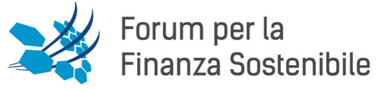
Greenwashing and sustainable finance: the risks of greenwashing and possible resources to counteract it



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Introduction

In 2022, the Italian Sustainable Investment Forum (ItaSIF) organized a working group involving its members focused on greenwashing, with a view to identify common resources and strategies to help prevent and counteract it. As the interest in sustainability and the related Environmental, Social and Governance (ESG) aspects has grown, the risk of greenwashing has increased. Greenwashing being defined as the process of presenting a company's products, goals and/or policies as environmentally friendly and, more generally, ESG or sustainability compliant, while behaving otherwise (be this in terms of actions or omissions).

In the financial sector, according to the European Securities and Market Authority (ESMA), greenwashing refers to market practices whereby the publicly disclosed sustainability profile does not properly reflect the underlying ESG risks and impacts. Such sustainability profile can refer to both financial instruments/products and issuers[1].

In summary, greenwashing can be related to:

products
any product in any industry can be subject to greenwashing (e.g., food, automobiles, clothing items, financial products)

companies
the company's depiction of itself might be construed as greenwashing in relation to:

the actions taken
for example, in regard to the compliance of production processes with environmental and/or social standards, the value applied to diversity and promotion of gender equality

the commitments undertaken
for example, in regard to climate neutrality (net-zero)[2], protecting biodiversity and combating deforestation, reducing plastic pollution, production processes based on a circular economy model, respecting human rights in the supply chain.

For example

A major natural gas supplier in Australia has been sued by the Australasian Centre for Corporate Responsibility for allegedly making misleading and deceptive claims about its environmental credentials. In its 2020 annual report, the company had in fact stated that natural gas provides "clean energy" because neither its extraction nor its end uses would result in adverse environmental effects. In addition, the report referred to "clear and credible" plans toward Scope 1 and 2 climate neutrality by 2040, despite its plans to expand gas-related activities. Achievement of the net-zero goal would thus rely primarily on Carbon Capture & Storage (CCS) technologies.

1. ESMA 2022, *Sustainable Finance Roadmap 2022-2024*: https://bit.ly/3PIzp8o

2. The goal of climate neutrality or "net-zero" implies the achievement of an overall balance between greenhouse gas emissions generated by human activity and those absorbed. To achieve this goal, it is necessary to reduce greenhouse gas emissions drastically and rapidly, opting for absorption or compensation only for those that are unavoidable. For further information on the inclusion of climate neutrality into investment strategies, please refer to the paper of ItaSIF, *"Net-zero": how to achieve it?*: https://bit.ly/3y5B691

Misrepresentations of products or company's commitments that may qualify as greenwashing can be conveyed through a variety of **channels**:

Advertising

Corporate communication

Corporate website and/or social profiles

Non-Financial Reporting (NFR) or sustainability report.

COMMUNICATION AND GREENWASHING

Research conducted by the Scuola Superiore Sant'Anna in collaboration with EG Media in 2019[3] found that:

- **Out of 1,300 advertisements in Italian newspapers and magazines, 84% presented greenwashing risk** according to ISO 14001 standards.
- **Brands that addressed environmental sustainability issues grew by 33%** over the previous year.
- The top **keywords related to greenwashing practices** were: environment (up 31% from 2018), plastic (up 73%), recycling (up 66%), and planet (up 80%).
- **Omission of information can also be construed as greenwashing**; for example, calling a product or process "zero-emission" without specifying whether this target is achieved primarily through carbon offsetting actions.

For example

The U.K. Advertising Standards Authority (ASA) has filed a complaint against a major **low-cost airline** over a marketing campaign in which the company claimed low CO_2 emissions. According to the ASA, these claims are misleading because they are not adequately supported by data.

A think tank analyzed 723 **listed equity funds** with a total AuM of $330 billion. Of the 130 climate-themed funds, 55% were not aligned with the goals of the Paris Agreement.

In France, a multinational apparel company was found guilty by Le Jury de Déontologie Publicitaire (JDP) for advertising a model of **shoes** as being made with at least 50% recycled materials, whereas, in reality, only the upper part of the shoe matched this description.

A study by an environmental initiative ranked a multinational **food company** as the world's most plastic-polluting company from data collected in 51 countries as of 2019. Instead, the company, in various corporate communications and advertising campaigns, proclaims itself to be "sustainable" and promoting a plastic-free planet.

3. Iraldo, Fabio 2021, *I comportamenti green delle imprese e l'efficacia della loro comunicazione*: https://bit.ly/3bep7xQ

1. Why greenwashing is a problem

In the financial sector, ESMA pointed out that greenwashing harms **investors** who want to allocate their resources to sustainable economic activities. As a matter of fact, greenwashing could involve misrepresentation, misselling or mispricing practices. Greenwashing may be present in the **various stages of the investment's value chain** and, in some cases, may relate to aspects that precede the placement of a financial product. For example, issuers' statements may provide a false picture of the sustainability profile of a company; also, the quantity and quality of available ESG data may not be sufficient for a proper analysis of investee/investable companies in terms of sustainability risks and impacts.

Greenwashing not only harms the interests of investors and **consumers**, but also those of **competitors** that do not represent themselves and/or their products as "sustainable", "responsible", "green", etc., thus exposing these companies to the loss of market shares. Likewise, companies that incorporate real sustainability in their organization and/or products, are also harmed by greenwashing-related unfair competition; indeed, truly sustainable companies not only benefit from the opportunities and advantages that come with ESG, but they are also bearing the related costs.

Moreover, greenwashing poses a real risk to the credibility of the **market** as a whole and undermines the trust that participants (companies, investors, and consumers) place in it. At this stage, given the increasing interest in sustainability, the spread of greenwashing grows skepticism about any statements related to sustainability.

The **risks and the consequences** faced by both companies that engage in greenwashing and financial players supporting them (through investment, financing, or insurance policies) can be split into three main categories:

Reputational risk
due to the possible damage to the company's image and, consequently, to the reputation of its investors/financiers/insurers, and the resulting loss of credibility vis-à-vis customers and competitors.

Legal risk
related to possible lawsuits and sanctions under the regulations on sustainability policies (see §2.2.).

Financial risk
as a consequence from lawsuits and penalties as well as from declining stock price and the loss of customers/market shares.

For example

An **automaker** and a consumer protection association have reached an agreement to compensate about 260,000 motorists who were victims of diesel engine exhaust data manipulation. The total cost to the company was about €830 million. The company in question had, in fact, advertised its vehicles as low-emission ones while the engines emitted up to 40 times the permitted limit for nitrogen oxide pollutants.

GREENBLUSHING

Alongside greenwashing, there is also an opposite trend, referred to as "greenblushing", whereby companies disclose little or no information on the sustainability of their products, actions or commitments.

Greenblushing is characterized by:

- **Little importance attached to ESG aspects**.
- **Reluctance to provide detailed and accurate information on sustainability policies** and achievements from an ESG perspective, including in terms of internal communication (e.g., to employees).
- **Underestimation of the importance that stakeholders attach to sustainability**, starting with the idea that ESG issues are not a priority for investors, suppliers, or customers.

Active communication and promotion of corporate sustainability initiatives and achievements does provide considerable benefits. First, it helps spread a sustainability culture among employees and, more broadly, among stakeholders, thereby fostering greater involvement and engagement of the latter in ESG targets. In addition, communication on sustainability aspects can strengthen a market positioning and thus providing a competitive edge over companies that do not adopt sustainable practices or fail to adequately promote them.

2. Resources to counteract greenwashing

Having outlined the main characteristics of greenwashing and its consequences for all the players involved, set out below is an overview of the main resources available to sustainable finance practitioners to prevent and counteract this phenomenon.

2.1. Regulatory framework

Starting with the 2018 Action Plan on Sustainable Finance, and on the back of international principles and standards (e.g., ILO, Global Compact, OECD, the climate agreements, etc.), the European Union has introduced regulations and directives to enhance transparency on ESG matters. The goal is to increase the quantity, quality, and comparability of sustainability information about companies, financial players and products.
The main regulations and normative acts in this regard are outlined below.

Taxonomy of environmentally sustainable economic activities

The taxonomy introduced with EU Regulation 2020/852 is an **EU-wide classification of economic activities that can be considered environmentally sustainable**; it is designed as a tool to guide investor and business choices in favor of the ecological transition. Economic activities are selected, according to scientific criteria, based on their contribution to at least one of the **six environmental objectives identified by the European Commission**[4] and their compliance with the Do No Significant Harm (DNSH) clause – which requires no negative impact on the other goals – and certain minimum social safeguards. After the scrutiny period, which ended unopposed by the EU Parliament and EU Council, the new taxonomy delegated act was published in the EU Official Journal on July 15, 2022, which includes natural gas and nuclear activities among environmentally friendly activities (if they are aligned with the scientific criteria); separate reporting is required in respect of these two activities.

The European Commission is also working on a **draft social taxonomy** to identify economic activities that can provide a significant contribution towards achieving social goals such as decent work, quality of life and sustainable and inclusive communities.

4. The six environmental objectives of the European Union are: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy, including with reference to waste reduction and recycling; pollution prevention and control; the protection and restoration of biodiversity and ecosystems.

Sustainable Finance Disclosure Regulation (SFDR)

EU Regulation 2019/2088 (Sustainable Finance Disclosure Regulation - SFDR) imposes common rules on financial market participants (institutional investors and financial advisors) regarding **disclosure on sustainability issues**, requiring that they provide information on how they take ESG factors into account at two levels: 1) in internal organizational decision-making processes and 2) in all financial products placed on EU markets.

The Regulation identifies two categories of products with additional constraints in terms of disclosure of data on sustainability aspects: funds that promote environmental or social characteristics (**Art. 8 SFDR**) and those that have sustainable investment as their objective (**Art. 9 SFDR**).

Corporate Sustainability Reporting Directive (CSRD)

The 2014/95 EU Non-Financial Reporting Directive (NFRD), which requires large public interest entities to publish non-financial reporting, will soon be replaced by the Corporate Sustainability Reporting Directive (CSRD). Among the main changes contained in the CSRD are:

- **Wider scope**
  companies covered by the regulations will increase from the current 11,700 to approximately 49,000[5], as all companies with at least 250 employees, SMEs listed on European markets and non-European companies with net turnover greater than €150 million and with at least one subsidiary in the EU will be included.
- **Introduction of the so-called "double materiality" principle**
  companies will have to disclose information about both the ESG risks to which they are exposed, and the impacts caused by the company's activities on sustainability factors.

In addition, Art. 8 of the Taxonomy Regulation provides that companies subject to the NFRD (and, in the future, to the CSRD) publish information on the alignment of activities and investments to the EU Taxonomy.

Corporate Sustainability Due Diligence (CSDD)

In February 2022, the European Commission unveiled its proposal for a Corporate Sustainability Due Diligence (CSDD) Directive, which aims to promote **sustainable and responsible corporate behavior throughout the value chain**, ensuring greater transparency for consumers and investors. If the proposal is approved by the European Parliament and Council, companies will be required to identify, manage, and eventually end or minimize the negative effects of their activities on human rights (e.g., child labor and labor exploitation) and environment (e.g., pollution and loss of biodiversity). The proposed Directive would apply to **two groups of European companies**: those with more than 500 employees and more than €150 million in annual turnover (Group 1) and those with an average of at least 250 employees and more than €40 million in annual turnover operating in high-impact sectors such as textiles, agriculture, and mining (Group 2). In addition to the operations of companies in the two categories mentioned above, the Directive also encompasses subsidiaries and value chains as well as non-European companies that have a turnover aligned with Groups 1 and 2.

For example

In 2021 the **Danish Ombudsman** published a guide for companies on how to communicate environmental goals and achievements both correctly and in a consumer-friendly manner, emphasizing that only a **Life Cycle Assessment (LCA)** of products can provide the data needed for robust sustainability claims[6].

5. Impact Assessment published by the European Commission on April 21, 2021: https://bit.ly/3emzMYA

6. Latella, Mariangela 2022, “Greenwashing, la Danimarca fa scuola: senza LCA niente claim sulla sostenibilità“, *FreshCutNews*, September 2, 2022: https://bit.ly/3xtQZWy

2.2. Sanctions

The aforementioned directives and regulations aim to ensure greater transparency in European markets and, alongside other laws in the Italian legal system, can inhibit and/or sanction illegal activities related to greenwashing. The main tools available are described below.

With Legislative Decree No. 254 of December 30, 2016, which implements EU Directive 2014/95 **NFRD**, companies that are required to publish the Non-Financial Reporting that make false claims are liable for sanctions by CONSOB under Article 4 of Legislative Decree 2016/254.

CONSOB may impose administrative sanctions in the event of offenses related to the **SFDR** disclosure requirements, as provided for by the Consolidated Law on Finance (Testo Unico della Finanza - TUF). With the entry into force of the Regulatory Technical Standards (RTS) as of January 1, 2023, CONSOB will have more tools to act and impose sanctions.

Greenwashing may involve **unfair competition** (Art. 2598 Civil Code); the act of unfair competition may be inhibited (Art. 2599 Civil Code) and is liable for damages (Art. 2600 Civil Code).

Moreover, within the regulatory framework of unfair commercial practices under Article 20 of the **Consumer Code** (Legislative Decree No. 206 of September 6, 2005), greenwashing activities are liable for sanctions under Article 27 of the Code. In fact, the regulations on **misleading advertising** (as defined by Articles 21, 22, 23 of the same Code) can apply: under Article 27, paragraph 9 of the Consumer Code, the Antitrust Authority (Autorità Garante della Concorrenza e del Mercato - AGCM) can inhibit an advertisement and order an administrative fine ranging from €5,000 to €5 million, depending on the severity and duration of the offense.

Untrue statements can involve a self-disciplinary offense under the **Code of Advertising Self-Discipline**. In fact, Article 12 of the Code states that all commercial communications concerning environmental issues must be based on truthful, relevant, and scientifically verifiable data. In the event of a conflict with the Code, the Institute of Advertising Self-Discipline Verification Jury (Istituto di Autodisciplina Pubblicitaria - IAP) may request the termination of the self-disciplinary offense, with publication of the ruling.

Finally, Articles 9 and 41 of the **Italian Constitution** refer to the environment: any untrue statement about environmental protection could then be the subject of further legal action with inhibitory and compensatory consequences.

BENEFIT COMPANIES AND B CORP

Benefit Companies, introduced into the Italian legal system by Law 2015/208, are companies that "in the exercise of an economic activity, in addition to the purpose of dividing their profits, pursue **one or more purposes of common benefit and operate in a responsible, sustainable and transparent way** towards people, communities, territories and the environment, cultural and social assets and activities, bodies and associations and other stakeholders". If Benefit Companies make untruthful communications (which can generate greenwashing), they are sanctioned pursuant to the regulations on misleading advertising and unfair business practices and may therefore incur sanctions by the ACGM.

B Corporations, instead, are those companies (regardless of their legal forms) that have been certified by the international non-profit entity B Lab, based on the measurement of certain social and environmental performances. Benefit Companies can also apply for this certification.

2.3. Data

In addition to the mentioned regulations, another key resource for counterbalancing greenwashing is data: without **information** that is both **sufficient** (in terms of quantity, areas covered and level of detail) and **reliable**, it is indeed impossible to communicate properly the characteristics of products, actions, and corporate targets. There are numerous initiatives to **improve the quantity and quality of data available on ESG issues**.

Below are some examples, also drawn from the experiences of participants in the working group organized by ItaSIF.

European Single Access Point (ESAP)

Project related to the establishment of a centralized, user-friendly, and inclusive access point to information that companies and relevant authorities are required to disclose **regarding financial services, capital markets, and sustainability**. The goals of ESAP are to increase transparency and visibility of companies; reduce information asymmetries; increase comparability of ESG data and manage data in an integrated manner.

CDP former Carbon Disclosure Project

CDP is a non-profit organization that has been collecting data on environmental aspects by sending questionnaires to companies for 20 years. In 2022 CDP collected about 17,000 environmental reports on three areas: climate change; water consumption; forest protection. CDP provides a rating to the reports based on indicators regarding: disclosure; awareness; management; leadership. In order to reduce the risks of greenwashing, CDP relies on third-party certifiers regarding reported emissions before giving high ratings to companies. CDP has also developed **temperature ratings** together with the Science Based Targets initiative (SBTi) and the WWF: targets for reducing climate-changing emissions are converted into **trajectories of increasing global average temperatures** (assuming that all companies behave like the one under examination). For example, if a company has an emissions reduction target of 2.5°C for Scope 1 emissions (from sources owned or controlled by the company) and Scope 2 emissions (related to purchased energy), it means that if all companies had the same level of ambition, average global temperatures would increase by 2.5°C. Temperature ratings are communicated by CDP to investors so they can align portfolios with the Paris Agreement goals.

CFA Institute's Global ESG Disclosure Standards

The CFA Institute is a global association of financial analysts whose goals include promoting high ethical and professional standards in the investment industry. In 2021, the CFA Institute established the Global ESG Disclosure Standards for Investment Products, that is a set of **standards based on the principles of fair representation and full transparency**, with the goal of providing investors, advisors, and distributors with a useful tool for understanding, evaluating, and comparing ESG products and reducing the risk of greenwashing.
The Global ESG Disclosure Standards for Investment Products focus on the disclosure of ESG approaches in investment products. They are referred to as "global" in that they are conceived for:

- **all types of investment vehicles** (mutual funds, exchange-traded funds, insurance investment products)
- **all types of asset classes** (stocks of listed companies, bonds, private equity, private debt, real estate investments)
- **all sustainable investment strategies** (exclusions, best-in-class, thematic investing, impact investing, stewardship)
- **active and passive investment strategies**
- **all markets**.

2.4. Certifications

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Certifications are yet one more resource available to businesses, investors, and consumers to prevent and counteract greenwashing. The only environmental label recognized at the European level is the **EU Ecolabel**: it applies to products and/or services that, while meeting high performance standards, feature a **reduced environmental impact** throughout their life cycle. Excluded from certification are food, feedstock and pharmaceutical products that fall within the scope of Council Regulation (EC) No. 834 of June 28, 2007 on organic production and labelling of organic products.

The EU Ecolabel was established 30 years ago, in 1992, by Regulation No. 880 and is now governed by Regulation (EC) No. 66 of 2010. The EU Ecolabel is a **voluntary TYPE I ecological label** (ISO 14024 standard), based on a scientifically defined, selective, multiple-criteria system that takes account of the environmental impacts of products and/or services throughout their **life cycle** (Life Cycle Assessment) and is subject to **certification by an independent qualified body**.

In Italy, DM 1995/413 established the **Ecoaudit Ecolabel Committee** to carry out these functions with the **technical support from ISPRA**. In 2018, along with Regulation (EU) 2020/852 (EU Taxonomy), as part of the Commission's Action Plan to finance sustainable growth, the process of developing criteria for financial products was initiated. With the aim of reducing greenwashing, the application of the EU Ecolabel Regulation to financial products is intended to ensure market credibility and strengthen investors trust by enabling investors to easily identify investments that meet environmental and social criteria.

The **EU Ecolabel criteria for financial products** have been developed by the Joint Research Centre (JRC) based on the European Social Entrepreneurship Funds, the most common SRI strategies[7], ESG financial products and the requirements of type I environmental labels (EN ISO 14024) recognized at the European level. In addition, the above criteria are closely related to the application of the EU Taxonomy and related Delegated Acts. The reference document is the March 2021 draft *Development of EU Ecolabel criteria for "retail financial products"*[8]: the final version is expected to be published in the first half of 2023.

7. The most common Sustainable and Responsible Investment - SRI strategies are: exclusions; international conventions; best in class; thematic investments; engagement; impact investing.

8. JRC B5, JRC B1 2021, *Development of EU Ecolabel criteria for retail financial products*: https://bit.ly/3CRW9z4

3. Preventing greenwashing: guidelines and best practices for sustainable finance

3.1. General recommendations

To prevent and counteract greenwashing there are some general guidelines that companies and sustainable finance practitioners can follow. First, to be able to call oneself "sustainable," one needs to **take in-depth action regarding corporate culture and business processes**: it is not enough to integrate sustainability only within the communication sphere. Second, **it is better to communicate less, but to be sure of what one is communicating**, starting with reliable data and sound sustainability policies. The key word for combating greenwashing is **transparency**: communication must be effective but at the same time, accurate, truthful and verifiable.

Finally, to improve ESG performance at all levels, it is important to **engage with stakeholders**. For example, companies can engage with organizations that assign sustainability ratings (including NGOs) to better understand the methodologies used and identify priority areas for improvement. For sustainable finance players, engagement with invested companies is useful to gather information, clarify any controversial situations and ultimately urge more virtuous ESG behavior.

Below are some recommendations for developing effective sustainability policies and communication:

1. **Identify sustainability goals** and transparently communicate both the general principles they refer to and the reasons for choosing each specific target.
2. **Provide details about the path to achieve the goals established** by specifying when and how they will be achieved as well as intermediate targets.
3. **Explain the methodologies for measuring the KPIs** (Key Performance Indicators) chosen to monitor the achievement of goals, clarifying the pros and cons of these.
4. **Define how ESG data will be sourced** by providing details on the sources, the type of data, the methodologies for collecting the information, and, finally, the degree of reliability and verifiability of both the data and the sources.
5. **Verify disclosed ESG data** and progress in achieving sustainability goals by using an independent (preferably public) third party.
6. **Engage with stakeholders** (including NGOs and local communities) and publish detailed reports regarding the stakeholders involved, the criteria of the underlying engagement process as well as the results achieved.
7. **Communicate accurately**, paying special attention to content selection and verifiability of all information disclosed.

3.2. The role of investors: asset owners and asset managers

In the financial sector, **asset owners** play a crucial role in countering greenwashing: being the investment owners, they set capital allocation policies and monitor proper implementation of the same. These activities are part of their fiduciary duty to act in the best interests of the ultimate beneficiaries of their investments. In order to qualify as "sustainable" the **investment policies** outlined by asset owners should contain: criteria for including ESG issues in the investment process; criteria for exclusion and divestment; an engagement policy, with clear reporting of results achieved, as well as a proxy voting policy with clear guidance on how to vote in different situations, so that voting is aligned with the investor's sustainability goals.

Finally, the following are essential for effective, accurate and verifiable **communication** of investment policies: an in-depth knowledge of the investment portfolio; a periodic monitoring of asset managers' operations; and a review of controversies.

Focus

When investing in **sustainable bonds** (green, social, or sustainability bonds), to counteract greenwashing, it is important to assess not only the individual bond, but the sustainability profile of the issuer as a whole.

Asset managers are equally crucial in ensuring the successful implementation of sustainable investment policies and countering greenwashing. First, under the so-called Product Oversight Governance (POG), it is essential that all activities involved in defining the offering (design, classification, marketing, etc.) faithfully reflect the underlying investments of each savings, investment, or insurance product.

Furthermore, regarding the **relationship between asset owner and asset manager**, it should be pointed out that a due diligence is necessary (and required by the supervisory authority) prior to assignment of the management mandate. Proper implementation of the investment policies outlined by the asset owner and the existence of the asset manager's procedures and controls and compliance of all ESG aspects are the basis to reduce the risk of greenwashing. This also ensures that the asset manager fulfills its fiduciary duty.

Below are the essential elements to be analyzed in the **due diligence** process regarding the asset manager:

- **Overall investment policy**
e.g., codes of conduct, compliance with specific principles, initiatives in which the asset manager participates, advocacy policies.

- **Sustainable investment policy**
e.g., how ESG factors are included in the investment process, how exclusions or screenings/filters are applied, whether there is exposure to controversial industries/companies that violate international standards.

In the case of the **fossil fuel sector**, it is important to understand the specific parameters related to the exclusion: is it a total exclusion or does it only relate to the most polluting fuels and practices, such as thermal coal, Arctic oil and gas exploration, and tar sands extraction?

- **ESG research and data**
e.g., with what methodologies and from what sources ESG information is collected; how ESG data is used; how ESG risks/opportunities are identified; how ESG indicators are selected for the calculation of any internal sustainability rating.

- **Engagement Policy**
e.g., number of companies involved in an engagement actions; themes and achievements (reported with measurable KPIs); consequences if an engagement fails.

- **Proxy voting policy** with clear indication of its application for each country and theme, to be reported transparently.

- **Internal structure**
e.g., corporate function responsible for the investment process; role of the Board of Directors; compensation policies and their link, if any, to the achievement of sustainability goals; system for monitoring alignment of the investment process with the asset owner's guidelines and related internal and external control measures, both ex ante and ex post.

- **Timely reporting of results and proper communication of these**
e.g., existence of an audit process on the sustainability report conducted by independent third parties; accessibility of data on which statements regarding ESG aspects are based; alignment with existing best practices and regulatory developments.

Focus

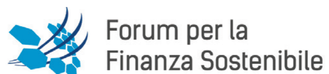
To achieve **climate neutrality**, the reduction of climate-changing emissions remains a priority. For the remaining share of emissions, which cannot be eliminated, offsetting is the way forward: reforestation is the most widely used method for this purpose, but to avoid incurring greenwashing, aspects such as the type of trees to be planted and the overall management of the project must be carefully considered. For example, if new monoculture forests are felled after a few years, the overall consequences for the environment can be negative in terms of both the failure to absorb CO_2 and biodiversity loss.

Conclusions

Greenwashing, which can relate to a company's products, targets, and/or policies, harms **investors, consumers, competitors**, and, more broadly, the credibility of **the market**. Specifically, the **risks** faced by both companies involved in greenwashing and the financial players that support them fall into three main categories: **reputational, legal, and financial**.

It is therefore crucial to prevent and counteract greenwashing by applying existing resources such as **European and Italian regulations, ESG data and sustainability certifications** such as the EU Ecolabel more extensively. Finally, companies and investors can avoid greenwashing by following some **general recommendations** regarding the identification of sustainability goals and achievement of these; the methodologies for measuring KPIs; the sourcing of ESG data; the verification of disclosed data and progress; the engagement with stakeholders and the accurate and transparent communication.

As far as the financial sector is concerned, the commitment of both **asset owners** and asset managers is essential to prevent and counteract greenwashing. The former set forth sustainable investment policies and are responsible for guiding and monitoring the work of **asset managers**, who must ensure that investment policies are properly implemented and that procedures and controls on ESG aspects are in place. Finally, asset managers are required to design, classify and market financial products in a way that accurately reflects the sustainability profile of the underlying investments. The commitment of all financial participants is needed to counteract greenwashing, which poses a threat to the market’s credibility.



The Italian Sustainable Investment Forum (ItaSIF) is a not for profit association founded in 2001.
Its membership base is multi-stakeholder: its members are financial actors and other organizations interested in the environmental and social impacts of financial activities. ItaSIF mission is to promote the awareness and the strategies linked to sustainable investments, with the aim to encourage the inclusion of environmental, social and governance criteria into financial products and processes.
ItaSIF activities are divided into three main areas: research, projects and advocacy.
Within these sectors ItaSIF:

- runs research and education activities and facilitates working groups to promote best practice and contribute to the analysis and growth of sustainable investments;
- informs and advises the financial community, the media and society as a whole, on sustainable finance through the organisation of communication campaigns, conferences, seminars and cultural events;
- engages with Italian and European institutions to encourage the implementation of a regulatory framework promoting sustainable investments.

Since 2012, ItaSIF has organized the Italian SRI Weeks, one of the leading initiatives in Italy on sustainable and responsible investment.
ItaSIF is a member of Eurosif, the association for the promotion of sustainable investment in the European market.

Published in November 2022

Paper realized by