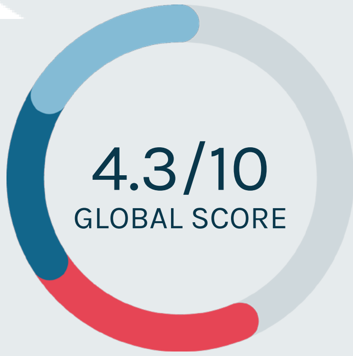
RESULTS AND NOTES

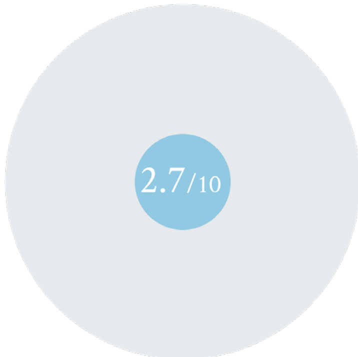
GERMANY



Germany achieves a good result on Supervision, Risk Management and System Stability thanks to recent action by the German Federal Financial Supervisory Authority (BaFin). There is still catching up to do on Transparency & Disclosure as well as the Enabling Environment. As with all countries and regions assessed, there is still ample room for improvement for the German regulatory financial environment to become truly ‘fit for Paris’.

The 3fP-Tracker assessment shows that Germany is starting to push to become Paris-compliant in regulating its financial markets. BaFin’s recent publication of a draft guidance document for dealing with sustainability risks up for consultation is the first large leap in Germanys green financial market regulation. Next to this, the establishment of an advisory council to develop a sustainable finance strategy for Germany could be the starting point of a fundamental push forward of Germany’s position on sustainable finance. The advisory council published its first thesis paper in October 2019. The German enabling environment mainly profits from financial incentives by its development bank KfW.

TRANSPARENCY & DISCLOSURE



Transparency requirements on climate-related risks and opportunities in the German regulatory environment for financial markets still need further development. Currently, EU Directives are the key driver to change the status quo. However, the expected translation of the Shareholder Rights Directive II by June 2019 is still outstanding. Germany has failed to meet the deadline by the European Commission. When finally translated, the Directive 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 in HGB §289c, which makes climate change related reporting mandatory taking an inside-out perspective.

German policy makers could seek to strengthen investment advisory duties, retail fund transparency, and customer centricity. The development of green labels or standards would allow for further clarity on what is “green relating to financial products, and would increase accessibility for consumers.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY

6.3/10

Regulatory initiative on integrating a comprehensive perspective on climate change related risks across the German government and its financial supervisory authorities has recently advanced.

The German government has initiated the development of a comprehensive sustainable finance strategy. To that end, the Sustainable Finance Advisory Board (SFAB) has been established and has published an initial thesis paper in October 2019 that includes four theses on financial stability and risk.

Furthermore, the German supervisory authority BaFin has advanced its positioning with dedicated publications and conferences addressing sustainable finance. BaFin has in September 2019 published a Draft Guidance Notice on Dealing with Sustainability Risks. This draft guidance has been consulted until early November. It provides up-to date and comprehensive information on climate change related risk and includes detailed good practice (incl. methodological support). It stipulates an explicit consideration of climate change related risks as part of sustainability risks as a component of existing risk types in banks/insurers/pension funds/asset managers' risk management.

German supervision of pension funds has earlier this year 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

3.9/10

Germany has a mediocre 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.

KfW is actively supporting the green bond market by issuing green bonds regularly since 2014. Currently, KfW is implementing a sustainable finance roadmap. KfW could become the first public institution to report along the guidance of the Task Force on Climate-Related Financial Disclosures (TCFD). A first report is expected for April 2020.

The German enabling environment could profit from a more active role on climate-related disclosure by the German central bank (Bundesbank). The German government could introduce a more granular plan and a clear transition pathway to decarbonise its economy along the Paris Agreement and align its investment decisions with that plan. Germany will most likely benefit from the EU sustainable taxonomy and the EU Ecolabel for financial products as similar public initiatives are currently neither in place nor planned at the national level.

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As of November 2019
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.