Sustainable Finance-Committee
of the German Federal Government

Interim Report

The Significance Of Sustainable Finance To The Great Transformation

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Executive Summary

Germany is to become a leading centre for sustainable finance. The German federal government is using its ambitious goal to mobilise all financial market players to finance the transformation towards a sustainable economic and financial system and partake in its success.

In a way comparable to the structural fissures triggered by digitalisation, the need for climate protection and the United Nations Sustainable Development Goals (SDGs) provide but a short window of time for developing self-directed approaches to transformation. Those who want to avoid disruption must act now – in collaborative, systemic and forward-looking ways. The Paris Agreement on Climate Change provides clear guidance alongside the UN's SDGs.

The transformation is essential in view of the social and ecological challenges, but also in view of global competition. It offers opportunities for future competitiveness, for innovation, growth, prosperity, security as well as employment and safeguards social stability and an intact environment.

Three players are key to the success of the transformation, and this Interim Report is directed mainly to them: the German federal government including the German public sector, the real economy companies and the financial market players. Even though the initiative must come from the German federal government, the actions of all three players are decisive. To this end, the Sustainable Finance Committee has submitted 53 approaches to action in this Interim Report.

The **German federal government** and the **German public sector** both provide the framework and serve as models. The government should make purposeful decisions and take concrete action in the near future to provide a compass for the realignment of the economic and financial system. Sustainable finance needs to be understood as a central, comprehensive and overarching task for the financial sector, which requires coherent decisions across the board.
Key approaches to action include:

- Introduce an effective CO2 price, develop approaches to transformation for all sectors and put in place the right parameters for boosting suitable investments in the real economy.

- Implement the political goals by way of budgetary allocations and portfolios, in connection with economic stimulus packages and guarantees as well as, for example, with the help of the German savings banks when promoting the transformation at the regional level.

- Participate in shaping and implementing the EU Green Deal and the EU Action Plan for Financing Sustainable Growth, particularly the implementation of the taxonomy.

Real economy companies expect planning security and efficient access to the financial market. In addition to the supervisory framework for the real economy, transparency, data comparability and risk management are to be improved as well:

- Standardise financial and sustainability reporting to arrive at “integrated reporting” and expand the concept incrementally to medium-size joint-stock companies, SMEs and companies exposed to particular risks. Perform regular climate stress tests and scenario analyses. Require exchange-listed companies to apply the TCFD recommendations to their reports from 2022.

- Align the obligations of and requirements for corporate management and accounting in ways appropriate to the transformation, and adjust the supervisory framework to the long-term goals of the transformation.

- Increasingly include common goods and social costs in corporate management and accounting, and internalise external costs.

Financial market players are called upon to offer funding to companies as well as investment, banking and insurance products to both private and institutional investors which make a measurable contribution to the transformation and at the same time expand their sustainability reporting:

- Make sustainable finance products and their contribution to the transformation comparable through a multi-level classification system and design more adequate financial advisory processes.

- Systematically consider key sustainability parameters in both the risk management and the strategy of all institutional investors; disclose the impact of their portfolios and funding on sustainability topics.

- Adjust incentive and sanction mechanisms in corporate management as well as requirements for qualifications and continued education to promote a focus on sustainability among management and non-executive personnel alike

Science shall be part of the process and support the three other players by providing a scientific foundation for the transformation and by contributing objective, well-reasoned and sound knowledge.

Civil society provides important impetus and serves as a critical sparring partner, so to speak, for the players.

The German federal government has tasked the **Sustainable Finance Committee** to advise the German government as it drafts and implements a sustainable finance strategy with a view to using sustainable finance as a competitive advantage to boost Germany's attractiveness for business and finance. The approaches to action set out in this Interim Report are thus directed first and foremost to the German federal government, but they will benefit from collaboration with all economic and financial market players as well as both the scientific community and civil society. They reflect the current state of ongoing discussion among the diverse Committee. Work on the final report will continue with a view to finalising recommendations for the federal government.

This **Interim Report** hence serves to facilitate a discussion with you, dear readers. We invite you to contribute your ideas and suggestions in support of both the development of the final report (to be published in the fall of 2020) and the strategy of the German federal government.

Introduction - The Significance Of Sustainable Finance To The Great Transformation

There is a growing awareness that neither politics nor society can escape the acute consequences of industrial growth in the long term. Seven of the ten major risks which will affect the coming decade are sustainability risks[1]. Consequently, our patterns of production and consumption are facing a comprehensive transformation[2]. The German federal government did not only commit internationally to the goals of the Paris Agreement on Climate Change[3] and the 17 Sustainable Development Goals (SDGs)[4] of the United Nations 2030 Agenda but was one of its major proponents, in the run-up to the agreement. The EU and Germany have committed to carbon neutrality by 2050.

The impending transformation is inescapable if we are to ensure positive economic growth and hence sustainable prosperity. Maintaining and strengthening Germany's competitiveness is a precondition. Whether this is successful depends on how quickly the German federal government identifies the competitive advantages associated with the transformation and establishes the requisite framework by way of a transformation strategy.

The financial sector is key to the funding of the transformation. Sustainable finance thus becomes a decisive competitive factor, but its effectiveness is predicated on political parameters that support and manage the process.

To both mobilise the financial sector as best as possible in keeping with the transformation and develop Germany into a leading centre for sustainable finance, the German federal government has tasked the Sustainable Finance Committee to develop an appropriate strategy. The Sustainable Finance Committee aims to identify the determining factors enabling capital flows to better support the transformation's momentum and help Germany to take on a leading role internationally. This means for one that financial market players and governments worldwide see the German sustainable finance strategy as ambitious in its goals and, for another, that it succeeds in achieving these goals, and therefore that the strategy is considered relevant to the decisions they make with respect to their own activities.

The following elements are pivotal to the widespread adoption of sustainable finance: 1) im-proved

[1] See World Economic Forum, The Global Risks Report 2020, https://www.weforum.org/reports/the-global-risks-report-2020. These seven major risks are: climate action failure, biodiversity loss, extreme weather, water supply crises, natural disasters, human-made environmental disasters, infectious diseases.

[2] In its publication, "World in Transition: A Social Contract for a Great Transformation", the German Advisory Council on Global Change (WBGU) introduced the concept of a Great Transformation into the sustainability debate as early as in 2011. According to the report, human history has seen two fundamental transformations: the Neolithic Revolution, which saw the invention and spreading of farming and animal husbandry, and the Industrial Revolution, which completed the transition from agricultural to industrialised society. According to the report, a radical change which will have a similar historical impact on humanity is imminent. See https://www.wbgu.de/fileadmin/user_upload/wbgu/publikationen/hauptgutachten/hg2011/pdf/wbgu_jg2011.pdf

[3] See http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

[4] See http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

transparency and assessment in respect of the sustainability of funded activities, 2) greater knowledge and awareness of funding risks and opportunities against the backdrop of the transformation, 3) translation of the above into expanded risk management systems, 4) a longterm decision-making horizon as well as 5) the active participation of the public sector in shaping the process. Eventually, this means that the financial sector itself must undergo a process of transformation.

In the long term, the financial sector's contribution to the impending transformative process will only be credible if the effects of the funding and investment decisions verifiably foster sustainable development. Science-based measurement procedures must be developed to show that the provision of capital triggers positive effects or, at minimum, avoids negative ones. This will serve as the touchstone for measuring whether the financial sector does its part to serve sustainability goals.

At the European level, the German federal government has the strategic opportunity to proactively shape and give impetus to the European Green Deal and the ongoing development of the EU Sustainable Finance Strategy. This also requires openness towards changing roles of institutions, e.g. as illustrated by the European Central Bank's current deliberations as to how to shape its monetary policy mandate to support sustainable economic growth. The European Investment Bank's (EIB) goal to use its power to reinforce the European economy's global competitiveness through its trailblazing role in climate protection technologies goes in this direction as well.

The present Interim Report takes up some of the suggestions other countries have made, among them France, the United Kingdom, the Netherlands and Canada. Initiatives launched by important international players in the private financial sector also show the extent to which many countries all over the world now believe that the transformation towards sustainability is economically significant. It is appropriate therefore for the German federal government to develop a strategy which matches its ambitious goal of playing a leading role in this respect.

The recent social mobilisation calling for climate protection in Germany and Europe, has further pushed the debates on a fundamental rethinking of production and consumption patterns up the political agenda and has palpably enhanced acceptance of this necessary development in German economic circles as well. For example, the German federal government has resolved in its climate action programme to develop the German Reconstruction Loan Corporation (KfW) into a transformative development bank that works towards a carbon-neutral future. Those who push the transformation domestically (e.g. through the German climate action package) and who develop and consistently apply the key technologies of a future-proof economy have the best chance of prevailing in European and global cutting-edge markets and being taken seriously as political shapers of a sustainable future. This applies all the more as the transformation benefits much more than other change processes from the ability and willingness to cooperate.

Market forces can and should be a key driver of the realignment of the economic system. The private sector will have to shoulder a large portion of the funds required for the successful reorganisation of the economic value chain. However, experience so far also shows the following: Within the existing framework, market forces alone do not generate the broad momentum necessary for realigning existing production and consumption patterns with the required speed and determination. Political uncertainties hamper long-term decisions and hence investments. The potential of market-based initiatives to bring about change is limited absent the credible political will to work towards rapid implementation, absent incentive systems and ways to codify

appropriate duties of care as well as absent consistent and sufficiently long-term, binding parameters. Systemic change therefore requires joint efforts to ensure greater transparency, a better understanding of risk and the elimination of impediments to investment in the financial sector – not to mention greater speed! This also includes containing and finally ending types of funding which inhibit transformation and have significant negative effects on the climate and sustainability.

By presenting its strategic proposals for action in this Interim Report, the Committee is putting the interim findings it has developed since its founding up for discussion.

The approaches to action contained herein are directed first and foremost to the German federal government. In the view of the Sustainable Finance Committee, however, there is no question that a huge effort will be required on the part of all relevant financial market and economic players as well as of science and civil society. This concerns a purposeful transformation towards economic structures which will be feasible in future, while not triggering avoidable structural fissures and carefully managing the inevitable effects of structural change. Only a robust and adaptable financial sector – i.e. a resilient one – will be able to serve the funding needs of the transition and successfully manage the growing risks from ecological and societal distortions, becoming the foundation of change. No matter how complex the details: Putting into practice the impending reorganisation will be all the more successful and faster, the more both the financial sector and the real economy see the transformation as an opportunity. This requires a lot of knowledge, creativity and the commitment of all players, which should be fostered by way of an unequivocal political framework for the financial sector as well as scientific parameters that verify its effectiveness. In turn, this will promote innovative entrepreneurship in Germany, develop new lines of business and, as a result, secure or even newly create permanent, qualified jobs.

Structure

The present Interim Report constitutes a first milestone in the work of the Sustainable Finance Committee. The basics of an ambitious sustainable finance strategy are developed along two central concepts: **Resilience** and **transformation of the financial sector**.

The Sustainable Finance Committee believes that expanding resilience – i.e. establishing robust and adaptable structures – is key to a future-proof financial system and the necessary prerequisite for a successful transformation. Understood in this way, a resilient financial system is the necessary condition for a transformation which entails a strategically designed and funded adjustment process of real economic activity towards the requirements of internationally recognised sustainable development issues.

The implementation of overarching political goals aimed at long-term sustainability is at the centre of the transformation, which is based on the Paris Agreement on Climate Change and its pioneering climate protection targets, resilience and the realignment of capital flows as well as the human rights-based implementation of the SDGs. Ensuring the competitiveness of Germany as an economic and financial centre in line with the goals of the European Union is equally important.

An overarching **introductory chapter** contextualises the central elements of how to establish and expand a resilient financial system as the main pillar of a process which strategically transforms the real economy. In this connection, the respective fields of action are contextualised with a view to a given topic's current status of discussion and implementation in Germany.

The **second** and **third chapters** flesh out the issues of resilience and transformation. They discuss steps the Sustainable Finance Committee has identified to establish and expand a robust and adaptable financial system and/or that it considers key to successfully shape the impending transformation.

Appropriate data are the foundation of a resilient financial sector supportive of the transformation. **Chapter 4** presents suitable transparency and disclosure recommendations for both companies and especially for the financial sector.

Chapter 5 addresses the role model function of the public sector in its capacity as a financial market player, e.g. as a buyer of financial services, as a force which sets signals and thus gives direction, as a source of funding and investment and as a shaper of management and incentive systems.

In **Chapter 6**, the Interim Report closes with an overview of the next steps. The aim is to present the final report after the 2020 summer break. This enables launching the implementation of the proposed measures within the current legislative period.

The Interim Report invites all players engaged in sustainable finance in Germany to contribute their ideas and knowledge. We want to use these opportunities together and become a leading centre for sustainable finance. This is how we will contribute to the fulfilment of the commitments Germany undertook when it signed the Paris Agreement on Climate Change and the Sustainable Development Goals of the United Nations.

1 Strategic Fundamentals And Preliminary Considerations

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1. Strategic Fundamentals And Preliminary Considerations

The capabilities of the financial system play an important role in the transformation of existing production and consumption patterns. A holistic, systemic and intelligent approach taking into account the entire financial system is necessary for this endeavour to be effective in the scope required and develop the requisite momentum. It will not suffice to focus merely on strengthening green or sustainable parallel structures. Therefore, limiting the work to the regulation of sustainable finance products will fall short too. Additional requirements on those products for avoiding socalled greenwashing incur costs which place then at a systematic competitive disadvantage.

In order to achieve the transformation, the financial sector needs the help of the political sphere as well as of civil society and science. Politically binding approaches to transformation to achieve the sustainability goals are key benchmarks for the financial sector which it can use as guideposts.

Given the structure of the German financial sector and the special significance of small and medium-sized enterprises (SMEs) in Germany, particular attention must be paid as well to how smaller institutions and companies with fewer resources can contribute. Their help is needed for the transformation to be achieved in the required scope.

While financial sector entities are subject to both European and international requirements, particularly in respect of risk management, any national leeway should be utilised to the extent that it exists.

The Sustainable Finance Committee believes that three overarching, strategic aspects will be decisive to the success of the transformation.

1. Coherent political approach[5]
2. The roles of key financial market players
3. Flow of information between companies and the financial sector

[5] Here, a coherent political approach is defined as support from other policy domains and/or the collaboration of different political areas to achieve overarching goals or, at minimum, to avoid any political act which runs counter to these goals

1.1. Coherent Political Approach

Description and status quo

A supportive and sustainable financial system is key to promoting the transformation of the real economy towards a future-proof and forward-looking value chain. It requires a coherent supervisory framework, the implementation of which is plausible and not contradictory. This concerns an empowering supervisory framework for the sustained development of both the financial industry players and the companies as well as the public sector's[6] pivotal role and role model function.

Absent a comprehensive political strategy, the goals of the Paris Agreement on Climate Change and the Sustainable Development Goals of the United Nations are not yet being pursued consistently enough. Whilst the national sustainability strategy[7] does specify a number of key indicators and sustainability goals, so far, they have only been accorded low priority in practice and their targets generally are of a medium-term nature, resulting in a lack of short-term incentives. Germany's federal government also did not take on a leading role appropriate to the country's position within the EU in implementing the EU Action Plan on Sustainable Finance.

Challenges

The financial industry can fund only those economic activities which companies develop. The supervisory framework of the real economy and resulting incentives materially determine the success of business models focused on sustainability as well as of investments in sustainable production practices. If the incentive and supervisory framework for the real economy is incoherent, the financial sector has but few options at its disposal to offset the resulting problems (e.g. through preferential interest rates, risk coverage and the issuance of guarantees).

Individual initiatives which have arisen at the federal and state level, for instance, must be welcomed. A coordinated approach – e.g. as regards the issuance of green bonds by the German federal government and individual German states or in connection with the adoption of comparative sustainability indices for pension funds – is the next meaningful step. In addition, there are legal loopholes which need to be closed. The production of particular types of weapons is for example prohibited in the Federal Republic of Germany, but funding such production is not subject to any restrictions.

The different players must cooperate strategically for Germany to become a leading centre for sustainable finance. So far, the German federal government has largely left the development of approaches to and strategies for sustainable finance to financial sector players.

[6] Public sector is taken to mean the corporations under public law, specifically, in connection with their activities as (public) entities as well as their assets and borrowings.

[7] The German Sustainability Strategy describes the means by which the German federal government aims to contribute to the United Nations' sustainable development goals in, with and through Germany

Approaches to action

1. The German federal government understands sustainable finance as a central and overarching task for the entire financial sector. Political decisions are to be coherently aligned with the aforesaid goals across government agencies.

2. The German federal government establishes a centralised office for sustainable finance in the Federal Ministry of Finance to coordinate and drive the process. In particular, this office will coordinate closely with the Federal Ministries for the Environment and the Economy as well as other relevant government agencies as to the incentive and supervisory framework for the real economy. This office will be given the requisite resources.

3. Governmental agencies at both the federal and the state level will combine their activities in a joint and coordinated federal/state strategy for sustainable finance. A joint sustainable finance strategy will be launched at a sustainable finance summit in early 2021

1.2. Role Of Key Financial Market Players

Description and status quo

A number of private and public initiatives related to sustainable finance were established in recent years, and in some cases even decades ago, in Germany and with the help of German financial market players, in part with considerable success [8]. However, so far Germany has not developed an overarching strategic perspective as to the roles of pivotal financial market players in the context of sustainable finance. Many initiatives act alongside each other without exploiting their synergies.

Challenge

The financial sector can contribute optimally to the achievement of the aforesaid goals if and when all financial market players arrive at a common understanding of their respective roles and contributions, thus ensuring a coordinated and comprehensive approach.

Approaches to action

Transfer of the work of the Sustainable Finance Committee to a permanent working structure supported by experts from the financial sector and the real economy, civil society and the scientific community. In close cooperation with the sustainable finance coordination office of the Federal Ministry of Finance, this structure ensures that the effectiveness of the adopted measures is evaluated at regular intervals.

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[8] In Germany this includes the Forum for Sustainable Investments (FNG) and the "Green and Sustainable Finance Cluster" (VfU). Internationally this includes a variety of approaches under the auspices of the United Nations Environment Programme Finance Initiative (UNEP FI) as well as initiatives such as the Principles for Responsible Investment, the Network for Greening the Financial System and the Principles for Sustainable Insurance.

1.3. Flow Of Information Between Companies And The Financial Sector

Description and status quo

To assess risks and opportunities associated with sustainability, financial market players need solid and meaningful data on companies and customers that are recipients of investments or loans. These data in turn feed portfolio-based aggregation, e.g. for investment products and investment funds.

A number of different methods have taken root. Whilst some of them exist alongside each other in practice, they regularly arrive at divergent findings due to different measurement approaches.

So far, sustainability-related factors have played a subordinate role in financial reporting, with the result that sustainability as an additional source of risks and opportunities is not given adequate attention. Owing to the juxtaposition of financial reporting and "non-financial reporting" (i.e. sustainability reporting), which is still practiced by most and sanctioned by law, there is generally no meaningful relationship between sustainability indicators and the data included in balance sheets, income statements and cash flow statements. Sustainability rating agencies as well as a few institutional investors have developed methods for measuring relevant sustainability data so that they can be considered in investment and funding decisions. However, gaps in data, particularly regarding smaller and unlisted companies, as well as inconsistencies in the methods and a lack of validation (e.g. by the auditor) impede comprehensive integration of relevant and material sustainability factors into investment and/or credit processes. Consequently, the financial sector's steering function still lacks efficiency. Similarly, retroactive impact analyses of investments and loans remain the exception so far.

To date, there is no systematic, holistic approach to ensure a comprehensive information base and decision-making aids along the entire value chain that could serve as the basis for the financial sector's sustainable actions are lacking.

Challenges

Only a small number of companies report on sustainability risks and opportunities in the required depth and quality. Given the resources required to do so, such reporting is a particular challenge for SMEs as well as unlisted companies.

Forward-looking reporting by companies is essential for the assessment of sustainability data. Such reporting is conducted, but rarely in the required quality. The need to maintain the confidentiality of trade secrets, e.g. investment strategies and dates poses a challenge in this context.

The lack of standardised reporting formats, the lack of clarity as to material sustainability factors, different measurement approaches on the part of sustainability rating agencies as well as – for some financial market players – the cost of accessing sustainability data make it difficult to analyse the data systematically and efficiently. Similarly, in many cases financial market players' lack of knowledge and awareness of the relevance of sustainability data still impedes its inclusion in investment and funding decisions.

For instance, so far financial market players do not systematically collect sustainability data as part of their lending to companies and individuals, although doing so would make it easier to understand risks and opportunities. However, this means that additional expenses for analyses are incurred and adjustments of IT systems are required.

In future, financial market players will increasingly have to rely on various sustainability-related

scenarios as well as conduct stress tests in order to better assess the ramifications of sustainability risks. To date, scenarios adjusted to the needs of financial market players, which take into account a range of different sector-specific development approaches, are not yet available. Sustainability goals may contradict each other. Here, both the taxonomy developed by the EU and solutions developed by sustainability rating agencies offer options for pinpointing potential negative effects on particular target areas. So far, such solutions have not been applied across the board based on uniform standards.

Measuring the impact of investments and funding is a challenge, given the complexity and scope of the process and hence the difficulty of standardising it. As a result, a lack of clarity and/or uncertainties, a lack of insight, divergent methodologies and the absence of regulatory requirements result in limited use of such data as a basis for financial institutions' funding activities. What this requires therefore is a well thought-out and comprehensive information infrastructure, an emphasis on knowledge and awareness as well as standardised decision-making aids.

Approaches to action

The Sustainable Finance Committee believes that combining financial and sustainability reporting is the best way to improve the flow of information. This goal should be pursued consistently, even though the obstacles seem high at first. Therefore, the following concrete approaches to non-financial reporting are to be considered in respect of the urgent information needs (they are discussed in greater detail in chapter 4):

1. Expand sustainability-related reporting incrementally to all companies, including unlisted ones and, increasingly, SMEs.

2. Include forward-looking sustainability factors in corporate reporting.

3. Standardise sustainability-related corporate reporting, with a view to increasing its usability for stress tests.

4. Simplify access to companies' raw sustainability data.

5. Collect sustainability data in connection with lending.

6. Develop baseline scenarios for the application of scenario analyses as well as stress scenarios for stress tests.

7. Develop standardised impact measurement methods so that the outcome of investments and funding in relation to the intended achievement of sustainability goals can be measured.

8. Establish a point of contact which offers decision-making assistance in specific cases where sustainability goals contradict each other. Such an office could be located within the permanent working structure of the Sustainable Finance Committee (see section 1.2).

2 Resilience

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2. Resilience

Resilience is understood as robustness and adaptability of the financial sector as pillars of a future-proof economic order.

Initially used in physics, the term resilience as used in economic discourse refers to the ability of an economy to successfully process economic shocks to the system. Note that building up and expanding resilience do not constitute steps taken to prevent crises. Instead, resilience focuses on establishing systemic structures that are robust and durable (i.e. maintain the system's functions) in crises situations that cannot be avoided (at all or no longer). Hence resilience also encompasses the notion that crises or challenges are best surmounted through the ability to learn and adapt.

It is important to analyse particular areas of an economy as to the extent to which they mutually influence each other in terms of their robustness and adaptability in order to arrive at a holistic understanding of the financial system's role in guaranteeing system-wide resilience and therefore the sustainability of the given economy.

2.1. Sustainability Risks in Risk Management

Sustainability risks are one aspect of the known financial types of risk (credit risk, counterparty default risk, market price risk, liquidity risk, operational risk, reputation risk) because they affect all risk types. It is almost impossible therefore to delineate sustainability risks, neither would it be helpful to do so. The customary quantitative risk management procedures used by the financial industry to manage, for instance market and counterparty risks, currently do not adequately plot relevant and forward-looking sustainability parameters (e.g. climate-induced risks).

Appropriate risk management systems are necessary in order to identify, measure, verify and manage all material risks affecting institutional investors and credit institutions, taking the principle of proportionality[9] into account. The systems of institutional investors as well as of credit institutions and insurance companies must be refined and/or supplemented so that the potential materiality of sustainability risks can be determined and, if necessary, addressed adequately and systematically in existing processes. Specifically, this must be based on science-based forward-looking scenario analyses and/or stress tests. Among other things this includes assessments of the way given business activities are associated with negative climate impacts and the transition to a CO_2 neutral economy, assessments of the extent to which liability risks related to human rights violations may be present in the supply chain, but also other ecological and social factors which affect material financial risks. The materiality of sustainability risks must be assessed with reference to the SDGs and the Paris climate goals. Uniform standards are needed for collecting the data required for such measurements.

In addition to integrating material sustainability parameters into risk systems, it is crucial to review and refine existing procedures for scenario analyses and/or stress tests as to the systematic application of science-based, forward-looking scenario analyses. Of special importance is for instance the extent to which science-based and forward-looking CO_2 reduction targets involving milestones for companies can be included in order to overcome remaining methodological challenges.

A number of activities such as the impending review

[9] See the glossary.

of the EU “Non-Financial Reporting” Directive are already taking place at the level of the European Commission and in Germany. The respective non-binding guidelines published in June 2019 largely incorporate the recommendations of the “Task Force on Climate-related Financial Disclosures” (TCFD)[10]. It would make sense to expand this approach above and beyond risks induced by climate change. The German federal government is called upon to adopt a regulation which requires all listed companies in Germany to apply the TCFD[11] recommendations from 2022.

Consequently, standardised, company-specific data would be available to reporting entities in accordance with an already internationally accepted (and so far voluntarily applicable) reporting standard.

At the same time, suitable institutions in collaboration with industry associations should assess appropriate measures for creating comparable standards regarding information and data flows (e.g. through proxy and approximation values) for unlisted companies (e.g. large family-run businesses, SMEs). Suitable partners include associations, chambers of commerce and industry, credit institutions and the business agencies of the German states which notify all companies in Germany of the new sustainable finance requirements and come up with joint solutions. This may be accomplished at the local level (e.g. for each chamber of commerce and industry). Germany could assume a leading role by transposing the recommendations into national law.
Insurance products supporting the transition of the real economy are contingent on a better understanding of the transformation’s implications and of the factors which affect both the scope and the frequency of loss events. For instance, sudden reassessments of the risk of meteorological extreme weather events may trigger a sharp increase in insurance premiums or even lead to uninsurability, with the respective adverse effects on the availability of funding.

Civil society can serve as an early warning system for gaps in the reporting system and in the management of sustainability risks; it can help to ensure that the perspective of (groups of) people affected by these risks is considered in the process. Such an early warning system also serves to foster public acceptance of the sustainable reorganisation of the financial markets and thus the socioecological transformation.
In addition, instruments improving the measurements of material sustainability factors as an aspect of financial risks are to be promoted, so that they can be accounted for in connection with scenario analyses and stress tests.

Approaches to action

These are the necessary core components[12] of risk

[10] See also the ESMA proposals on the level 2 measures related to the “Undertakings for collective investment in transferable securities” (UCITS) Directive and the “Alternative Investment Fund Managers” (AIFM) Regulation, which aim to account for sustainability risks in the investment and risk management process in all investment portfolios.

[11] See https://www.fsb-tcfd.org/publications/final-recommendations-report/

[12] The leeway is generally defined along the dimensions a) commitment vs. voluntary action, b) scope and/or depth of the reporting and c) a time dimension as well.

management respecting investors[13] and credit institutions as well as insurance companies:

1. Provide certainty for investments through a reliable and effective CO2 price as well as through sector-specific policies for implementing non-disruptive roadmaps and objectives.

2. Unless already covered by EU requirements, incrementally introduce the systematic consideration of material – and forward looking (> 5 years) – sustainability parameters in risk management and strategy development processes at all institutional investors and credit institutions (including the public sector). The ongoing development and use of science-based and forward-looking scenario analyses/stress tests is essential in this context. In this connection, the ramifications of any support, indifference or obstruction of the necessary transformation process by political, economic and social players shall be explicitly described along the required 1.5°/< 2° changes[14] described by climate scientists.

3. Risks to companies[15] may also arise indirectly through a given company's effects on its environment and society at large, e.g. through retroactive reputation risks (double materiality[16]). An analysis of the suppliers and supply chains (e.g. respecting liability risks) may be indicated in this connection. Companies are thus expected to provide double materiality reports, but they should have methodological leeway as to matters of implementation (determination, method of analysis). With a view to further developing the methods, an intensive dialogue between the real economy, the financial industry, supervisory authorities, the legislature and experts should be fostered. Once a method gains traction, its effects should be reviewed, and any additional need for action should be based thereon. Internal risk management processes at institutional investors and credit institutions should be expanded as necessary in order to systematically account for financially relevant sustainability risks as well as include portfolio scenario analyses/stress tests[17].

4. Basic review of the existing supervisory framework for all affected financial market players at the (European and) national level as to the maturity of their effect and their time horizon. As part of the review mandated by the European Commission, the European Supervisory Authorities (ESAs) submitted their respective reports at the end of 2019. In the view of the Sustainable Finance Committee, these reports do not provide conclusive answers to the conflict between a short-term oriented supervisory framework and long-term sustainability risks. Further analysis is required, as the analysis at

[13] Institutional investors of the financial industry such as credit institutions, insurance companies, asset management firms, financial services firms, corporate and professional pension institutions such as pension funds, benefit schemes, benefit funds as well as the public sector.

[14] Effects induced by climate change comprise physical and transitional risks as well as changes in demand structures, new technologies and litigation risks.

[15] Understood here to mean investment objects.

[16] See the glossary.

[17] See also chapter 4.1, section 3c on transparency.

the European level cannot by definition provide in-depth examinations of national specificities which is especially important in this context. In this connection, the appropriate selection of both the observation period and the term applicable to the requirements and ramifications of the supervisory regime depends on the given financial market player and their business model and/or the product range and thus should be specifically aligned with such parameters. The transposition into national law of the applicable EU supervisory framework makes it more difficult and/or impossible[18] for individual players exposed to long-term obligations (e.g. pension institutions in particular) – which may, at the same time, be important investors in connection with the transformation – to align their investment policies with the long-term goals of their business model.

5. It is inevitable to consider additional ecological and social factors besides climate protection in business decisions. In practice, this necessarily leads to situations where goals must be weighed against each other. Sustainability rating agencies have developed finely-tuned methods in recent years to show how to handle such conflicts and how to integrate sustainability parameters into decisions. A generally accessible dialogue platform as well as instruments should be developed on that basis to provide support, transparently and efficiently, through assistance and decision-making aids in case of conflicting goals. They could be incorporated into the permanent working structure of the Sustainable Finance Committee (see section 1.2).

6. Expand fundamental research on the ramifications of climate change in order to help insurers better assess future climate-induced risks for a given insurance company and its specific business model. It would be easier for insurers to cover real economy transition risks, for example, if they considered the impact of climate change in connection with the type and scope of a potential obligation from a loss event and if the findings made it possible to adjust individual insurers' regionally or topically specific product range.

[18] For details, see: Stefan Nellshen: "Zusammenhänge zwischen Bedeckungsvorschriften, Anlagemöglichkeiten und Finanzierungssicherheit der Leistungen einer Einrichtung der betrieblichen Altersversorgung (EbAV)" [Links between coverage requirements, investment options and funding security of occupational retirement provision (IORP)]; [in:] Betriebliche Altersversorgung [Occupational Retirement Provision] 4/2016, p. 322 ff. The IORP II Directive serves to ensure that the pension institutions it concerns always possess adequate and appropriate assets for covering insurance-related provisions (Art. 14 of the IORP II Directive). Whilst the EU's supervisory framework offers some flexibility in this respect, i.e. permits a coverage shortfall for a limited time and subject to specific requirements, in Germany such an approach is not feasible for most pension institutions.

3 Transformation

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3. Transformation

Transformation[19] here refers to the macrosocial process of change from the current status quo all the way to a target condition in which the planetary limits are adhered to.

The change which arises through a transformation is both fundamental and permanent. We take the elements of the transformation in our context to mean development paths which, in view of a medium to long-term alignment (i.e. the target condition), must already be reflected in the short-term and direct decisions in ways that conform to the goal(s).

In contrast to the actively planned, managed and supported process of transformation, there is a risk of disruption whenever the economic order is subject to incontrollable change arising from external events which are barely influencable (in the short term). Such events may include (unexpected) decisions which preclude the continued use of particular technologies in future.

But regional extreme weather events or a catastrophic accident in a nuclear power plant could conceivably trigger such events too. The economy might not be able to respond as quickly as necessary to such sudden swerves in the general environment, with possibly far-reaching consequences for the given country's prosperity, social security or political stability. The risk of such disruption rises disproportionately if the onset of a strategic – i.e. planned, managed and supported – process of transformation is delayed too far into the future.

Whenever the state commits to a fundamental change in its political goals due to national decisions, it affects parts of its economy. In this case, the affected real economy generally needs the strategic support of both the state and the financial sector to reorganise value chains along the changed political goals.

This particularly involves future-proof and future-enabling funding options for investments serving the changed political goals. These financial instruments must be secured by way of a coherent and consistently implemented political framework. All areas of the financial system must be included in such implementation. Decisionmakers' strategic tools currently do not yet include a full understanding of the need for and the scope of the transformation as well as of its ramifications for the future-proof funding of the real economy. Equally absent is the linking of the respective institutional framework back to the transformation (e.g. in supervisory law). Hence concrete solutions and appropriate adjustments of existing regulations are still insufficiently developed. They need to be established and then internalised with a view to making future-proof funding a routine component of calculated decision making and incentive systems at all levels, as happens in the classic parameters of economic models such as commodities prices and wage costs.

[19] See also the reference in footnote 2 to the work of the German Advisory Council on Global Change (WBGU)

3.1. Product-Related Measures

In order to be able to bring about the transformation of the economy towards sustainability as defined in both the SDGs and the Paris Agreement on Climate Change, sustainable financial products of all types – particularly investment products, banking products and insurance products – contributing to this goal must be offered to private and institutional investors alike. The transformation will succeed only when and if such offerings are made available not just by special providers but by the entire financial services industry. Access for customers must be as easy as possible and should be facilitated by appropriate labelling of all financial products.

The taxonomy adopted at the European level is considered a first step towards enhancing transparency at the product level. Hence the introductory phase of the taxonomy should be used to test its feasibility as to its transformative effect and to make adjustments as necessary. Germany should engage more actively, visibly and constructively with the developments at the European level . The central recommendation regarding product related measures therefore is to introduce a binding product classification system based on the EU taxonomy that specifies each and every financial product's contributions to the SDGs and Paris climate goals. Comparable product classification systems are known from other spheres of life (e.g. energy efficiency classifications). It is important to avoid creating black-and-white classifications and instead to transparently illustrate gradual contributions of a specific product to sustainability. Minmum standards for governmental incentives related to sustainability products may be defined on this basis.

Developing the private customer market requires easy access for customers to financial products which conform to the transformation. The special preferences of German private customers must be taken into account, for example, by expanding the range of low-risk sustainable savings products. The above notwithstanding, the classification system helps institutional investors to identify products appropriate for their investment strategy and risk preference.

Eased product issuing requirements for investment products in Germany would boost the supply and demand for sustainability products.

How to handle government bonds and securitised bonds needs to be specified in a timely manner as part of the EU taxonomy for the pension products containing guaranteed assets which are very popular in Germany. Supervisory law does privilege the holding of such securities, but they lack an explicit categorisation in the context of sustainability, making it more difficult to determine a sustainability quota at product level.

It needs to be ensured that adequate investment opportunities are available when promoting offerings of transformation-related and sustainable financial products. Corresponding actions must thus be taken for the real economy at the same time.

Approaches to action

1. Create a binding, transparent classification system for all financial products which enables different gradations and is suitable for incremental product adjustments towards greater sustainability. The classification should visualise the contribution of each and every financial product to the transformation. Based on the binding product classification system, voluntary private labelling systems for specific sustainability approaches continue to make an important contribution to both the promotion and quality assurance of sustainable investments by fostering a dynamic market through more ambitious approaches and innovation and by providing

guideposts to private and institutional investors alike.

2. Expand the range of sustainability and/or transformation products by easing supervisory requirements related to the conversion of conventional products into sustainable and/or transformative products as well as to the licensing of such products.

3. Evaluate the extent to which a significant market for fungible infrastructure investments could be created through funding vehicles for projects that accord with transformative projects (e.g. infrastructure REITS).

4. Approve impact products as described in the Transparency Regulation pursuant to the exceptions for public, national Alternative Investment Funds (AIF), analogous to section 222 of the German Capital Investment Code (KAGB) respecting investments in microfinance institutions.

5. Develop sustainable projects and activities eligible for funding: The number of projects offering an adequate volume and an acceptable risk profile for the financing institutions falls short of the very high level of funding needs[20]. Analyses of technological aspects such as environmental technology or the functionality of social projects as well as comprehensive project development are some of the prerequisites in this regard[21].

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[20] Some €180 billion in additional investments within the EU for achieving the 2030 climate goals, see https://ec.europa.eu/commission/presscorner/detail/de/MEMO_17_5224.

[21] Among other things, the production of energy from renewable sources requires managing both unusual risks (lulls in wind and/or solar production) and unusual loan terms. Suitable standardisation procedures, routines and best practices increase the chances that sustainable projects and activities can be routinely funded. Offshore wind project funding, for instance, is no longer a problem. A variety of obstacles may complicate the funding of sustainable activities.

3.2. Governance- And Incentive Systems

In a world characterised by no or only insufficiently internalised, external (sustainability) effects, market forces do not work adequately because pricing is incomplete or distorted. Consequently, it is impossible for the financial system to fulfil its principal funtion of efficiently allocating funds and information. In both the real economy and the financial industry, neither the value of public property nor social costs are currently included in calculated decision making to the extent necessary.

In Germany, incentive systems in the financial sector, such as public guarantees as well as interest and repayment subsidies, are not broadly aligned with sustainability goals, even though the KfW has already built up a large sustainability portfolio and is in the process of turning itself into a transformation bank.

Whilst a growing number of companies is allocating responsibility for sustainability-related issues to the highest management level, this is not yet standard practice. The effective embedding of sustainability goals in business strategies as well as in the target achievement and remuneration systems still is the exception rather than the rule.

Challenges

Comprehensive and adequate pricing of losses resulting from the lack of sustainability at the corporate level will lead to competitive disadvantages for export-driven companies as long as there is no globally harmonised approach.

Creating effective funding incentives for new technological approaches and allowing those which contradict sustainability goals to end is a key challenge. Moreover, financial market players partially lacking expertise regarding new technologies and their integration into business models hamper comprehensive and rapid changes.

The realignment of public incentive systems as well as of export guarantees with sustainability goals requires political leadership.

Embedding sustainability as a strategic leadership issue at the highest management level, in the supervisory bodies and as an element of remuneration is voluntary and, in the short term, may lead to conflicts with financial goals. The lack of incentives results in slowing a widespread effect.

In Germany, complex professions such as risk and portfolio manager are not subject to formalised and standardised licensing requirements, i.e. both knowledge and awareness of sustainability risks hinge on personal preferences and are not broadly standardised.

Approaches to action

1. The German federal government should push for measures to internalise external costs and effectively flesh out supplementary policies so that the financial market can allocate funds efficiently.

2. Support the EU Commission in the design of climate-focused taxes, emissions trading and fees aimed at achieving effective carbon leakage protection, even in the face of high CO2 prices and the full steering effect in the value chain.

3. Conduct comprehensive, coherent analyses of governmental incentive mechanisms for the financial system. The design of existing subsidies, support programmes and other incentive structures requires both an appraisal of the status quo and ongoing evaluations of their effectiveness in achieving the sustainability goals. Mechanisms

are to be expanded and inconsistencies eliminated. This applies at the national level (federal, state, municipalities) as well as at the European level and internationally. The German federal government shall report on the findings.

4. Refine the pricing mechanisms for sustainability losses in a way that protects companies' ability to compete internationally whilst at the same time sending accurate signals for the capital allocation by financial market players.

5. Ensure that risk hedging by the public sector and its subsidiary organisations – including commissioned entities such as Euler Hermes for export credit guarantees, guarantees for un-restricted loans ("UFK" guarantees) and federal investment guarantees – as well as the development and investment banks is compatible with sustainability requirements. This means that projects and measures which undermine the Paris climate goals or the SDGs cannot be guaranteed. The UFK guarantee instrument, in particular, should be expanded based on the existing infrastructure with the aim of promoting investments in new, innovative projects and technologies with a focus on especially relevant and risky investments (e.g. battery and hydrogen technology). This increases companies' willingness to invest in viable projects and technologies at the macroeconomic level and boosts credit institutions' risk appetite.

6. Prospective risk analysis in the financial industry and in the real economy is predicated on an appropriate risk culture among both management and staff, taking relevant and material sustainability factors into account. Requirements as to qualifications and continued education as well as incentive and sanction mechanisms shall be adjusted at the management level to generate the requisite knowledge and awareness.

a) Continue to develop both duties and requirements in corporate management and accounting in a timely manner to bring about an adequate understanding of sustainability and sustainable action. This includes establishing expertise regarding sustainability in the formal corporate bodies (management board, executive management, board of directors, supervisory board), as well as considering sustainability factors e.g. in the remuneration structure, in assessments of the professional competence of financial institutions' managing directors and in connection with appointments to supervisory bodies.

b) Ensure that financial industry executives possess extensive insight into the link between sustainable transformation and a company's performance. One conceivable option is for them to complete respective additional training as a prerequisite for obtaining their license to work as managing directors.

c) BaFin could issue guidelines or expand existing guidelines on the minimum qualifications and the evidencing thereof with respect to key functions at the operating level (below the executive management) in financial institutions – including portfolio management, credit assessment, risk management, compliance – so that sustainability expertise is expressly taken into account. Improving both guidance and quality assurance requires reviewing whether a whitelist or an accreditation process for qualification and continued education programmes (which also cover the topic of sustainability) is more effective.

d) Firmly embed ongoing training as to sustainability topics at the level of both corporate bodies and the executive management as well as at the level of non-executive employees. These days, many companies use web-based continued

education and certification modules which are easily expanded to include content related to sustainability. Sustainable finance is to be included in the education and training schedule of commercial managers/chief financial officers (CFOs) with the support of local chambers of commerce and industry/technical colleges as well as in the training of insurance specialists and bankers. Sustainable finance should be an integral part of the basic curriculum in all economic and other finance-related degree programmes at colleges and universities.

e) Minimum requirements regarding the knowledge of financial advisers as to sustainability:

I. At the very least, the minimum standard demanded by the EU with respect to the knowledge and skills of advisers working in the financial and insurance industry should be adopted as part of the operationalisation of the requirements respecting the integration of sustainability into the governance of financial institutions, which will be included in future delegated acts on the Second European Financial Market Directive ("Markets in Financial Instruments" Directive, MiFID II). The planned German "Act on the Transfer of the Supervision over Financial Investment Advisers to BaFin" should be designed accordingly.

II. BaFin for its part should prescribe a set of courses on the topic of sustainability for both advisers and executives which encompasses a product and provider-neutral overview of different definitions of sustainability and the links between societal sustainability goals and investment strategies. Already existing EU-supported training programmes can be used as guidance.

f) Sensitise private investors to sustainable finance through educational and training programmes at schools and universities (i.e. courses on sustainable finance as part of a sustainability curriculum or as part of any training in finance). The German federal government should launch a web-based information portal on sustainable finance for end customers analogous to the Federal Agency for Civic Education.

4 Transparency And Disclosure

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4. Transparency And Disclosure

Adequate transparency and disclosure requirements serve to provide better data and information for the decisions of financial industry and real economy players and, ultimately, to ensure investments and funding contribute to sustainability goals[22]. Good data are crucial to the following:

1. assessments of investments and funding at the level of companies, individual engagements and portfolios as to the extent to which they incorporate considerations of sustainability risks (and sustainability opportunities) as well as contribute to long-term sustainability goals, e.g. through coherence with sectoral development approaches and their compatibility with the Paris climate goals,

2. risk assessments along established risk types including special consideration of sustainability risks, among them climate-related risks[23].

Many large corporations in the real economy and/or the financial industry have already integrated sustainability reporting and sustainability data disclosures into their practices. Numerous companies collect high-quality sustainability indicators and disclose how they incorporate them while managing sustainability risks and in view of achieving their own sustainability goals. Given different levels of quality in such disclosures, however, action must be taken with respect to transparent, comparable and reliable sustainability reporting as well as with respect to the ramifications of companies' own business activities on social and ecological topics. Besides issues of availability and comparability, the materiality of the information is particularly important, because the sustainability data published do not necessarily accord with the information needs of various stakeholder groups. Not only financial market players, but also consumers, civil society representatives and the scientific community need more meaningful information on companies. This improves insights not only into the performance, operating results and current and future financial condition of a given company (the classic financial accounting view), but also and increasingly into the social and ecological effects of economic activities (expanded sustainable and therefore holistic view).

A multitude of activities have taken place in this respect in recent years. There is for instance the International Integrated Reporting Council's (IIRC) framework for integrated reporting[24] and the EU Directive on "disclosure of non-financial and diversity information by certain large undertakings and groups" [25]. A special emphasised should be placed on the recommendations of the Task Force on Climate-

[22] The Sustainable Development Goals and the requirements of the Paris Agreement on Climate Change are reference points.

[23] See the representations in the BaFin Circular on the Management of Sustainability Risks, https://www.bafin.de/SharedDocs/Downloads/DE/Merkblatt/dl_mb_umgang_mit_nachhaltigkeitsrisiken.pdf?__blob=publicationFile&v=2.

[24] https://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf.

[25] EU Directive 2014/95/EU, commonly known as the EU "Non-Financial Reporting" Directive (NFRD); transposed into German law through the German CSR Directive Implementation Act (CSR-RUG).

related Financial Disclosures[26] already mentioned in chapter 2.1, because this private sector initiative puts the focus on the need for comparable reporting of climate-related medium and long-term risks. Implementing the TCFD recommendations enables companies and investors to quantify the financial impact of climate change on their business model and to arrive at more adequate assessments of the resilience of their business strategy. The German federal government should introduce legislation which requires all listed companies in Germany to apply the TCFD recommendations from 2022.

With respect to the future design of disclosure requirements EU documents and regulations must be taken into account. They include the EU "Guidelines on Non-Financial Reporting: Supplement on reporting climate-related information" of June 2019[27] and the EU Regulation "on sustainability-related disclosure obligations in the financial services sector"[28] (generally referred to as the "Disclosure Regulation"). Further relevant are the proposals of the EU Technical Expert Group on Sustainable Finance, which is currently developing technical criteria for the implementation of the EU taxonomy[29] among others. These documents are intended not only for the financial industry and the real economy; they also focus on the economic effects on a given company as well as the social and ecological ramifications and their interactions. In other words: Sustainability is increasingly understood as critical to all economic activity, product categories and funding. Transparency is an indispensable basis for a methodologically sound and hence comparable impact assessment of the sustainability performance of companies or financial products. It is a prerequisite for showing the social and ecological added value of sustainable investments with a view towards achieving both the SDGs and the Paris climate goals.

The existing voluntary and binding agreements at the European and international level must be considered when developing the national sustainable finance strategy.

It needs to be ensured that regulations regarding disclosure and transparency in sustainability reporting are harmonised and comparable to the extent possible at the international level but, at minimum, within the European Union. The national measures defined in the sustainable finance strategy as well as the experience gained through them shall be proactively contributed to the ongoing development of the sustainability reporting obligation at the EU level in order to ensure greatest possible harmonisation.

[26] https://www.fsb-tcfd.org/publications/final-recommendations-report/.

[27] See document 2019/C 209/01, Official Gazette of the European Union of 20 June 2019.

[28] Regulation (EU) 2019/2088 of 27 November 2019.

[29] See https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf

4.1. Corporate Reporting

Uniform and appropriate reporting obligations should be developed so that investors, customers of credit institutions and insurers as well as beneficiaries of a pension scheme can get a good idea of companies' sustainability risks and their management.

Approaches to action

1. Expand the scope of sustainability reporting obligation and/or the number of reporting entities in quantitative terms:

   a) The current reporting obligation in respect of sustainability and/or non-financial matters pursuant to the Non-Financial Reporting Directive (NFRD) and/or the German Implementation Act (CSR-RUG) has increased the transparency of corporate reporting in Germany, which now also covers its effects on people and the environment as well as their (sustainability) strategies. The number of reporting entities is to be raised incrementally so that this positive development can be projected into broader sections of Germany's corporate landscape. One conceivable option is to expand it to all joint-stock companies having more than 500 employees (including those which are not exchange-listed as per section 264d of the German Commercial Code (HGB)). See paragraph 7 for additional thoughts about SMEs in general.

   b) Given the growing interest in information on the ecological and social effects of companies' activities, all companies belonging to sectors whose activities entail particular ma-terial risks and ramifications for the environment, human rights and other aspects of sustainability (so-called high-impact sectors) could be included in the reporting obligation as well. Here, particular attention should be paid to the supply chain.

2. Clarify and expand the disclosures required under the reporting obligation in Germany in qualitative terms:

   a) The quality of companies' disclosures will improve once the content of the reports prepared pursuant to the sustainability reporting obligation is specified and refined first at the level of the EU and then at the national level as part of the currently pending and started review of the NFRD.

   b) A clearer and more meaningful explanation of (and expectation as to) the substantive requirements of non-financial reporting (specific information on the disclosures enumerated in the CSR RUG, section 289c (3) of the HGB) should be developed. In particular this concerns the requisite disclosures (including concepts, due diligence, results and risks) respecting topics treated in less detail in reporting so far (among them supply chains, human rights, climate protection, compliance) which are to be published as part of a "non-financial explanation" (NfE). The corresponding specification of the content of reports serves to improve the utility of the information made available and enhance the user-friendliness of the law for the affected companies.

   c) Details on the determination of materiality (section 289c (4) of the HGB) are to be fleshed out with respect to the double materiality requirements (relevance to a given company's financial condition and the effects of its business activities on the environment, employment and society as well as respect for human rights and the fight against corruption and bribery). This is to be done in view of increasing transparency by way of an assessment of all five of the topics addressed in the NFRD for companies while simultaneously strengthening and easing the implementation of the "comply or explain" requirement which companies must satisfy.

This would also result in greater clarity as to the requirements governing audit criteria and audit depth.

d) A concretisation of the risk concept used against the backdrop of different stakeholder expectations (among them shareholders and civil society) is necessary relative to the material risks (see section 289c (3) sentence 3 of the HGB). Given different definitions of the concept of risk in function of the given application context, so far there has been a lack of clarity in corporate reporting which has led to the risk of misinterpretations on the part of report preparers and users alike. Based on both the requirements and their experience in financial reporting, so far reporting companies have taken the concept of risk to mean deviations from plans and/or targets (outside-in perspective). In contrast, growing numbers of report users are also interested in assessments of the external risks in the sense of negative effects on people and the environment and/or climate (inside-out perspective)[30].

e) In addition, greater standardisation of the time and place of disclosures of sustainability data should be considered over the next few years, as this would enhance the comparability of sustainability data (e.g. in connection with the selected audit depth). This concerns the desirable, simultaneous and, in the best case, integrated publication of both financial and sustainability data (see section 315b of the HGB) and/or the greater integration over time of sustainability data into companies' business and financial reporting.

3. Expand and specify the content of non-financial reporting by establishing sustainability indicators:

a) The Committee suggests disclosing a core set of (possibly sector-related) key performance indicators to increase the comparability of the sustainability performance of real economy companies irrespective of an audit of the materiality and/or the relevance to management (see section 289c (3) sentence 5 of the HGB). Additional sector-specific performance indicators could be developed on the basis of a handful of established standard indicators – such as CO_2 emissions (Scope 1+2 and material Scope 3 carbon emissions), accident rates, death rates and other indicators which a multitude of companies already report – through multi-stakeholder processes. These would be reported on independently of the publication of required NfE disclosures (e.g. concepts, due diligence, risks and results). The requirements regarding the NfE set out in Art. 4d of the EU Taxonomy Regulation as to the future EU taxonomy, the share of revenue generated by sustainable economic activities as well as the share of capital expenditures and/or operational expenditures must also be considered.

b) These performance indicators shall refer to historically relevant and current periods without resulting in inappropriate, additional disclosure costs. What is to be disclosed therefore are the relevant historical and current (actual) performance indicators. Furthermore, the underlying methods shall be established by an independent standard-setting body with the collaboration of the affected companies and other stakeholder groups (including German federal ministries).

c) When determining the indicators, it needs to be ensured that their number is as small as possible for them to remain manageable. A – possibly binding – "comply or explain" requirement could

[30] See, for example, the EU "Guidelines on Non-Financial Reporting: Supplement on reporting climate-related information", chapters 2.2 and 2.3.

be introduced for companies in sectors exposed to high sustainability risks and opportunities. Subsequently, companies could continue to decide themselves (so-called management approach) as to what sustainability risks to report or potentially face relevant obligations. Companies exposed to high sustainability risks should be required by definition, however, to explain why they choose not to make particular disclosures.

4. Disclosure of transformation steps and forward-looking information:

   a) Expanding the reporting to include forward-looking sustainability data is an important prerequisite for improved assessments of the risks and opportunities associated with the future viability of companies and their external effects on the environment. This is to be accomplished incrementally by expanding the obligation to report forward-looking information, especially on the influence and impact of climate change and other aspects of sustainable development, covering a medium and a long-term period based on a plausible methodology[31]. In the beginning, this would include mainly qualitative information which, however, would have to be supplemented by quantitative information in the medium term. Given the urgency of achieving the EU climate goals, the quantitative, forward-looking performance indicators enumerated in the Guidelines of the EU Commission on the reporting of non-financial information[32] could already be included in the reporting obligation in the near term. In addition, the disclosure of forward-looking indicators based on Art. 4d of the EU Taxonomy Regulation, specifically, the disclosures on capital expenditures by the reporting entities is to be supported.

   b) The change in the definition of the forecast horizon (as per the DRS 20 20.127 wording: “a forecast period of one year at minimum ... must be used”) towards medium and long-term horizons is the basis for establishing forward-looking information. Disclosures of forward-looking information should focus on core information (see the representations in the TCFD sector dialogues in the oil and gas, chemical and energy sectors). Periods of plus 1 year up to plus 5 years at minimum can be considered short and medium-term periods (in addition to optional long-term horizons of 10 to 20 years). Initially, the forward-looking reporting for the medium and long term is to focus on the disclosure of corporate strategies, action plans aimed at target achievement as well as, in future, scenarios including the underlying premises.

5. Basic considerations as to overarching institutional issues related to the ongoing development of sustainability reporting:

   a) The international momentum towards the creation of reporting standards for the disclosure of non-financial information and/or sustainability performance data increasingly raises questions about how to consolidate and simplify such standards, especially from the perspective of the report preparers[33]. The institutional framework

[31] See the suggestions on the methodology and implementation of scenario analyses in the TCFD recommendations.

[32] See the addendum on climate-related reporting (2019/C 209/01).

[33] See, for example, the discussion paper by Accountancy Europe (Dec 2019): https://www.accountancyeurope.eu/wp-content/uploads/191220-Future-of-Corporate-Reporting.pdf.

for non-financial and sustainability reporting in the international context must be clarified in this connection – taking relevant institutions such as the International Accounting Standards Board (IASB) and the International Integrated Reporting Council (IIRC) into account – so that report preparers have access to a reliable framework not just for financial reporting but also for all elements of management reports.

6. Improve access to sustainability data through digitalisation and by establishing a raw database:

   a) Generally speaking, there still are (in part considerable) obstacles to obtaining sustainability data. This requires taking steps which make it easier for report users to sort through and process relevant sustainability data. At the same time, however, there should be no disproportionate burden on report preparers. Two concrete measures are recommended in this connection:

   I. The creation of a new raw database for sustainability data which would ideally be managed at European level. Its purpose would be the centralised collection of sustainability data published by companies pursuant to their sustainability reporting obligation. Functional databases help to enhance both the efficiency of disclosures by the real economy as well as access to information for financial market players. These raw data should be widely accessible. It will be necessary to review whether a new database must be built up from scratch or whether existing databases such as the German electronic Federal Gazette, the Transparency Register, CDP, DNK and others should be expanded. In addition, the initiative should be aimed as necessary at the efficient sharing of information between existing databases.

   II. The Committee recommends the incremental introduction of a standardised, digitised reporting format (e.g. XBRL) is recommended for fulfilling the sustainability reporting obligation in the EU as an additional measure based on Commission Delegated Regulation (EU) 2018/815 respecting “regulatory technical standards on the specification of a single electronic reporting format”. This measure serves first to match sustainability and financial reporting in respect of the format used. It also serves to improve the flow of information between companies and financial market players/databases and, in the long term, to make sustainability data a standard component of companies’ (financial) reporting.

7. Incrementally expand the disclosure of sustainability data of unlisted companies and SMEs:
   a) Small and medium-size enterprises (SMEs) play an important role in Germany’s economy. It is necessary therefore to encourage especially SMEs to disclose sustainability data. Efforts to turn Germany into the leading centre for sustainable finance also depend on whether all key players in the country commit to these guiding principles and participate in establishing and expanding the country’s envisioned role. This requires taking adequate steps – with respect to the measures specified herein – jointly with important institutions such as the German Chamber of Industry and Commerce (DIHK) and financial market players engaged particularly in promoting SMEs, so that the latter will continuously broaden their disclosures of sustainability data.

4.2. Financial Market Players

Financial market players frequently deal with a multitude of economic activities which may be spread out across the globe and hence may also entail ecological and social problems on the global scale as well as issues related to good corporate governance.

Concurrently with the disclosure obligations of the real economy, the disclosure obligations of financial market players must also be adjusted in ways enabling investors and lenders to get a realistic view of the sustainability of individual investments and financial market products. The disclosure obligations of the financial industry must be written in ways that establish a link to those which apply to the real economy, because it must be possible to transfer information on CO2 data, for example, from the individual real economy players directly to financial market players and their products.

Approaches to action

1. Financial market players are called upon to rapidly implement the soon-to-take-effect reporting obligations under the Disclosure Regulation and the Shareholder Directive. Among other things this includes comprehensive reporting on the impact of said players' investments on issues of sustainability.

2. Existing reporting formats and institutions should be used to avoid any confusion and duplication of reporting. For instance, there is a need to review how the established notification and reporting system of Deutsche Bundesbank can be adapted to ensure systematic transparency as to the exposure of the financial sector to sustainability factors, not least with the aim of pinpointing the extent to which the concept of sustainability has taken root as well as potential systemic sustainability risks. Particular attention should be paid in this connection to lending, i.e. "credit tagging", due to its importance in Germany as a type of funding.

3. The following measures are recommended for all areas of the financial industry:

   a) The Disclosure Regulation requires reports on sustainability risks arising from a given financial market player's activities, including detailed transparency in respect of loans and investments. The following information is particularly relevant to the assessment of their external effects:
   - Potential negative effects on climate change
   - Potential negative effects on biodiversity
   - Potential negative effects on water, soil and air
   - Potential negative effects on states' tax basis
   - Potential negative effects on compliance with UN Guidelines on the Economy and Human Rights
   - Potential negative effects on pricing in commodities markets

   b) Prepare an overview of geographic regions, sectors and the size of companies in which the given financial market player is active, broken down by equity interests, loans, securities issuers for proprietary investments and asset management (analogous to GRI GS6).

   c) Disclose the extent to which a bank and/or the products it markets conform to the taxon-omy. This includes analysing loans in excess of €1 million as well as all securities investments, with the result that the scope of the EU taxonomy is extended to all financial market players.

   d) Publish relevant portfolio indicators, broken down by credit and securities portfolios, to assess "climate performance" and its compatibility

with scientific findings. This assessment may be based on the following existing initiatives. Lessons learned from the experiences gained in that connection can be used to refine the concept:

- commitment on the part of institutional investors to disclose the compatibility of their portfolios with the reduction targets of the Paris Agreement on Climate Change and as necessary their portfolios' CO2 intensity including – to the extent possible – any benchmarking in relation to the NDC compatibility based on Art. 173 (binding but no sanctions) which applies in France,
- publication as per the TCFD,
- the "Net Zero Asset Owner Alliance", which develops approaches to portfolio decarbonisation to which the signatories commit and
- a reference scenario that is to be developed as guidance for financial market players and as a basis for reporting.

e) Climate stress tests are to be conducted at regular intervals and scenario analyses prepared and published.

4. As regards lending, reports should be prepared pursuant to the Sustainability Directive for credit applications, including publication of the number of credit applications rejected on account of sustainability risks, along with information as to which ones of the bank's guidelines led to the rejection.

5. The following in particular must be considered in connection with investments in stock and in equity funds:

a) Institutional investors and financial intermediaries are called upon to exercise their voting rights at general meetings in ways promoting sustainability goals and to report on voting outcomes (in keeping with GRI 4- DMA).

b) Preparation of policies on the exercise of voting rights in respect of sustainability topics as well as disclosures of the voting outcomes in connection with these topics.

c) Publication of the engagement strategy respecting sustainability topics along with a report as to what engagement dialogues have been conducted with companies (reasons and re-sults).

6. Particular transparency should be applied with respect to the German federal government as an investor. Accordingly, all of the German federal government's portfolios should be published[34], using the Norwegian pension fund as an example.

7. In case of investments in the real property sector[35]:

[34] The Council recommends that the German states adopt this proposal as well.

[35] About one half of all loans made by German banks (to non-bank entities, i.e. companies and households) are granted for the purpose of buying or building real property. A climate-neutral building stock is key to achieving the climate goals (approx. 30% of Germany's energy requirements), along with the commensurate need for investments. This factor becomes extraordinarily significant because it has not been possible so far to increase the rate of energy-related building renovations. Given the current status of the data, however, credit institutions cannot adequately present transitional risks associated with the quality of buildings in energy terms (e.g. impairment, higher default risks) which might arise from increases in CO2 prices or minimum energy requirements for buildings with poor energy-related attributes.

a) Germany's central registry for energy consumption certificates is to be developed into a countrywide, electronic platform at the German Institute for Building Technology which may be accessed free of charge and paywalls (in anonymised fashion subject to compliance with the General Data Protection Regulation).

b) Both the German federal government and the German states are called upon to make the analysis of their support programmes available in structured form, so that banks can increasingly broaden both their advisory services and product design based on these findings to include energy performance improvement (e.g. what kinds of renovation work in what kind of building and region had what kind of impact on energy consumption).

c) The Bundesbank's collection of loan data on residential properties should be improved. Given that an expanded reporting system is planned at the EU level in connection with the AnaCredit database, the data should be harmonised EU wide in the form of a unified database for energy consumption certificates and real property transactions. At minimum, this must involve integrating parameters such as the energy efficiency class in order to be able to collect data on developments over time and thus on the effect.

5 Role Of The Public Sector

5. Role Of The Public Sector

The public sector is understood to include all players tasked with executive functions, for example: ministries and subordinate authorities at the federal and state level in Germany, development institutions/banks, other financial market players with a public service remit such as the state banks and the savings bank sector, public insurers, stock exchanges and export credit insurers, Deutsche Bundesbank etc. Public sector players are not a homogeneous group, but instead operate in part on the basis of very different parameters. Among other things this concerns the legal and supervisory requirements imposed on public-law entities. This fact must be considered in the approaches to action.

Aside from its role as a shaper of the supervisory framework and the incentive systems, the public sector in its capacity as a buyer, funder and financial market player has a key role serving as a role model for the transformation of the financial and economic system. Without intervening in the market via regulations, the public sector's impact can be significant on account of the signalling effect its actions have on other financial market players, for example, in relation to the implementation of the carbon neutrality target by 2050. The public sector can leverage this effect by consistently pursuing big ambitions in its actions. The precondition is a well-developed understanding whether its own actions are consistent with its political goals. Relative to the afore-said political goals, so far, the public sector has made use of its role only to a limited extent.

Additionally, the public sector is often in a position enabling it to put in place specific management and incentive systems for itself which private sector financial institutions cannot realise to quite the same extent. This allows it to take on the role of trailblazer.

It can also play an important role in the development of pre-competitive and non-competitive structures, for example, in order to support the implementation of approaches to actions wherever a market solution does not take hold independently due to a lack of incentives.

Finally, the public sector is expected to align its budgetary policies consistently with its political goals.

Challenges

It is a challenge for the public sector to enhance its own awareness of its leading role and to consistently live up to its position as a role model domestically, on the European and international political stage as well as in the global market. Germany's federal structure must also be taken into account.

Approaches to action

1. Public sector players are called upon to link the allocation of funds consistently and strictly to its political goals. The necessary standards, regulations and transparency requirements should be based on international practice, but could be refined where necessary. This principle should also guide negotiations on the EU's multiannual financial framework.

2. In its capacity as an investor, the public sector is one of Germany's largest institutional investors. It should strictly align its capital expenditures – e.g. in connection with the "Fund for Financing the Management of Radioactive Waste" (KENFO) – with given political goals and should abide by sophisticated sustainability benchmarks (such as the "Climate Transition Benchmark" or the "Paris-aligned Benchmark") prepared by the EU Commission's Technical Expert Group (TEG). The public sector should be a pioneer in the

implementation of the TCFD recommendations and with respect to the reporting system vis-à-vis the final recipients. As regards investment classes tied directly to political goals, e.g. its directly held real property portfolio, the public sector should make use of its policymaking leverage and lead by example. A joint understanding of the capital investment strategy should be reached at the level of the German federal government and the German states[36].

3. One of the biggest funding tasks in future involves building up a sustainable infrastructure. Support programmes should therefore be consistently aligned with this task. This requires the greatest possible flexibility, given divergent regional needs and technical solutions. It al-so requires sound technical know-how among the on-lending private sector financial institutions. The public sector could centralise the development of the respective expertise, for example at the German Energy Agency (dena) and/or comparable institutions, and make it available to the market. Clear signals from the German federal government and the German states as to priority investment needs and support for both project and programme development would accelerate the relevant project pipeline. Sustainability criteria must be integrated in binding fashion into state-subsidised financial products (such as the German Riester and Rürup programmes, occupational retirement provision), for example, in compliance with conventions of which Germany is a signatory. The same applies to the products of the development banks and all financial institutions under public law.

4. Time-limited governmental incentives for transformation-conform and/or sustainable investment and savings products (for instance through (limited) tax incentives or allowances) would boost the demand for and familiarity with such products. This would help to bring about a rapid, widespread effect and create an incentive for retooling conventional financial product offerings.

5. The Sustainable Development Goals of the United Nations should be reflected in the German federal government's budget in order to create a solid foundation for the issuance of sustainable and/or green German government securities. Issuing green bonds has a signalling effect that should not be underestimated. However, doing so will be only effectively push the transformation if the introduction of green or sustainable bonds goes hand in hand with a change in budgetary allocations.

6. The public sector fulfils certain functions in the financial system which are rooted in its fundamental role – especially on regional level. Consequently, the savings bank sector, which is focused on the common good, should set an example by aligning itself with the sustainability and climate goals.

7. As regards the design of export credit and insurance, the public sector must serve as a trendsetter in keeping with both political goals and sector approaches. It can incentivise and promote future-proof structures and technological developments in coordination with the industry

[36] See federal/state summit in chapter 1.1.

and in alignment with the political goals[37].

8. The same applies to the country's international cooperation with other countries, e.g. in connection with climate funding, the realisation of the SDGs, foreign assistance and participation in bi- and multilateral development banks such as the European Investment Bank and the World Bank. Here, too, the overarching political goals should be consistently pursued.

9. The German federal government should prioritise the ongoing update of the European sustainable finance strategy and the dossiers related to it, both substantively and in respect of its collaboration with other EU Member States. The German Council Presidency in the second half of 2020 offers an opportunity in this regard. International processes – such as the G20, G7, Multilateral Development Bank Paris Alignment Working Group, NGFS, Coalition of Finance Ministers for Climate Action – and participation in multilateral banks and institutions should be actively used to this end.

[37] Under Sweden's export strategy, for example, both the Swedish Export Credit Corporation (SEK) and the Swedish Export Credit Agency (EKN) must divest from the exploration and production of fossil fuels by the end of 2022.France has established in its budgetary law that export credits for coal, shale oil and natural gas as well as the routine flaring of natural gas will not be permitted in future. Additionally, the French government must submit a proposal to the parliament by September 2020 as to how to end export credits for the exploration and exploitation of new oil and natural gas fields and strengthen support for renewable energies.

6 Conclusion and Next Steps

6. Conclusion And Next Steps

For the great transformation to succeed, we need a reliable approach based on purposeful political action and concrete roadmaps in order to bring about the realignment of our economic system within a relatively short time span.

These concrete and constructive roadmaps open up major opportunities for positive economic development, the German economy's competitiveness in the long term and hence job security.

Equally decisive in this respect is a political framework that enables the financial industry as best as possible to fulfil its role of allocating capital efficiently and thus to make a major contribution to the great transformation.

A four-week online consultation period that starts on March 5th 2020 will follow the publication of this Interim Report. All players from the financial sector, real economy, political sphere, supervisory authorities, the scientific community and civil society are invited to comment on this Interim Report and propose changes and additions.

The feedback period ends on April 3rd 2020. Subsequently the feedback will be consolidated and will be instrumental in further developing Germany's sustainable finance strategy.

The Final Report is expected to be published in September, after the 2020 summer break.

Glossar

Glossary

Carbon Accounting	Carbon accounting means the systematic collection, assessment and monitoring of the direct and indirect emissions of CO2 and other greenhouse gases. The established differentiation of the included sources of emissions pursuant to the three scopes of the "Greenhouse Gas Protocol" is as follows: Scope 1 emissions arise from emission sources within the observed system limits, for example, companies' own power plants or vehicle fleets, Scope 2 emissions arise in connection with the production of energy obtained from external sources, above all electricity and heating from energy utilities and Scope 3 emissions encompass all other emissions which are caused by corporate activity but cannot be controlled by the given companies, for example, emissions at suppliers, providers or employees.
Materiality	Simple materiality: Analysis of how a transformation affects an actor in the form of risk, irrespective of that actor's own behaviour (e.g. physical risks such as floods due to climate change). Basic materiality: The behaviour of an actor has ramifications for the environment (e.g. pollution by the actor of a body of water) and/or society. This does not necessarily constitute an inevitable and direct material risk for the actor in all cases, but an indirect effect is possible. It can lead to a material risk for the actor especially on account of a subsequent reputation risk. Double materiality means the simultaneous consideration of both simple and basic materiality.

Paris Agreement on Climate Change	At the Paris Climate Conference (COP21) in December 2015, 195 countries adopted a general, legally binding and worldwide climate protection agreement for the first time. This agreement comprises a global action plan designed to limit global warming to considerably less than 2°C in order to counteract dangerous climate change. Among other things, the agreement encompasses concrete emissions reduction targets which are accompanied by continual transparency and evaluation of goal achievement.

Principle of proportionality	In Germany and Europe, the principle of proportionality is a material element of the statutory supervisory regime. This applies at the level of the supervisory authority, but also at the level of the supervised entities. For instance, section 296 of the German Insurance Supervision Act (VAG) requires BaFin to apply the requirements under supervisory law in a manner appropriate to the type, scope and complexity of the risks arising from the activities of the companies it supervises. Here and in relation to risks, proportionality means the balance or appropriateness of procedures or supervisory rules and regulations. In many cases but not always, the issue of the appropriateness of a procedure or regulation may be contingent on a given company's size, because small companies are often characterised by less complexity and appetite for risk in both the lines of business they pursue and their capital investments. Hence exceptions are made for small companies which exhibit an appetite for risk and/or are complex. The principle of proportionality also applies at the level of the supervised companies, which is determined – especially in connection with the design of internal risk management processes and the associated procedures and methods – by companies' sizes, their internal organisational structure and the type, scope and complexity of their businesses. This does not lead to a scenario where a financial firm need not establish any processes at all. The reportable processes must only reflect their business models appropriately, e.g. apply simpler structures, processes and methods in case of a weaker risk profile, provided these parameters ensure adequate coverage of the material risks
Sustainable Development Goals (SDGs)	The 17 Sustainable Development Goals (SDGs) were adopted by all Member States at a United Nations summit in September 2015 as part of the 2030 Agenda. The 17 SDGs for the first time account equally for all three dimensions of sustainability – social, environmental and economic. The 17 goals are indivisible and contingent on one another. They are prefaced by five core messages aimed at stimulating action: people, planet, prosperity, peace and partnership.

Task Force on Climate-related Financial Disclosures (TCFD)	In June 2017, the FSB's expert commission, Task Force on Cli-mate-related Financial Disclosures (TCFD), issued recommendations on uniform climate reporting for corporations. These recommendations provide leverage for the comprehensive integration of risks and opportunities from climate change and a low-emissions economy into the core areas of a given company. The Task Force addresses 11 concrete recommendations which affect four core areas of every company and are intended to boost their adjustment to climate resilience: governance, strat-egy, risk management as well as key performance indicators and targets. In their report, the experts recommend codifying the primary role of the management board in the assessment of climate risks, identifying material climate-related risks and opportunities as well as using scenario analyses to measure their financial effects and defining a process for managing these risks

The Sustainable Finance Committee

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The Sustainable Finance Committee

The Sustainable Finance Committee was appointed by the German federal government for the duration of the current legislative period with the aim of bringing together existing expertise and fostering a dialogue between the relevant actors. Its members are practitioners from the financial industry, the real economy, civil society and science. The Committee was established by the Federal Ministry of Finance and the Federal Ministry of the Environment, Nature Conservation and Nuclear Safety, both of which coordinate closely with the Federal Ministry for Economic Affairs and Energy.

Using their expertise in a range of areas, the Committee's members advise the German federal government on the preparation and implementation of its sustainable finance strategy. This strategy aims to turn Germany into a leading centre for sustainable finance and to help the financial sector fund the real economy activities necessary for achieving the sustainability goals of the United Nations and the goals of the Paris Agreement on Climate Change. Sustainable finance contributes materially to the strengthening of Germany's competitiveness.

Besides developing the sustainable finance strategy, the Committee also advises the German federal government on the positions it takes in national, European and international discussions surrounding sustainable finance. Furthermore, the Committee prepares proposals for refining the management of risks and opportunities specific to the financial system in order to arrive at adequate non-financial indicators related to the environment, social topics and governance above and beyond financial indicators.

Permanent observers support the members of the Committee in their work.

Detailed discussions take place in the working groups, "Strategy and Communications", "Financial Market Stability and Risk Management", "Disclosure and Transparency" as well as "End Customers". The work of these groups has been supported by the valuable input of external experts as neces-sary.

Members And Observers

Chairperson Karsten Löffler **Vice Chairperson** Kristina Jeromin		
	Members	
Asset Manager and Asset Owners	Ingo Speich	Deka Investment GmbH
	Silke Stremlau	Hannoversche Kassen
	Wiebke Merbeth	BayernInvest Kapitalverwaltungsgesellschaft mbH
	Michael Schmidt	Lloyd Fonds AG
	Matthias Stapelfeldt	Union Investment Management Holding AG
Banken/Credit institutions	Dr. Helge Wulsdorf	Bank für Kirche und Caritas eG
	Frank Sibert	BNP Paribas
	Dr. Gerald Podobnik	Deutsche Bank AG
	Frank Scheidig	DZ Bank AG
	Rolf Tegtmeier	Kreissparkasse Köln
	Georg Schürmann	Triodos Bank N.V. Deutschland
Stock market	Kristina Jeromin	Deutsche Börse AG
Fintech/Index providers	Christian Vollmuth	Solactive AG
Rating agencies	Robert Haßler	ISS-oekom
	Clara Mokry	Scope SE & Co. KGaA
The real economy	Ulrike Bastian	BMW Group
	Dr. Lothar Rieth	EnBW AG
	Stefan Haver	Evonik Industries AG
	Joachim Goldbeck	Goldbeck Solar GmbH
	Dr. Daniela Büchel	REWE Group
	Daniel Schleifer	ThyssenKrupp AG

Insurance companies and pension funds	Katharina Latif	Allianz SE
	Michael Menhart	Münchener Rückversicherungs-Gesellschaft AG
	Andreas Hilka	Pensionskasse der Mitarbeiter der Hoechst Gruppe VVaG
	Dr. Guido Bader	Stuttgarter Lebensversicherung a.G.
	Dr. Thomas Diekmann	VHV Allgemeine Versicherung AG Deutsches Institut für Wirtschaftforschung e.V.
Science	Prof. Karsten Neuhoff	Deutsches Institut für Wirtschaftforschung e.V.
	Karsten Löffler	Frankfurt School of Finance & Management gGmbH
	Prof. Alexander Bassen	Universität Hamburg
Civil society / Special players in sustainable finance	Dr. Karin Bassler	Arbeitskreis Kirchlicher Investoren in der evangelischen Kirche in Deutschland
	Dr. Gerhard Schick	Bürgerbewegung Finanzwende e.V.
	Nico Fettes	CDP (Carbon Disclosure Project)
	Dr. Kai Lindemann	Deutscher Gewerkschaftsbund
	Angela McClellan	Forum Nachhaltige Geldanlagen e.V
	Christoph Bals	Germanwatch e.V.
	Antje Schneeweiß	Südwind e.V.
	Regine Richter	urgewald e.V.
	Matthias Kopp	WWF Deutschland
	Observers	
Financial industry associations	German Banking Industry Committee	
	German Association for Investment and Asset Management .	
	German Insurance Association (GDV) .	
	German Association for Occupational Pensions (aba)	
Supervisory authorities / Govern-ment agencies / German federal de-velopment banks	Federal Financial Supervisory Authority (BaFin)	
	Deutsche Bundesbank	
	German Environment Agency (UBA)	
	KfW Banking Group	
The real economy	Association of German Chambers of Industry and Commerce	
	Federation of German Industries	
Civil society	German Council for Sustainable Development	

Activities

The inaugural meeting of the Sustainable Finance Committee took place on 6 June 2019. It was followed by meetings on 4 September 2019, 28 October 2019 and 16 January 2020.

With a view to fostering a multi-stakeholder dialogue and embracing different kinds of expertise, thematic workshops were conducted at the invitation of individual Committee members in addition to the formal meetings. This includes, for example, workshops with real economy representatives.

In October 2019, the Committee published its first position paper on its ambitions and the objectives of its work. The positions formulated in that paper have been fleshed out in the present document and supplemented by concrete recommendations as to possible actions.

In January 2020, the Sustainable Finance Committee was given its own office with a staff of two (one specialist adviser and one non-executive employee).

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