



## TOPICS:

ESG risk

## SOURCE

Bank of Italy

## Bankit: Sustainable Finance Regulation, Funds' Portfolio Reallocation

- The paper analyzes **the effects of sustainable finance regulation** - particularly the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy - **on portfolio allocations within investment funds**. It investigates whether and how regulatory developments have prompted portfolio shifts towards environmentally sustainable assets.
- Using granular security-level holdings data across European funds, **the study focuses on equity and corporate bond investments** between 2018 and 2022. **It categorizes funds based on their SFDR classification** - Articles 6 (non-ESG), 8 (promoting ESG characteristics), and 9 (sustainable investment as objective) - and examines the extent of **their reallocation towards "green" issuers** as identified through EU Taxonomy-aligned revenues.
- **The findings indicate a marked increase in green asset holdings** among funds classified under Articles 8 and 9, especially after the SFDR's phased introduction beginning in March 2021. These funds exhibit significantly stronger shifts towards issuers with higher environmental alignment,

- both in terms of asset share and absolute holdings. By contrast, Article 6 funds show negligible changes, underscoring the regulatory framework's role as a catalyst for ESG integration.
- Additionally, **the analysis controls macroeconomic and market-wide factors**, such as sector-specific performance and issuer-level risk profiles, **isolating the regulatory effect**. The results persist across fund types, geographies, and control groups, suggesting that reallocation is primarily driven by regulatory compliance rather than incidental market trends.
- However, the study also notes **some constraints**. Green investments are still relatively concentrated, with limited diversification opportunities across sectors. Moreover, the quality and availability of sustainability data continues to pose challenges, especially regarding smaller issuers and non-EU companies.

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