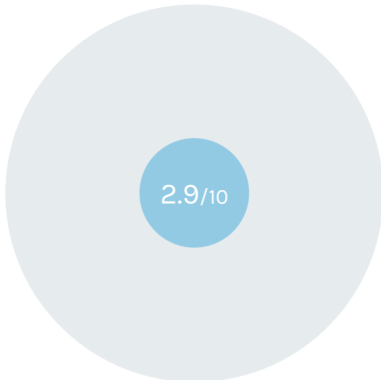
RESULTS AND SCORES

Germany

Germany achieves medium to good results on System Stability and Enabling Environment and a slightly weaker result on Transparency. As with all countries and regions considered, there is still ample room for improvement for the German regulatory financial environment to become truly 'fit for Paris'. Actual financial regulation and policies would require further improvement to support the transition to a low-carbon economy through and by the financial sector.

The 3fP-Tracker assessment shows that Germany is in its first steps to become Paris-compliant in its financial markets. The founding of an advisory council to develop a sustainable finance strategy for Germany could change Germany's position on sustainable finance fundamentally. First results of the advisory council's work should be expected for fall 2019. Sustainable finance is slowly starting to gain traction at some German public institutions such as German supervisory authority BaFin. The German enabling environment mainly profits from financial incentives distributed by its development bank KfW.

TRANSPARENCY & DISCLOSURE



Transparency on climate-related risks and opportunities in the German regulatory environment for financial markets could still be further developed. Currently, EU Directives are the key driver to change the status quo. The integration of the Shareholder Rights Directive II by June 2019 will increase responsibility and power for shareholder engagement with respect to ESG considerations. Furthermore, it aims at inclusion of climate considerations in executive remuneration or the role of shareholder activism.

Reporting on climate change related governance aspects is partially covered by the CSR Guideline Implementation Act. HGB §289c (2)/§315 - makes climate change related reporting mandatory. This could be extended to increase the focus on strategy, risk management and metrics / target setting.

German policy makers could seek to increase investment advisory duties, retail fund transparency, or customer centricity. The development of green labels or standards would allow for further security on “greenness“ of financial products.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY

5.0/10

Regulatory initiative on integrating a comprehensive perspective on climate change related risks with financial market supervision has been moderate so far in Germany. However, an advisory council with the Ministry of Finance (BMF) and the Ministry of the Environment (BMU) in the lead has recently been set-up with the goal to develop a sustainable finance strategy for Germany, based on resolution of the State Secretaries' Committee for Sustainable Development of 25th February 2019. Furthermore, the German supervisory authority BaFin has advanced its positioning with dedicated publications and conferences addressing sustainable finance. 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, e.g. in MARisk, towards a more explicit consideration of ESG risk and the integration of ESG aspects into general risk management categories. German supervision of pension funds has been fundamentally revised with the transposition of the IORP II directive into German law via the EbAV-Umsetzungsgesetz“(12/2018) that adapts the German Versicherungsaufsichtsgesetz VAG, now including explicit reference to ESG and climate related risk.

ENABLING ENVIRONMENT

4.4/10

Germany has a good enabling environment, mainly driven by a strong public incentive system for green finance. The government provides financing instruments and subsidies. The German development bank KfW is a key distributor of incentives. KfWis actively supporting the green bond market by issuing green bonds regularly since 2014. In May 2019, KFW has issued its largest green bond with a volume of EUR 3 billion, exceeding the amount issued in 2018.
The German enabling environment could profit from a more active role on climate-related disclosure of Bundesbank, its central bank. The German government could introduce a more granular plan to decarbonise its economy along the Paris Agreement and align its investment decisions with that plan. Germany will most likely benefit from the EU green taxonomy and the EU Ecolabel for financial products as nothing similar is currently in place or planned at the national level.

Note for interpreting this evaluation:
given current state of methodology development, data availabilities and market experiences, the ideal total score (10) might not be realistically achievable in some categories today, best practices today score significantly lower.