COUNTRY EVALUATION | AS OF MAY 2019

Germany

TRANSPARENCY & DISCLOSURE (Dimension)
Common disclosure framework (Sub-dimension)

1. Disclosure on governance

SCORE 5/10

Reporting on climate change related governance aspects is partially covered by the CSR Guideline Implementation Act. HGB §289c makes climate change related reporting mandatory. Climate-related governance aspects are not explicitly mentioned.
The German Corporate Governance Code obliges executives to engage in sustainable value creation. The Code has a comply-or-explain approach and is anchored in the AktG.
In addition, the German Accounting Standard (DRS) 20 with German Accounting Standard No. 8 (DRÄS 8) supplements the DRS 20 Group Management Report by specifying the legal requirements for non-financial reporting resulting from the CSR Directive Implementation Act. Reporting obligations for the diversity concept for management bodies and in particular for the non-financial declaration are set out. At the same time, DRÄS 8 revises all standards to reflect the amendments to the paragraphs of the CSR Directive Implementation Act.

2. Disclosure on strategy

SCORE 4/10

Reporting on climate change related governance aspects is partially covered by the CSR Guideline Implementation Act. HGB §289c makes climate change related reporting mandatory. Climate-related strategy aspects are not explicitly mentioned.
The German Corporate Governance Code obliges executives to engage in sustainable value creation. The Code has a comply-or-explain approach and is anchored in the AktG.
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3. Disclosure on risk management

SCORE 4/10

Reporting on climate change related governance aspects is partially covered by the CSR Guideline Implementation Act. HGB §289c makes climate change related reporting mandatory. Climate-related risk management aspects are not explicitly mentioned.
The German Corporate Governance Code obliges executives to engage in sustainable value creation. The Code has a comply-or-explain approach and is anchored in the AktG.
In addition, the German Accounting Standard (DRS) 20 with German Accounting Standard No. 8 (DRÄS 8) supplements the DRS 20 Group Management Report by specifying the legal requi-

rements for non-financial reporting resulting from the CSR Directive Implementation Act. Reporting obligations for the diversity concept for management bodies and in particular for the non-financial declaration are set out. At the same time, DRÄS 8 revises all standards to reflect the amendments to the paragraphs of the CSR Directive Implementation Act.

4. Disclosure on metrics and targets **SCORE 0/10**

The CSR Guideline Implementation Act does not regulate if and how climate change related objectives and metrics must be reported. There is no other regulation that covers this topic.

5. Adapt accounting standards **SCORE 0/10**

All relevant sources (HGB, DRS) show no corresponding existing or planned regulation.

6. Accounting for stranded assets risk **SCORE 0/10**

All relevant sources (HGB, DRS) show no corresponding existing or planned regulation.

1. Investment evaluation transparency **SCORE 5/10**

Germany is obliged to adopt the Shareholder Rights Directive II (SRD II) by June 2019. The Federal Ministry of Justice and Consumer Protection has submitted a proposal for the implementation ("Entwurf eines Gesetzes zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)) in March 2019, which is currently discussed in the German parliament.
Institutional investors and asset managers will be required to draw up and publish a Shareholder Engagement Policy, which must comply with ESG transparency requirements and include information on consideration of climate change related aspects. The directive does not specify exactly what information the policy must contain in this context and the respective extent.
German regulation will not exceed minimum requirements of the SRD II.
The inclusion of institutional investors and asset managers represents an absolute novelty in German jurisdiction.

2. Shareholder responsibility for governance and strategy **SCORE 4/10**

Germany is obliged to adopt the Shareholder Rights Directive II (SRD II) by June 2019. The Federal Ministry of Justice and Consumer Protection has submitted a proposal for the implementation ("Entwurf eines Gesetzes zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)) in March 2019, which is currently discussed in the German parliament.
SRD II clearly outlines the shareholder‘s responsibility and includes the concept of shareholder activism. It makes reference to the UN Principles for Responsible Investment and clearly outlines the necessity from a shift from short termism to a long term investment horizon.
In SRD II, much room for country-specific regulation is left. In Germany, this will probably lead to a weak translation on climate-related aspects.

3. Asset manager responsibility **SCORE 6/10**

Germany is obliged to adopt the Shareholder Rights Directive II (SRD II) by June 2019. The Federal Ministry of Justice and Consumer Protection has submitted a proposal for the implementation ("Entwurf eines Gesetzes zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)) in March 2019, which is currently discussed in the German parliament.
SRD II clearly outlines the duties of asset managers and covers non-financial aspects in the mid to long term. However, it is not clearly stipulated on which time horizon non-financial aspects have to be taken into account (longer than the investment horizon of the investor?). Climate change related aspects are not outlined in detail.
Germany will probably follow the minimum requriements of the Directive.
Pension: Institutions for occupational retirement provision (IORPs): IORP II/ Directive 2016/2341 has been implemented by the German Bundestag on 30 November 2019 which allows IORPs to take into account the potential long-term impact of investment decisions on climate change related factors. IORP II explicitly states the reflection of climate change related aspects in multiple areas such as risk management, governance, potential member information. Germany has followed the minimum requirements of the Directive.

4. Executive remuneration policy **SCORE 5/10**

Germany is obliged to adopt the Shareholder Rights Directive II (SRD II) by June 2019. The Federal Ministry of Justice and Consumer Protection has submitted a proposal for the implementation ("Entwurf eines Gesetzes zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)) in March 2019, which is currently discussed in the German parliament.
SDR II will increase the Say on Pay and require companies to disclose the principles of executive remuneration and indicate the impact climate change related performance aspects have on remuneration. It does not require that these aspects form part of the factors to be included in the remuneration. It remains to be seen to what degree the implementation will affect executive remuneration.
Regulation on Executive Board remuneration, in Germany since 2009 is pursuant to § 120 (4) AktG. It is possible for the shareholders of listed companies to vote on the remuneration system for Executive Board members at the Annual General Meeting. Currently, the transparency of the remuneration structure is guaranteed by the HGB disclosure with notes and management report.

5. Climate change related risk management **SCORE 5/10**

There is currently no corresponding regulation on climate-related risk management in the WpHG or KAGB.
The Bundesverband Investment and Asset Management e.V. (BVI) includes ESG screening in its code of conduct.
Pensions: The translation of IORP II into German law makes climate change related risk assessment mandatory for pension funds and related products since January 2019.
Insurance: § 124 VAG lays down 16 fiduciary duties for insurance undertakings, including the duty to invest according to the principle of entrepreneurial prudence in order to ensure the security and profitability of the portfolio as a whole and liquidity. ESG is not explicitly listed.

6. Customer/beneficiary centricity **SCORE 0/10**

There is currently no corresponding regulation in the WpHG or KAGB.

1. Packaged Retail and Insurance-based Investment Products (PRIIPs)

SCORE 2/10

The EU Regulation 2016/2340 is implemented, which includes rules defining climate change related criteria for recording and disclosure of packaged investment products (currently being developed). In Germany, implementation will happen in the Finanzmarktnovellierungsgesetz (Financial Market Amendment Act).

2. Investment advisor duties

SCORE 3/10

General: The Retail Investor Protection Act provides for comprehensive information for clients by the investment advisor, but does not explicitly mention climate change related risks/performance.
Insurance: According to § 144 VAG, providers of a retirement provision or basic pension contract are obliged to inform the contractual partner (before signing / then annually) whether and if so how climate change related concerns are taken into account.
Pension Funds: Retirement Income Act / Provides starting points for anchoring climate change related criteria in state-sponsored or legally privileged pension funds.

3. Retail fund transparency

SCORE 1/10

At present, the German Investment Code does not explicitly consider climate change related risk aspects and their measurement even if §166 regulates the essential investor information.
Similar, the stock corporation act (WpPG) comprehensively regulates the content of the product's prospectus but does neither explicitly nor implicitly cover climate-related content.

4. Green labels/standards

SCORE 0/10

There are currently no green labels or standards for financial market products in Germany.

SUPERVISION, RISK MANAGEMENT & SYSTEM STABILITY **(Dimension)**
Supervisory authority positioning (Sub-dimension)

1. Regulatory body's/bodies' awareness to climate risk integration **SCORE 8/10**

German government and relevant ministries raise awareness on climate change related risk, most recently by initiating the development of a comprehensive sustainable finance strategy (resolution of the State Secretaries' Committee for Sustainable Development of 25.02.2019).

Regulatory bodies (BAFIN, Bundesbank) contribute to awareness raising with speeches, publications and dedicated conferences, e.g. the BaFin conference on sustainable finance (May 2019) with an accompanying publication on key sustainable finance aspects and announcing further guiding documents by the end of this year (Bafin Perspektiven - Nachhaltigkeit, 09.05.2019). A comprehensive perspective on the scope of climate change related risk is provided. Regulatory bodes are engaged in international fora as in the „Banks and Supervisors Network for Greening the Financial System" (NGFS).

2. Climate change and systemic relevance **SCORE 5/10**

There is implicit reference to systemic risk in Bundesbank publications/speeches but for instance the Finanzstabilitätsbericht 2018 does not refer to climate change related risks and its possible systemic implications.
BMF has done a study 2016 on the link between climate change and systemic risk

SUPERVISION, RISK MANAGEMENT & SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of banks (Sub-dimension)

1. Supervision of bank governance/strategy reflecting climate change related risk **SCORE 5/10**

Supervision of banks' governance/strategy is covered by Art.25a KWG and BaFin's minimum requirements on risk management „MARisk with ‚Erläuterungen' (Guidance)" document. MARisk refers to an appropriate risk culture and sustainable strategy covering all relevant external factors in an abstract way, without specifying climate change related risk, while e.g. IT risks are specifically mentioned. No reference to appropriate long-term perspective of a sustainable approach.

BaFin intend to publish a guidance for a more explicit consideration of climate change related risks as part of ESG risks, with guidance how to integrate into general governance and risk management of banks. The BaFin paper will be consulted and is due by the end of 2019, see BaFin publication „BaFin Perspektiven 2/2019".

2. Minimum requirements for bank risk management (in the context of the supervisory review process) include ESG/climate risks and a long-term perspective **SCORE 5/10**

Minimum requirements for banks' risk management are covered by Art. 25a KWG and MARisk with guidance, part 2. It is required to consider all material risks and e.g. reputational risk is mentioned explicitly in the guidance (Erläuterungen). There is no explicit link to climate change related risk, but implicitly they should be covered. Only with regard to liquidity there is a guidance to consider a long-term perspective.
BaFin envisages a more explicit consideration of climate change related risks and aims to publish a guidance paper by the end of 2019 to move beyond the abstract comprehensive risk perspective towards a more explicit consideration of ESG risk and the integration of ESG aspects into general risk management, see BaFin publication „BaFin Perspektiven 2/2019".

3. Scope of supervisory reports of the regulator (risk profile for banks) during the annual supervisory review process covers ESG/climate risks and a long-term perspective **SCORE 4/10**

The supervisory review process of banks by Bundesbank is based on EU regulation (CRD IV directive) and underlying EBA guidance.
Bundesbank Guidance and underlying EBA guidance for the Supervisory Review Process (Art. 120, 76) include a comprehensive perspective on all material risk. There is currently no explicit reference to climate change related risk.
Long-term perspective in risk profiles covers at least 3 years (business model sustainability analysis).

4. Banking stress tests consider climate risks and a long-term perspective

SCORE 4/10

The BaFin guidance on stress test scope and methodology in MARisk (with reference to underlying EBA guidance) takes a comprehensive perspective on risks. However, there is no explicit reference to climate change related risk, suitable stress test assumptions or minimum time horizons. Thus climate risk scenarios could be chosen, even though this is not explicitly mentioned nor encouraged. Based on European risk mapping and priorities for Banking Supervision 2019 (see EU assessment), this could become more likely in the future.

5. Capital requirements reflect ESG/climate risks and a long-term perspective

SCORE 4/10

With current EU CRD directive/CRR regulation and complementing regulation via the German KWG there is no specific treatment of either „green“ or „brown“ assets regarding capital requirements for banks. A long-term perspective is not encouraged.

SUPERVISION, RISK MANAGEMENT & SYSTEM STABILITY (Dimension)

Regulation/Supervision of insurance companies (Sub-dimension)

1. Supervision of insurance governance reflecting climate change related risk

SCORE 5/10

Regarding insurance governance, Art. 23 VAG and BaFin Circular 2/2017 „MaGo“, based on Solvency II and the delegated regulation 2015/35, refer to the required governance including an adequate risk culture and effective risk management system. VAG and MaGo take a comprehensive perspective on material risk and do not include explicit reference to the scope of risks or specific reference to climate change related risks; no guidance for an appropriate long-term perspective. BaFin intends to provide guidance on ESG integration into overall governance and risk management of with a „Merkblatt“ by the end of 2019.

2. Minimum requirements for insurance risk management include ESG/climate risks and a long-term perspective **SCORE 5/10**

Requirements for insurance risk management are reflected in VAG (Art. 26), based on Solvency II and delegated regulation 2015/35. VAG takes a comprehensive approach that all actual or potential risk exposure of insurers that is material (wesentlich) needs to be covered.
This implicitly includes climate change related risk while not explicitly mentioning it nor providing guidance on how to include it in insurance risk management and risk metrics.
BaFin intends to provide guidance on ESG integration into overall governance and risk management of with a Merkblatt" by the end of 2019.

3. Scope of supervisory review of the insurance company covers ESG/climate risks and a long-term perspective **SCORE 4/10**

VAG Art. 294 defines the German national supervisory review and refers to risks that insurance companies are exposed to and their capability to assess and manage these risks. No explicit reference to climate change related risks or specific long-term time horizons.
Climate risk may be part of the BaFin supervisory practice but not explicitly mentioned and no guidance provided. EIOPAs on-going on sustainability integration into Solvency II may imply explicit consideration in the future (see EU assessment).

4. Insurance stress tests consider ESG/climate risks and a long-term perspective **SCORE 6/10**

Insurance stress tests are based in Art. 44 VAG. Through the VAG comprehensive risk approach it is an option to include material climate change related risks even though there is no explicit documentation available on this.
As part of the EIOPA EU wide insurance stress test 2018, climate change related risk has been considered in specific scenarios (see EU assessment). Thus there is initial practice covering also the German insurers.

5. Capital requirements reflect ESG/climate risks and a long-term perspective **SCORE 4/10**

On insurance capital requirements, based on Solvency II and VAG, all material risks have to be considered. There is no obvious distinction between green and brown assets. A long-term perspective is not encouraged.

1. Supervision of pension fund governance reflecting climate change related risk **SCORE 6/10**

German supervision of pension funds has been fundamentally adapted with the transposition of the IORP II directive into German law via the EbAV-Umsetzungsgesetz" (12/2018) that adapts the German Versicherungsaufsichtsgesetz VAG.
Regarding pension fund governance, Art. 234a VAG requires ESG factors of investment decisions to be reflected in the governance structure. This includes climate change related risk as a part of ESG.

2. Minimum requirements for pension fund risk management include climate risks and a long-term perspective **SCORE 8/10**

German supervision of pension funds has been fundamentally adapted with the transposition of the IORP II directive into German law via the EbAV-Umsetzungsgesetz"(12/2018) that adapts the German Versicherungsaufsichtsgesetz VAG.
Regarding pension fund risk management, Art. 234c VAG requires pension funds to consider ESG risks in their risk management where relevant for their asset portfolio. Art. 234d requires an assessment of ESG risks where considered for investment decisions. It eplicitly mentions climate change related risk and the requirement for adequate methods and an approriate long-term perspective.

3. Scope of supervisory review of the pension funds covers ESG/climate risks and a long-term perspective **SCORE 4/10**

German supervision of pension funds has been fundamentally adapted with the transposition of the IORP II directive into German law via the EbAV-Umsetzungsgesetz"(12/2018) that adapts the German Versicherungsaufsichtsgesetz VAG.
Pension funds' supervisory review is guided by VAG (Art. 294) with reference to IORP II. No specific consideration of climate change related risk in Art. 49 (SRP) in IORP II directive. Selected German pension funds participate in the EIOPA EU wide stress tests (see EU Assessment) where ESG exposures are considered for the first time (results due in December 2019).

4. Capital requirements for pension funds reflect ESG/ climate risks and a long-term perspective **SCORE 4/10**

German supervision of pension funds has been fundamentally adapted with the transposition of the IORP II directive into German law via the EbAV-Umsetzungsgesetz"(12/2018) that adapts the German Versicherungsaufsichtsgesetz VAG.
Regarding pension funds capital requirements, there is currently neither an explicit reference to brown or green assets in VAG or KapAusstV.

In the German government‘s statement on sustainable finance (2/2019) there is an explict cautious remark regarding a green supporting factor“ to avoid target conflicts with financial stability objectives.

SUPERVISION, RISK MANAGEMENT & SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of asset managers and investment funds (Sub-dimension)

1. Requirements for organisation, capital requirements and risk management include ESG/climate risks and a long-term perspective **SCORE 4/10**

KAGB, §28,29 include the requirement for appropriate risk management governance and specifications regarding risk management requirements that refer to all material risks which need to be considered, measured, managed and monitored. No explicit reference to specific risks incl. Climate change related risk. Capital requirements do not refer to green/brown specifics.
Thus in principle climate change related risks are to be covered if material while not being explicitly mentioned.
Current EU level activities (legislative proposals on sustainable finance and ESMA consultation) include activities with respect to EU directives for UCITS and AIF (see EU assessment). This might imply amendments in German regulation in the future.

ENABLING ENVIRONMENT **(Dimension)**
Established and maintained common taxonomy (Sub-dimension)

1. Established and maintained common taxonomy **SCORE 0/10**

The research was not able identify any source about an existing or planned taxonomy in Germany.

ENABLING ENVIRONMENT **(Dimension)**
Supporting green finance with public incentives (Sub-dimension)

1. Government provides financing instruments for green investments **SCORE 8/10**

In Germany, a large number of subsidies for renewable energies and energy efficiency are in place. Some federal state banks provide guarantees for renewable energy investments, e.g. FHH Landesbürgschaft. The Deutschland macht‘s effizient““ platform, which provides an overview of all instruments in the field of efficiency, counts more than ten grants.
KFW provides support schemes aimed at private homeowners and companies. The schemes cover financing of energy efficiency, refurbishment, construction of new buildings and renewable energy installations.
Germany contributes to funding many multilateral institutions and funds with clear proceed of funds guidance.

2. There are subsidies for sustainable investments/ fiscal policy/taxation of products that reflect ESG criteria — SCORE 7/10

The economy ministry BMWi and its export bureau (BAFA) are very active in incentivizing the development and acceleration of the transition towards green energy. The German development bank KFW distributes the respective market incentive programme. It includes subsidies for renewable energy and energy efficiency for private households and investors.
In January 2019 KFW and BMWi introduced a new programme, which offers low-interest loans and repayment subsidies for energy efficiency, waste heat utilisation and process heat from renewable energies.

ENABLING ENVIRONMENT **(Dimension)**
2-Degree Consistency of Public sector acting (Sub-dimension)

1. Government reflects climate change related risks in its investment strategy — SCORE 4/10

No regulation at the national level mandates the inclusion of climate related risks in public investment/procurement decisions yet.
Some federal states have developed own criteria and strategies. For example, Berlin and Baden-Württemberg's strategies include exclusion criteria for coal companies and gas.
KFW is signatory of the UN Principles for Responsible Investments and integrates ESG criteria in the investment approach for its liquidity portfolio. However, KfW should not be regarded as Paris-compliant.

2. Government agencies issue Green Bonds — SCORE 8/10

The German development bank KfW issues green bonds regularly since 2014. In May 2019, KFW has issued its largest green bond with a volume of EUR 3 billion. The volume increased by EUR 1.2 billion from 2018. KFW uses the Green Bond Principles (GBP) as a guideline for its emissions.
The German government has not issued green government bonds yet. However, a first issue in 2020 is very likely.

3. Green public institution that provides financial services — SCORE 6/10

The German development bank KFW is heavily invested in green sectors/projects and is actively seeking to integrate climate-related in its portfolios. However, it is not a green financial institution yet as it still invests in non-green assets.

4. Central banks disclosure on climate-related risks — SCORE 3/10

Deutsche Bundesbank does not report on climate related risks yet.
In April 2019, the Network for Greening the Financial System collectively acknowledges that climate-related risks are a source of financial risk. The members of the NGFS, and thus the central

banks, declare that it is their task to ensure the financial system is resilient to these risks. Deutsche Bundesbank is part of the steering committee and chaired the third work stream scaling up green finance“.

ENABLING ENVIRONMENT **(Dimension)**
Public capacity building and awareness raising on green finance (Sub-dimension)

1. Providing free green label certifications **SCORE 0/10**

Public and free green label certifications for financial market products neither exist nor are under development in Germany.

2. Consumer education on green finance is integrated in curricula (schools, universities, general public education) **SCORE 6/10**

The Verbraucherzentrale German public consumer advice centre provides information material on green and sustainable financing. However, no dedicated publications exist and the topic is not treated with great importance.
Besides individual education initiatives on school-, city-, state-level, sustainable finance has not been integrated into curricular yet. Hamburg University has a Research Group on Sustainable Finance and also the universities of Kassel and Augsburg have founded centres that research topics in the areas of sustainable finance and climate risks.
Since March 2019 Frankfurt School of Finance & Management is providing an e-learning certification course that focuses on major drivers and constraints of transforming the financial system to a more sustainable one (including business, regulatory and technical perspectives of sustainable finance).

ENABLING ENVIRONMENT **(Dimension)**
Green Financial Centres (Sub-dimension)

1. Green public-private initiatives of financial centers **SCORE 6/10**

The Green and Sustainable Finance Cluster Germany, based in Frankfurt, is a public-private initiative aimed at bringing together the activities of the various stakeholders, thus mobilising synergies and providing a network on sustainable finance. The sponsors, inter alia, Helaba, Deutsche Bank, BNPP, KFW and Deka Bank, can be seen as representative of the financial industry. In a TCFD Think Tank, the GSFCG supports the operationalization of the recommendations by the Task Force on Climate-related Financial Disclosures.