies refer to the Goals in their annual report or other public communication", VBDO said in a statement. "26 companies undertake concrete actions to achieve the SDGs; last year they were still 16. Companies are also increasingly working together, both with public and private partners". Moreover, companies seem to become more aware of the environmental impact of their activities and progress has also been made on the living wage issue[66].

TABLE 2 How sustainable are Dutch companies?

Sector	Company	Natural Capital	Living Wage	Sustainable Development Goals
Financial sector	ABN AMRO	75%	83%	100%
	a.s.r.	75%	50%	83%
	NN Group	75%	33%	100%
	ING Group	63%	67%	100%
	Aegon	38%	17%	67%
Food, Beverage and Retail sector	Unilever	80%	56%	100%
	Heineken	80%	33%	100%
	Ahold Delhaize	80%	22%	100%
	Wereldhave	70%	n/a	50%
	Unibail-Rodamco	70%	n/a	0%
	Sligro	30%	0%	17%
Industries sector	AkzoNobel	100%	22%	100%
	Corbion	80%	33%	100%
	DSM	80%	0%	100%
	Heijmans	80%	n/a	83%
	BAM Group	70%	11%	83%
	ArcelorMittal	70%	0%	67%
	Aalberts	50%	11%	0%
	Shell	50%	0%	83%
	Boskalis	50%	0%	67%
	Vopak	40%	33%	50%
Services sector	KPN	90%	0%	100%
	RELX Group	80%	14%	83%
	Wolters Kluwer	60%	0%	33%
	Fugro	50%	0%	50%
	SBM Offshore	50%	0%	50%
	Arcadis	40%	22%	83%
	Altice	40%	11%	17%
	PostNL	40%	n/a	83%
	Randstad	n/a	0%	17%
Technology and Electronics sector	Philips	100%	22%	50%
	Signify	90%	22%	83%
	ASML	80%	14%	50%
	ASMI	80%	0%	33%
	TKH Group	70%	0%	83%

Source: VBDO, "Sustainability Performance of Dutch Stock Listed Companies AGM Report 2018", in https://www.vbdo.nl/wp-content/uploads/2018/06/VBDOActTogetherdef.pdf. The percentage represents the average score on each objective

[63] See https://www.vbdo.nl/en/our-work/engagement/
[64] See https://www.vbdo.nl/wp-content/uploads/2018/06/VBDOActTogetherdef.pdf
[65] The SDGs, set in 2015 by the United Nations, see https://www.un.org/sustainabledevelopment/sustainable-development-goals/

[66] Ibidem.

230 pension funds, represented by the Swiss Ethos Foundation, have pushed major banks and insurance companies to recognise the right of shareholders to express their opinion on the remuneration of top managers

10. SAY ON PAY: SWISS TOP FIRMS ACCEPT ETHOS' RESOLUTION

Ethos is a Swiss foundation bringing together 230 pension funds and operating as active shareholder at the annual general meetings of the country's largest companies. Founded in 1997 in Geneva, the foundation has always paid particular attention to the remuneration policies of companies, claiming the principle of SAY ON PAY: the right of shareholders to express their evaluation on the remuneration policy of executives. In 2010 Ethos launched a campaign with the support of eight Swiss pension funds and around thirty institutional investors with 400 billion euros[67] assets under management. These included the Dutch pension fund Apg, the British fund Railpen and the Swedish funds Ap1, Ap3 and Ap4. The campaign was successful: in January 2010, insurance companies Zurich Financial Services and Swiss Re agreed to submit their management compensation plans to a shareholder vote. In January 2009, UBS and Credit Suisse and the industrial giant Nestlé also agreed to Ethos's demands on Say on Pay[68]. UBS accepted to submit its remuneration system for 2009 to the advisory vote of shareholders. Credit Suisse Group and Nestlé promised to propose a vote on their 2008 remuneration report. Despite being non-binding (the Swiss company law doesn't allow it) the advisory vote is generally considered as a strong signal to management[69]. "The three companies must now disclose sufficient information in advance of the meeting in order to allow shareholders to make an informed decision regarding the remuneration system/report", the foundation said at the time[70]. "Ethos will analyse the remuneration policy and make voting recommendations in line with criteria set in its proxy voting guidelines".

[67] See https://valori.it/compensi-manager-zurich-swiss-re-accettano-risoluzione-ethos/

[68] See https://valori.it/non-solo-petrolio-azionariato-attivo-greatest-hits/

[69] See https://ethosfund.ch/en/news/say-on-pay-resolutions-submitted-by-ethos-and-eight-swiss-pension-funds-credit-suisse-group

[70] Ibidem.

Geneva, Switzerland.

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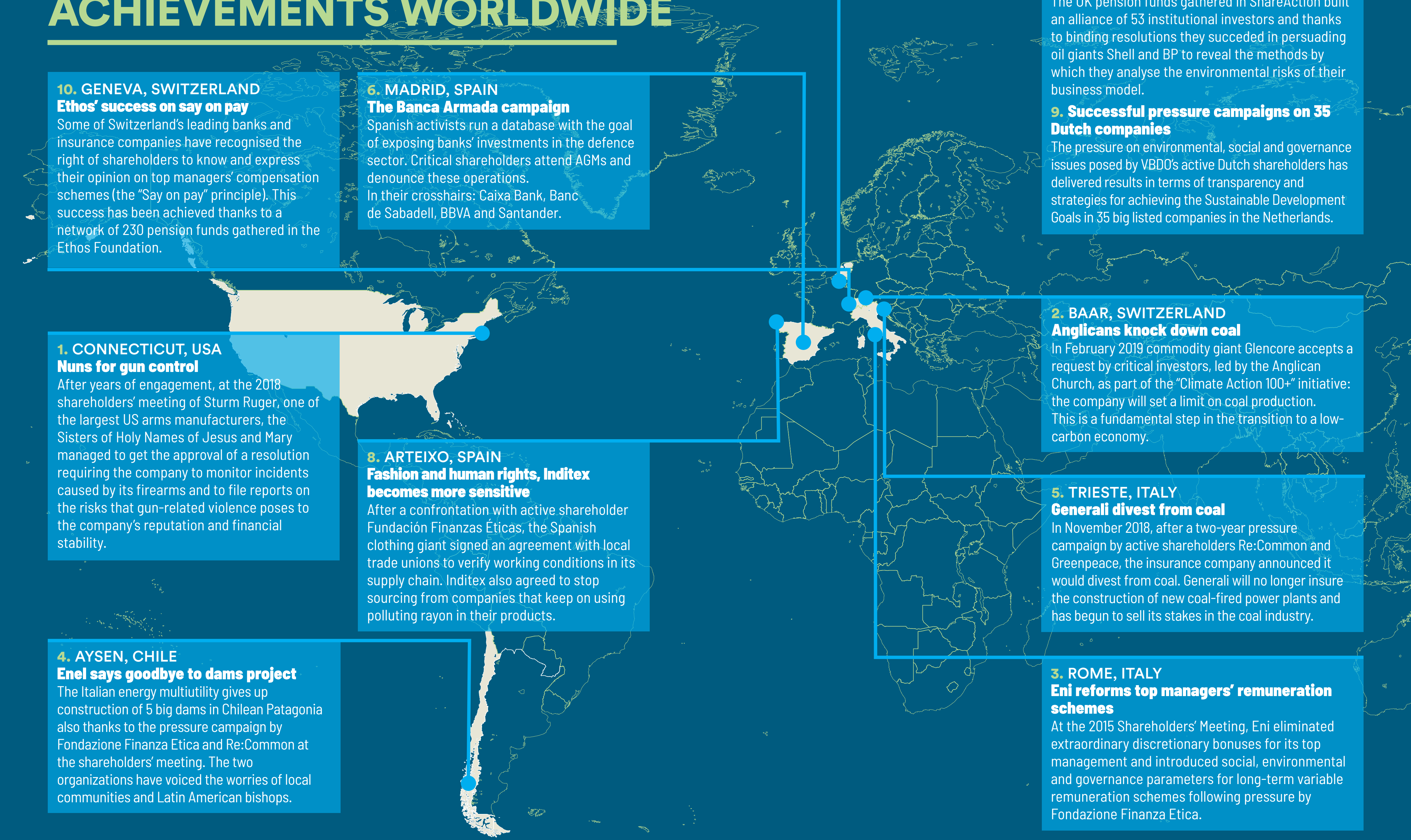
ACTIVE SHAREHOLDERS' ACHIEVEMENTS WORLDWIDE



10. GENEVA, SWITZERLAND
Ethos' success on say on pay
Some of Switzerland's leading banks and insurance companies have recognised the right of shareholders to know and express their opinion on top managers' compensation schemes (the "Say on pay" principle). This success has been achieved thanks to a network of 230 pension funds gathered in the Ethos Foundation.

6. MADRID, SPAIN
The Banca Armada campaign
Spanish activists run a database with the goal of exposing banks' investments in the defence sector. Critical shareholders attend AGMs and denounce these operations.
In their crosshairs: Caixa Bank, Banc de Sabadell, BBVA and Santander.

1. CONNECTICUT, USA
Nuns for gun control
After years of engagement, at the 2018 shareholders' meeting of Sturm Ruger, one of the largest US arms manufacturers, the Sisters of Holy Names of Jesus and Mary managed to get the approval of a resolution requiring the company to monitor incidents caused by its firearms and to file reports on the risks that gun-related violence poses to the company's reputation and financial stability.

8. ARTEIXO, SPAIN
Fashion and human rights, Inditex becomes more sensitive
After a confrontation with active shareholder Fundación Finanzas Éticas, the Spanish clothing giant signed an agreement with local trade unions to verify working conditions in its supply chain. Inditex also agreed to stop sourcing from companies that keep on using polluting rayon in their products.

4. AYSEN, CHILE
Enel says goodbye to dams project
The Italian energy multiutility gives up construction of 5 big dams in Chilean Patagonia also thanks to the pressure campaign by Fondazione Finanza Etica and Re:Common at the shareholders' meeting. The two organizations have voiced the worries of local communities and Latin American bishops.

THE HAGUE, NETHERLANDS
7. Shell rethinks its business model
The UK pension funds gathered in ShareAction built an alliance of 53 institutional investors and thanks to binding resolutions they succeded in persuading oil giants Shell and BP to reveal the methods by which they analyse the environmental risks of their business model.

9. Successful pressure campaigns on 35 Dutch companies
The pressure on environmental, social and governance issues posed by VBDO's active Dutch shareholders has delivered results in terms of transparency and strategies for achieving the Sustainable Development Goals in 35 big listed companies in the Netherlands.

2. BAAR, SWITZERLAND
Anglicans knock down coal
In February 2019 commodity giant Glencore accepts a request by critical investors, led by the Anglican Church, as part of the "Climate Action 100+" initiative: the company will set a limit on coal production.
This is a fundamental step in the transition to a low-carbon economy.

5. TRIESTE, ITALY
Generali divest from coal
In November 2018, after a two-year pressure campaign by active shareholders Re:Common and Greenpeace, the insurance company announced it would divest from coal. Generali will no longer insure the construction of new coal-fired power plants and has begun to sell its stakes in the coal industry.

3. ROME, ITALY
Eni reforms top managers' remuneration schemes
At the 2015 Shareholders' Meeting, Eni eliminated extraordinary discretionary bonuses for its top management and introduced social, environmental and governance parameters for long-term variable remuneration schemes following pressure by Fondazione Finanza Etica.

CHAPTER 3

ACTIVE SHAREHOLDING IN EUROPE

Active shareholding is an engagement activity carried out by a company's shareholders in order to change the company's policies and make them compliant with environmental, social and governance responsibility criteria. Engagement can be practiced both through 'active' and 'critical' shareholding. These concepts are apparently similar but there are many differences concerning actors involved, the choice of target companies, approaches and ultimate goals.

ACTORS INVOLVED

Critical shareholding typically involves NGOs and associations that acquire symbolic stakes of companies in order to engage with them. Active shareholding, on the other hand, is practiced by institutional investors such as funds and asset management companies. In short, it's all about players who follow a long-term strategy owning a significant amount of shares in a company, since they can invest considerable amounts of money to acquire substantial stakes. In order to better understand the fundamental features that qualify active shareholding see, for instance, this overview provided by CalSTRS, the California State Teachers' public pension fund: "As a significant investor with a very long-term investment horizon, engagement is a critical tool used by the CalSTRS Sustainable Investment and Stewardship Strategies team to influence changes in public policies and corporate practices that support long-term value creation. CalSTRS engages,

The concepts of critical and active shareholding look similar. In reality they conceal differences between the actors involved, the choice of companies, the approaches and final objectives

through meetings, letters, shareholder proposals, investor coalitions and proxy voting, to influence companies to adopt best practices in managing environmental, social and governance issues to create sustainable businesses. CalSTRS also engages policymakers to codify strong governance practices that improve the financial market landscape for long-term investors and their beneficiaries. CalSTRS' history of engagement activities has resulted in better relationships and outcomes across global industries"[71].

In the following pages we will analyse other distinctive elements that qualifie active shareholding through the stories of some European operators including Etica Sgr (the asset management company of Banca Etica), the SfC - Shareholders for Change network and PGGM.

HOW TO CHOOSE COMPANIES

The selection of companies to invest in with a significant or symbolic stake is strongly influenced by the previously chosen engagement approach. According to Mariantonietta Intonti[72], Professor of Economics of Financial Intermediaries at the University of Bari and member of the Ethical Committee of Etica Sgr, critical shareholding, for example, targets "companies and states that have not passed the negative or positive SCREENING and therefore would have been excluded in ordinary circumstances from SRI investable universe because they operate in controversial sectors or because of their negative impact in terms of ESG criteria. In this case a responsible fund may choose to invest in these companies with a small stake in order to involve them in a process of empowerment and to put pressure on them to change their practices".

As an active shareholder, Etica Sgr targets companies that have already passed a selection based on Esg criteria. The asset manager, in particular, "selects the companies to engage with in its investments' portfolio, following certain specific and pre-defined standards" says Aldo Bonati, Corporate Engagement and Networks Manager of Etica Sgr[73]. These criteria include "proximity (we prefer to engage with Italian companies), continuity of dialogue (we prefer to continue dialogues already underway); collaboration (when possible, we follow resolutions and requests filed together with other investors in networks such as ICCR, PRI or Shareholders for Change); disputes (we analyse the presence of controversial issues)".

APPROACH AND GOALS

Active shareholding seeks to further improve the conduct of companies that have been already recognised as socially responsible and have been already included in the portfolios of sustainable investment funds. For this reason, the approach used in the dialogue with these firms is different from the one used by critical shareholders. Critical shareholders mainly target companies that have been accused of serious misconduct concerning social, environmental and governance issues in order to expose the negative consequences of such behaviour and it is not surprising that, in some cases, critical shareholders use a more aggressive language and sometimes organise demonstrations or flash mobs in front of the meeting location with the goal of capturing the attention of the press and other shareholders[74]. The interaction between active shareholders and companies, on the other hand, follows completely different guidelines. "We have chosen to dialogue, proactively and constructively with the companies in which our funds invest", explains Aldo Bonati[75] of Etica Sgr. "The companies we engage with are also part of our investment portfolio and, as a result, have already passed multiple screenings. For example, we exclude companies that manu-

Critical shareholders engage with companies accused of serious social and environmental violations. Active shareholders aim to improve the behaviour of companies that already have a good ESG profile

[71] See CalSTRS, "The Value of CalSTRS Engagements", September 2019 at https://www.calstrs.com/sites/main/files/file-attachments/the_value_of_calstrs_engagements.pdf

[72] See Valori.it, "Azionariato attivo o critico? Approcci diversi, identico obiettivo: imprese più responsabili" ("Active or critical shareholding? Different approaches, same goal: more responsible companies2), April 29, 2019 at https://valori.it/azionariato-attivo-o-critico-approcci-diversi-per-un-solo-obiettivo-imprese-piu-responsabili/

[73] Ibidem.

[74] See Mauro Meggiolaro, "L'azionariato critico. Storie, strumenti, successi" ("Critical shareholding. Stories, tools, achievements"), September 2019 at https://finanzaetica.info/1748-2/

[75] See Valori.it, "Azionariato attivo o critico? Approcci diversi, identico obiettivo: imprese più responsabili" ("Active or critical shareholding? Different approaches, same goal: more responsible companies2), April 29th 2019 at https://valori.it/azionariato-attivo-o-critico-approcci-diversi-per-un-solo-obiettivo-imprese-piu-responsabili/

Activism is growing. From 2015 to 2017 assets under management by active shareholders grew to 4,858 billion euros (+7% CAGR)

facture weapons, oil, tobacco. All the companies we invest in have therefore passed an initial screening but still have potential for improvement. We work on this potential, we identify it, we ask questions to the management, and we also call for changes and adjustments to the companies' policy".

Engagement, according to Mr. Bonati, "is a medium/long-term activity, a dialogue that is carried on over the years even beyond the shareholders' meeting and not just with the company's top management"[76]. As a result, there are also long-term objectives such as supporting and promoting significant issues - like the UN's Sustainable Development Goals, climate change or fiscal responsibility - which may involve networks such as PRI (Principles for Responsible Investments) and SfC-Shareholders for Change. "In over ten years of activity by Etica Sgr — Mr Bonati says - many companies have begun to deal with sustainability issues and publish information about it even before it is required by law, or to include sustainability goals in the variable components managers' remuneration schemes"[77].

SHAREHOLDER ACTIVISM IN EUROPE: THE KEY PLAYERS

European shareholder activism (also known as 'engagement and voting') has shown a long-term growth trend over the years. This was confirmed by the latest edition of Eurosif's biennial study[78]. According to the estimates, in 2017 the total amount of 'engagement and voting' assets stood at €4,858bn. The figure showed a 7% COMPOUND ANNUAL GROWTH RATE OR CAGR (in the period 2015-2017.). CAGR for the period 2008-2017 was equal to 14%. With €2.8trn assets managed under engagement and voting strategy the UK is the leading European player by far, followed by Sweden (€874bn) and the Netherlands (€724bn).

[76] Ibidem.

[77] Ibidem.

[78] See EUROSIF (http://www.eurosif.org/), "European SRI Study 2018", November 2018. The report is available for download at http://www.eurosif.org/wp-content/uploads/2018/11/Eurosif-SRI-2018-study-low-resolution.pdf

Assets under management:	Compound Annual Growth Rate (CAGR):
€4,858bn	**+7%**

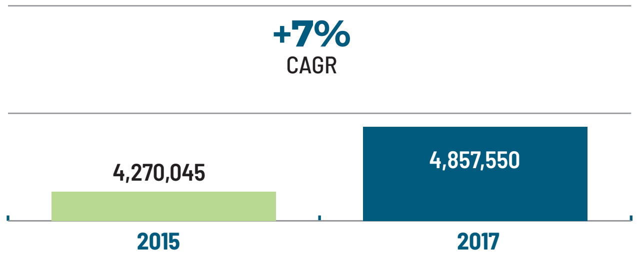


CHART 5
'Engagement and voting' investments in Europe
[millions of euros]

Source: EUROSIF (http://www.eurosif.org/), 'European SRI Study 2018', November 2018, data in millions of euros. Our calculations

In this section we will analyse the experiences of some important active shareholders in Europe, with a specific focus on the initiatives carried out in the last year.

Etica Sgr

Etica Sgr is the asset management company of Banca Popolare Etica. It is the sole Italian operator to manage only sustainable and responsible funds in order to "represent the values of ethical finance in the financial markets and raise awareness of socially responsible investments and corporate social responsibility among people and operators"[79].

Since its inception, Etica Sgr "has viewed socially responsible investment as a viable alternative to 'mainstream' financial operations, believing in the added value and economic returns offered by the analyse of securities' issuers not just from an economic point of view, but also from an ESG (environmental, social and governance) perspective. Etica Sgr's believes that ESG integration in financial markets will grow in the coming years with a more active role by shareholders"[80].

In 2018 Etica Sgr recorded a net profit of €4.3 million with €3.5bn assets under management, which represent about one fifth of the responsible funds market in Italy (€18.5bn)[81].

[79] See Etica Sgr, "Statuto Sociale al 30 Aprile 2019" ("Articles of Association as of April 30, 2019") at https://www.eticasgr.com/download/statuto-etica-sgr?wpdmdl=1949&refresh=5d67c6c5acc901567082181

[80] See Etica Sgr, "Bilancio integrato 2018 approvato dall'assemblea del 30 Aprile 2019" ("Integrated Financial Statements 2018 approved by the assembly of April 30, 2019" at https://www.eticasgr.com/investimento-responsabile/csr-e-bilancio-integrato/bilancio-integrato

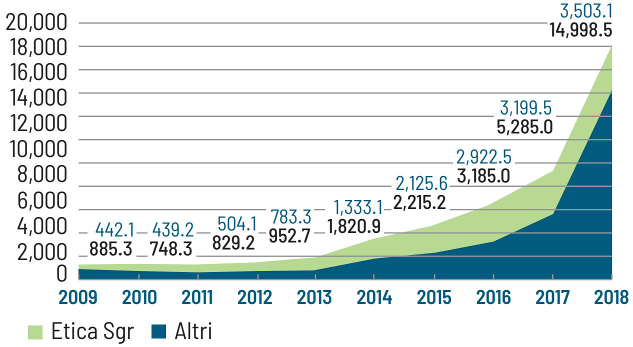
[81] Ibidem.

According to data released as at 31 December 2018 by Assogestioni (Association of Italian asset management companies)[82], sustainable and responsible investments represent just 2% of the Italian investment funds market but their assets are growing strongly. In 2018, assets under management grew by more than 100% and the number of funds increased from 88 to 167.

CHART 6

Sustainable and responsible funds in Italy: assets under management/number of funds

Source: Etica Sgr/Assogestioni at Etica Sgr, "Integrated Budget 2018 approved by the Assembly on 30 April, 2019", data in millions of euros



The main goal of Etica Sgr' engagement and voting strategy Etica Sgr is to "lead companies towards more sustainable behaviour, encouraging them to make decisions that take into account social, environmental and governance (ESG) issues in their corporate policies"[83]. In 2018, the last year with full data available, Etica Sgr dialogued with 125 companies, asking 526 questions on ESG issues and voting 157 times at shareholders' meetings[84]. Engagement activities took place in 18 countries with a strong presence in Italy and the United States. The list of companies includes A2A, Apple, Alphabet (Google's holding company), Amazon, Carrefour, Cisco Systems, ERG, Luxottica, Nissan, Samsung and Snam. In 2018, "for the second year in a row Etica Sgr has chosen to associate the themes of engagement activities with the United Nations' Sustainable Development Goals, in order to promote dialogue with companies in a broader, global and shared perspective"[85].

[82] See Assogestioni at Etica Sgr, "Bilancio integrato 2018 approvato dall'assemblea del 30 Aprile 2019" ("Integrated Financial Statements 2018 approved by the assembly of April 30, 2019" at https://www.eticasgr.com/investimento-responsabile/csr-e-bilancio-integrato/bilancio-integrato

[83] See Etica Sgr, "Engagement Report 2019: il dialogo con le società e il voto nelle assemblee" 8" "Engagement Report 2019: Dialogue with companies and voting at shareholders' meetings") at https://www.eticasgr.com/storie/approfondimenti/engagement-report-2019?result=banner_download_engagement-report-ed-2019

[84] Ibidem.

SfC - Shareholders for Change

Etica Sgr is also a founding member of the SfC - Shareholders for Change network which was launched in 2017[86]. The main purpose of Shareholders for Change is to put together engagement initiatives with companies that were previously conducted by single members alone. "We want to create critical mass" explained Aurélie Baudhuin, president of SfC and deputy general manager of Meeschaert Asset Management, one of the French founding members of the network. "Asking questions on behalf of a network that manages 25 billion euros has a much greater impact. Corporations take us more seriously"[87]. In recent years the network has committed itself to regularly publish new studies. The list includes "Rare metals supply chains", a report published in July 2019 that sheds light on the social and environmental risks in the sector supply chain.

In 2019, the eleven members of the network engaged with 74 companies, most of them based in Italy, France, the United States and Germany[88]. Letters and calls with companies are just some of the ways in which active shareholders address companies. For many members of SfC, the main tool of engagement is the participation in annual general meetings.

"These are unique opportunities, where you have the chance to take the microphone and ask questions to the company's directors, in front of major shareholders and

Shareholders for Change is a network of 11 European investors created to bring together engagement activities and create critical mass

[85] Ibidem. These are the goals promoted by Etica Sgr at the shareholders' meetings: food safety, in particular the reduction of pesticides and antibiotics by the agro-food industry; access to medicines; protection of human rights along the supply chain and the guarantee of proper governance: independence and gender diversity in the Board of Directors and a fair remuneration policy; fiscal responsibility; management of financial risks related to climate change; fight against deforestation; protection of privacy. See also United Nations, "Sustainable Development Goals" in https://www.un.org/sustainabledevelopment/sustainable-development-goals/

[86] See https://www.eticasgr.com/storie/news-eventi/shareholders-for-change-engagement-report-2019

[87] See Valori.it, "Azionisti attivi alla COP25, «Aiutiamo le imprese sugli obiettivi climatici»" ('Active shareholders at COP25, "Let's help firms on climate goals"'), December 13, 2019 at https://valori.it/azionisti-attivi-obiettivi-climatici-madrid/

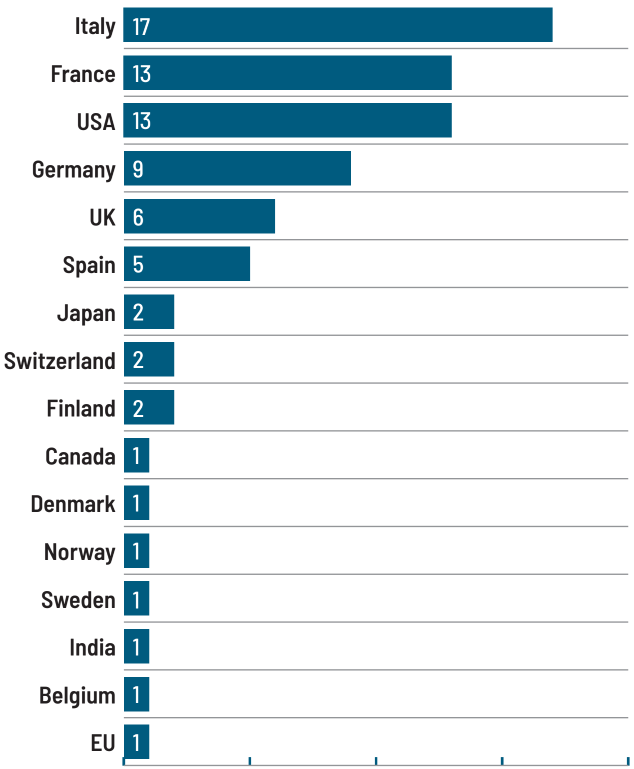
[88] See Shareholders for Change, "Shareholders for Change network's activities in the AGM Season 2019" at https://www.shareholdersforchange.eu/wp-content/uploads/2019/12/2019.12.11-Engagement-Report-2019-FINAL.pdf

journalists" explains Jordi Ibáñez, director of Fundacion Finanzas Eticas (FFE), Spanish founding member of Shareholders for Change[89].

CHART 7

Breakdown of Shareholders for Change engagement initiatives by country

Source: Shareholders for Change, "Shareholders for Change network's activities in the AGM Season 2019" at https://www.shareholdersforchange.eu/wp-content/uploads/2019/12/2019.12.11-Engagement-Report-2019-FINAL.pdf



74
COMPANIES

2
INSTITUTIONS

engaged in 2019

In 2019 Ibáñez attended the meeting of the Spanish energy company Endesa, controlled by the Italian company Enel, presenting a number of questions, in particular on the timing of Endesa's exit from coal and nuclear power. "The answers were unsatisfactory" explains the director of FFE, "but we do not give up. We will be back at the 2020 meeting and, in Italy, Fondazione Finanza Etica (also a founding member of SfC) will re-launch some of our questions at the Enel meeting".

[89] See Valori.it, "Azionisti attivi alla COP25, «Aiutiamo le imprese sugli obiettivi climatici»" ('Active shareholders at COP25, "Let's help firms on climate goals"'), December 30, 2019 at https://valori.it/azionisti-attivi-obiettivi-climatici-madrid/

Climate related issues were very popular last year[90]. "In 2019, most of our actions focused on climate change. We have asked companies to be more committed to reducing their emissions and becoming more transparent about their strategies for a just transition to more sustainable production models" explains Aurélie Baudhuin[91]. "That's why it's so significant that our second annual meeting for 2019 was held in Madrid, during the UN COP25 conference on climate change".

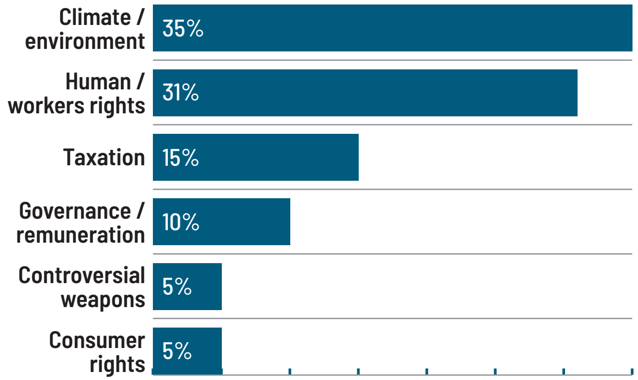


CHART 8

Breakdown of Shareholders for Change engagement initiatives by sector

Source: Shareholders for Change, "Shareholders for Change network's activities in the AGM Season 2019" at https://www.shareholdersforchange.eu/wp-content/uploads/2019/12/2019.12.11-Engagement-Report-2019-FINAL.pdf

UN Principles for Responsible Investment Network

The Principles for Responsible Investment (or PRI) were launched by the United Nations in 2006 in order to promote sustainable and responsible investment among institutional investors. Today the list has more than 2,000 signatories including institutional investors, asset managers and service providers with approximately $80trn assets under management[92].

[90] See Shareholders for Change, "Shareholders for Change network's activities in the AGM Season 2019" at https://www.shareholdersforchange.eu/wp-content/uploads/2019/12/2019.12.11-Engagement-Report-2019-FINAL.pdf

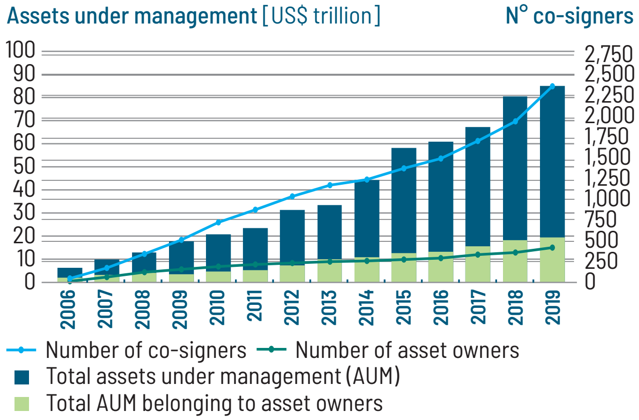
[91] See Valori.it, "Azionisti attivi alla COP25, «Aiutiamo le imprese sugli obiettivi climatici»" ('Active shareholders at COP25, "Let's help firms on climate goals"'), December 30, 2019 at https://valori.it/azionisti-attivi-obiettivi-climatici-madrid/

[92] See UNPRI, "Principles for Responsible Investment 2019" at https://www.unpri.org/download?ac=6303

CHART 9

UNPRI: number of signatories and assets under management

Source: UNPRI, "Principles for Responsible Investment 2019" at https://www.unpri.org/download?ac=6303



The PRI is the official benchmark for many entities looking to engage with the companies in which they invest. UNPRI has developed a definition of active shareholding[93] and has recently published the guide "Evaluating and engaging on corporate tax transparency: An investor guide"[94]. The guide shows how investors benefit from a company that adopts responsible tax policies and reports transparently and makes it easier to identify reputational risks.

These are the 6 principles of responsible investment set by the UN[95]:

- incorporate ESG issues into investment analysis and decision-making processes
- be active owners and incorporate ESG issues into ownership policies and practices
- seek appropriate disclosure on ESG issues by the entities the network invests
- promote acceptance and implementation of the Principles within the investment industry
- work together to enhance effectiveness in implementing the Principles

[93] "Active ownership is the use of the rights and position of ownership to influence the activity or behaviour of investees". See UNPRI, "PRI Reporting Framework Main definitions 2018" at https://www.unpri.org/download?ac=1453

[94] The guide is available for download at https://www.unpri.org/Uploads/t/r/l/PRI_Evaluating-and-engaging-on-corporate-tax-transparency_Investor-guide.pdf

[95] See UNPRI, "Principles for Responsible Investment 2019" at https://www.unpri.org/download?ac=6303

- report on activities and progress towards implementing the Principles.

Since its inception, UNPRI has organised 10 conferences with over 240 sessions, more than 660 speakers and over 3,500 delegates[96].

PGGM

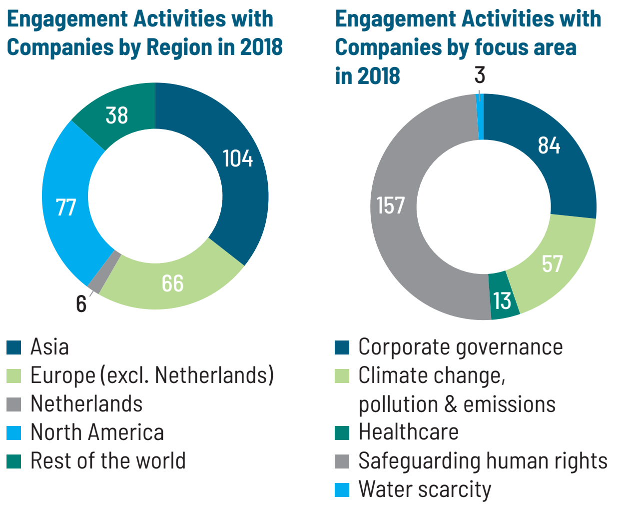
PGGM is a Dutch pension asset manager and service provider. The company manages 4.4 million retirement plans[97] with €252bn assets under management[98].

As an active shareholder, PGGM "actively uses its influence to realise improvements in the area of ESG in order to contribute to the quality, sustainability and continuity of companies and markets"[99]. PGGM has stakes in ca. 3,500 companies[100].

CHART 10

PGGM's engagement activities in 2018

Source: PGGM, "Annual Responsible Investment Report 2018", April 2019 in https://www.pggm.nl/english/what-we-do/Documents/Annual-Responsible-Investment-report_2018.pdf



[96] Ibidem.

[97] See PGGM, "APG and PGGM develop AI-powered platform for investing in the UN Sustainable Development Goals", September 11, 2019 at https://www.pggm.nl/english/who-we-are/press/Pages/APG-and-PGGM-develop-AI-powered-platform-for-investing-in-the-UN-Sustainable-Development-Goals.aspx

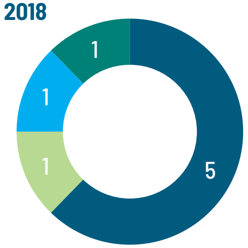
[98] See PGGM at https://www.pggm.nl/english/who-we-are (as at January 15, 2020)

[99] See PGGM, "Annual Responsible Investment Report 2018", April 2019 at https://www.pggm.nl/english/what-we-do/Documents/Annual-Responsible-Investment-report_2018.pdf

[100] Ibidem.

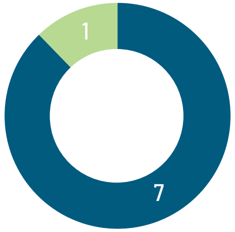
CHART 10

Engagement activities with market parties by Region in 2018



- Asia
- Europe (excl. Netherlands)
- North America
- Rest of the world

Engagement activities with market parties by focus area in 2018



- Corporate governance
- Climate change, pollution & emissions

The involvement of other stakeholders was one of the reason that lead to a positive outcome in 2018. "We have been able to record 27 cases of the 291 companies with which we engaged, in which the policies and/or working methods of a company changed after active engagement. Often (especially in the case of media attention), several stakeholders (such as NGOs and other investors) influence the behaviour of a company. These changes cannot be attributed solely to our efforts"[101].

The main engagement topics included corporate governance, management and board pay, **GENDER GAP**, CO_2 emissions, working conditions in the agricultural sector, safety of nuclear power plants, and the activities of companies in controversial sectors such as palm oil and **OIL SANDS**[102].

Engagement initiatives involved several companies including Engie (France) which operates nuclear plants in Belgium close to the Dutch border, several palm oil producers in Indonesia and Malaysia, TransCanada which operates in the oil sands market and Novartis, allegedly involved in a bribery scandal in Greece[103].

[101] Ibidem.

[102] Ibidem.

[103] See Ekathimerini, "Fifteen Novartis executives to appear before corruption prosecutor", September 11, 2019 at http://www.ekathimerini.com/244449/article/ekathimerini/news/fifteen-novartis-executives-to-appear-before-corruption-prosecutor

ACTIVE SHAREHOLDERS ASK BARCLAYS TO DIVEST FROM THE FOSSIL FUEL INDUSTRY

In January 2020, 11 institutional investors[104] with £130bn assets under management and more than 100 individuals asked Barclays to divest from the fossil sector in the first climate-related resolution for a UK bank. The initiative was launched by ShareAction, a London-based charity[105]. "Climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to our own business operations, portfolios and client partner funds, unless action is taken to mitigate these risks" said Laura Chappell[106], CEO of Brunel Pension Partnership (BPP), one of the signatories of the resolution. Since the Paris Agreement, ShareAction says, the world biggest banks supported the fossil fuel industry with approximately $1.9 trillion. Barclays ($85 billion) is the leading European lender and the world sixth largest. Shareholders, explains ShareAction, "request Barclays to bring its energy financing in line with the goals of the Paris Agreement. It calls on it to publish a plan to phase out the provision of financial services to companies in the energy sector, as well to gas and electric utilities that are not aligned with the climate accord. The proposal also encourages Barclays to consider the social dimension of the transition to a resilient and low-carbon economy". The resolution will be voted at the bank's annual meeting in May 2020.

EUROPEAN RULES ON ACTIVE SHAREHOLDING NEED IMPROVEMENT

Engagement of active shareholders is carried out in accordance with national regulations. Rules can be very different from country to country, which may facilitate or not minority shareholders in taking part to the company's life[107]. Rules for the submission of resolutions at shareholders' meetings

[104] The resolution is supported by the following asset managers: Arcus Foundation; As You Sow; Brunel Pension Partnership; Central Board of the Methodist Church; Falkirk Council Pension Fund; Folksam; Jesuits in Britain; Lankelly Chase; LGPS Central; Merseyside Pension Fund; Sarasin & Partners. See The Guardian, "Pension funds urge Barclays to stop lending to fossil fuel firms", January 8, 2020 at https://www.theguardian.com/business/2020/jan/08/pension-funds-urge-barclays-to-stop-lending-to-fossil-fuel-firms

[105] See ShareAction, "We've filed a climate resolution at Barclays - now it's time for investors to back it", January 8, 2020 at https://shareaction.org/weve-filed-a-climate-resolution-at-barclays/

[106] See The Guardian, "Pension funds urge Barclays to stop lending to fossil fuel firms", January 8, 2020 at https://www.theguardian.com/business/2020/jan/08/pension-funds-urge-barclays-to-stop-lending-to-fossil-fuel-firms

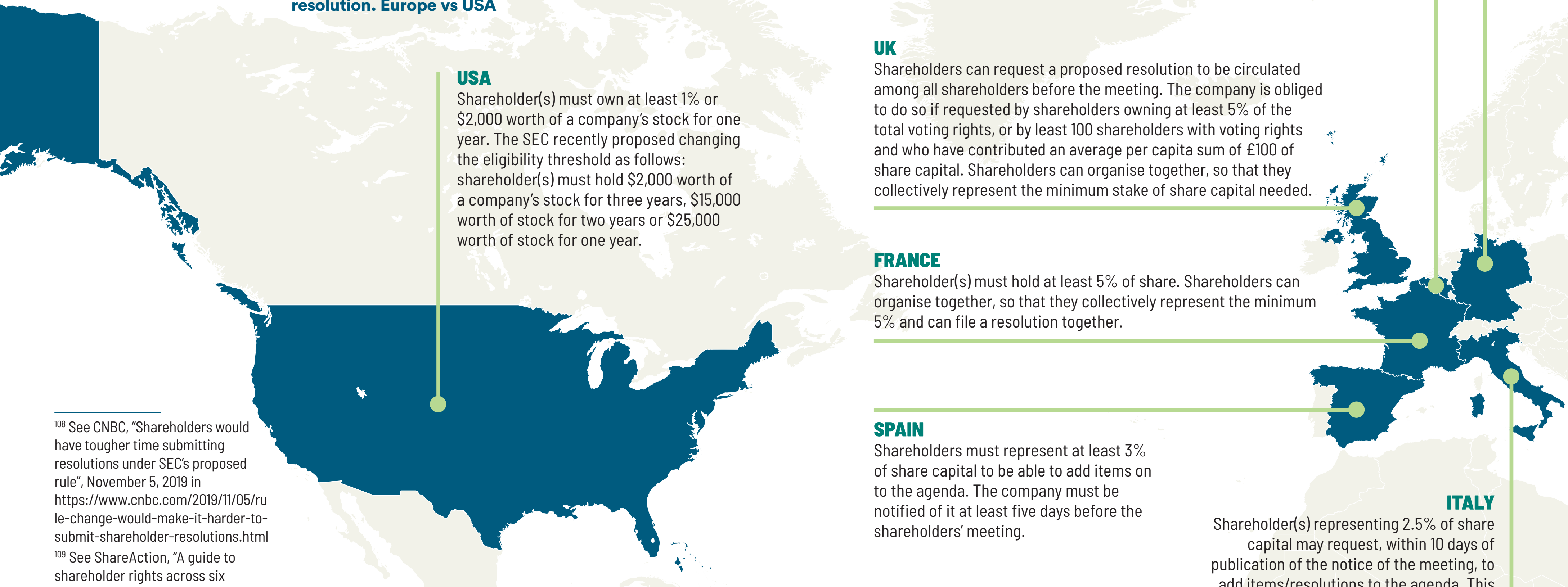
[107] For more information on national laws currently in force in Europe see ShareAction, "A guide to shareholder rights across six European countries", Network Briefing, March 2017 at https://shareaction.org/wp-content/uploads/2017/03/ShareholderRightsEurope.pdf

are a typical example of this. In the United States, an engagement-friendly law allows shareholders to submit consultative (non-binding) resolutions even with a pretty symbolic stake worth just $2,000 (but this amount could be raised in the future if latest proposals by the SEC[108] will be approved).

In general, European laws enable binding resolutions only if submitted by shareholders owning a huge amount of shares. In Germany, for example, you need to hold a 5% or at least €500K stake; a 1.5% capital share is required in Italy; a 3% stake is the minimum amount in Spain[109].

MAP 1

Miminum requirements to submit a shareholder resolution. Europe vs USA



[108] See CNBC, "Shareholders would have tougher time submitting resolutions under SEC's proposed rule", November 5, 2019 in https://www.cnbc.com/2019/11/05/rule-change-would-make-it-harder-to-submit-shareholder-resolutions.html

[109] See ShareAction, "A guide to shareholder rights across six European countries", Network Briefing, March 2017 at https://shareaction.org/wp-content/uploads/2017/03/ShareholderRightsEurope.pdf

Without rules allowing the submission of non-binding resolutions, minority shareholders that are unable to collect enough shares for binding resolutions have to focus on other initiatives: asking questions, meeting with management, sending letters. National rules may be different even in these cases. In Italy, Article 127 ter of the so-called TUF[110] (Consolidated Law on Financial Intermediation) enables shareholders to send questions before the AGM and obliges companies to answer them by the day of the meeting.. No similar rule exists in other European countries. Even meetings may follow very different standards. In Germany, for example, publishing the minutes of the AGM is not even mandatory.

THE NEW EU DIRECTIVE

On 9 June 2019 the European Union's Shareholder Rights Directive II (SRD II) came into force[111]. SRD II updates the previous directive of 2007. The purpose of the new directive, which must be adopted by member states by September 3, 2020, is to promote the long-term commitment of shareholders and improve the corporate governance[112].

The Directive sets five specific requirements[113]:

- Increase the level and quality of engagement;
- Allow shareholders to vote on remuneration policies;
- Publicly disclose how an asset manager's investment decision contribute to the medium to long-term performance of the company;
- Facilitate the transmission of cross-border information across the investment chain in order to ease the identification of shareholders;
- Increase transparency in the voting process, particularly when proxy advisors are used.

Today it's not easy to forecast how much the Directive will impact on European shareholders. According to the previously listed goals, it looks like the European Union is moving in the right direction. Even if the rules should be probably further improved. According to Thomas O' Grady, marketing and business development executive consultant firm RD:IR, interviewed by IR Magazine[114], "the level of market transparency varies widely across the region and it's disappointing that the directive does not produce a level playing field, especially after there was much talk of implementing a UK-style model in the market. It is yet to be seen how this directive will change the market and shareholdings in equity issuers. It depends hugely on the penalties each member state chooses to impose for entities not following the directive. The lack of a clear minimum quantifiable threshold for penalties in each member state makes it impossible to judge how much behaviour will change. (...) One interesting gap in the directive relates to voting. The legislation is designed to improve issuer engagement with investors ahead of shareholder meetings by allowing shareholder identification in the lead-up to general meetings during a certain period. Sadly, that time period is not actually defined in the text".

The EU SRD II Directive is undoubtedly a step forward in promoting the long-term commitment of shareholders. However, much will depend on how it will be implemented by individual countries and what sanctions will be imposed

[110] See CONSOB at http://www.consob.it/web/area-pubblica/tuf-e-regolamenti-consob

[111] See European Union, "Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement" Document 32017L0828 at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017L0828

[112] See Andersen Tax & Legal, "L'attuazione della Shareholder Rights Directive" ("Shareholder Rights Directive implementation"), June 3, 2019 at http://www.andersentaxlegal.it/it/lattuazione-della-shareholders-rights-directive/

[113] See Robeco, "The Shareholder Rights Directive II The five specific requirements and how Robeco can help its EU institutional clients", August 7, 2019 at https://www.robeco.com/media/0/a/b/0ab53f7694f670eeade b111613d597f7_shareholder-rights-directive-II-brochure_tcm17-20243.pdf

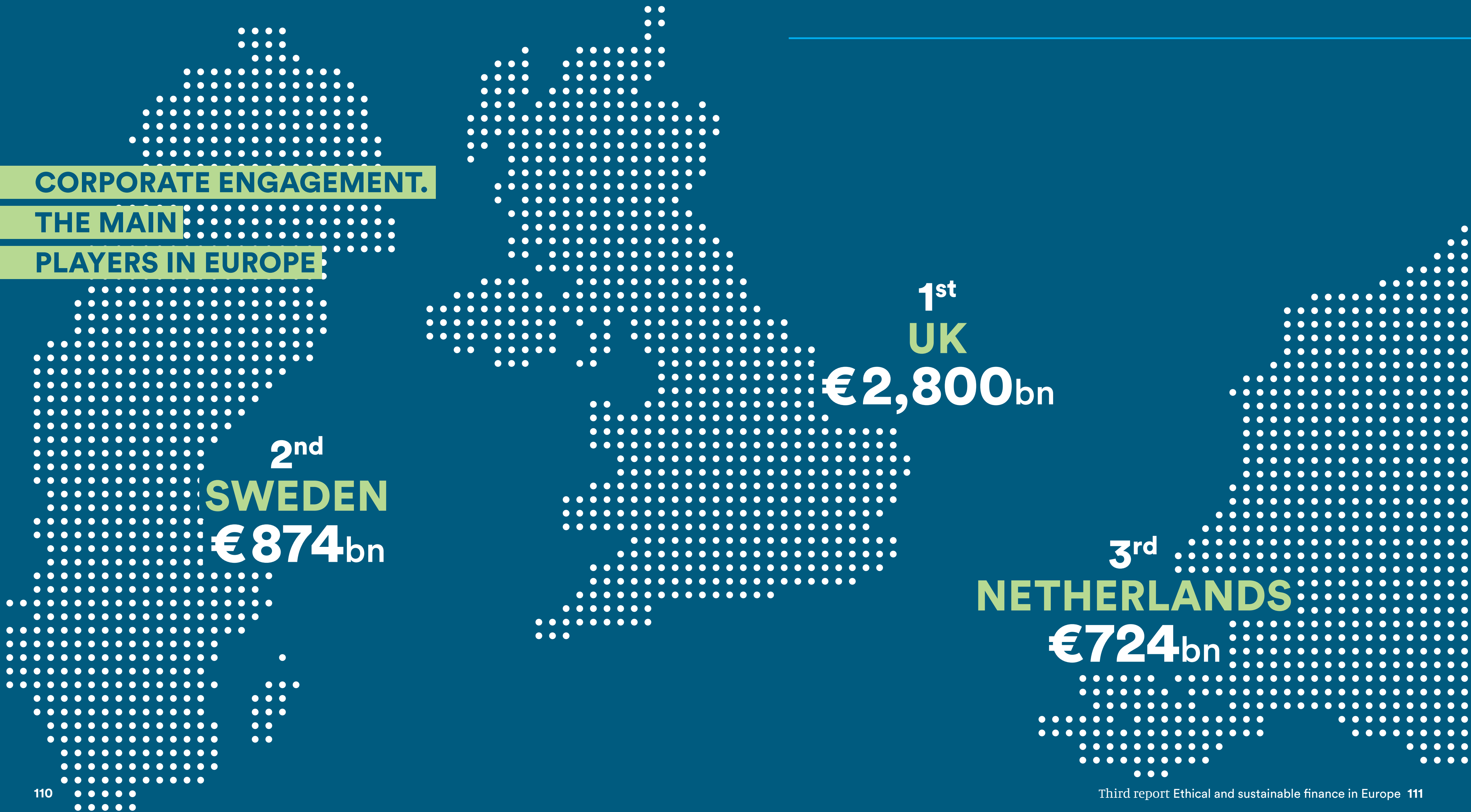
[114] See IR Magazine, "SRD II shows EU taking transparency of equity ownership seriously", July 15, 2019 at https://www.irmagazine.com/shareholder-targeting-id/srd-ii-shows-eu-taking-transparency-equity-ownership-seriously

SHAREHOLDER ENGAGEMENT IN EUROPE

€ 4,858bn
ASSETS UNDER MANAGEMENT

+14%
10Y CAGR

CORPORATE ENGAGEMENT. THE MAIN PLAYERS IN EUROPE



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Year after year, the report on Ethical and Sustainable Finance in Europe portrays the ethical finance industry as a whole, paying attention to the performance of banks and responsible investment instruments and comparing them with the outcomes of mainstream finance. This year the main focus is placed on the touchy issue of top managers' compensation schemes and on the different approaches (and results) of mainstream financial institutions and ethical banks. The report also celebrates half a century of corporate engagement by responsible shareholders who attend annual general meetings and try to encourage large corporations to make better choices for their employees, the society and the environment.

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