Statement

Consultation on the Interim Report of the Sustainable Finance Committee

BDI – The Federation of German Industries

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Content

Assessment summary

1. German industry supports the target of achieving climate neutrality within the EU by 2050. The question of how to finance this ambitious project is essential, so we very much welcome the intention of the federal government to draw up a sustainable finance strategy for Germany.

2. Setting up a committee of experts is a good way of ensuring that valuable expertise feeds into developing this strategy. A committee of experts can also provide impetus for change. The effectiveness and representativeness of the committee's work depends on the composition and functions of its members.

3. The members of the Sustainable Finance Committee were appointed by name, meaning that they reflect neither the opinion of their employer nor of a specific industry or stakeholder group. The BDI was allocated one of the observer roles with no voting powers.

4. We would like to thank the experts for their work in drawing up the report. In our opinion, it contains a few good starting points for further discussion. Basically, however, we have difficulty in pinpointing the exact objective of the Sustainable Finance Committee. The report switches between purely advising the federal government on how to develop the strategy, and actually developing the strategy itself. We believe clarification is urgently needed here, as the quality of the target definition has immediate effects on the quality and use of the work produced. This may be the cause of what we regard as the structural weaknesses of the interim report and its partly unconvincing contents.

5. In the opinion of the BDI, a Sustainable Finance Strategy must provide answers to the following two key questions.

    a. Question 1: How should we deal with climate-relevant risks that are gaining significance in the financial sector?

    b. Question 2: How are we going to finance the transformation of the German economy towards more sustainability?

    We are convinced that answering the first question must take an international approach. Although this topic is highly significant, it is only of secondary importance in drawing up a German Sustainable Finance Strategy. The focus of the strategy should be on answering the second question. This needs to include a definition of the tools required to bring about the transformation in Germany. The Sustainable Europe Investment Plan could serve as a good starting point as it includes European answers to financing but few details on measures required on the national level. The German Sustainable Finance Strategy needs to fill this gap. The interim report includes some good and important proposals here concerning the public sector. We suggest increasing the significance of this section and developing it further.

6. The financial markets are increasingly focusing on sustainability and sustainable financial instruments. Long-term oriented investors understood the significance of sustainable business for a company's success early on and have already anchored sustainability aspects into their investment decisions. Trends towards sustainability are therefore already occurring in the markets. More attention should thus be paid to the effectiveness of market mechanisms in order to achieve the highest possible benefit at the lowest possible cost. The interim report repeatedly tends to overestimate the impact of regulation. The risk that overly stringent regulation and bloated bureaucracy will undermine Germany as a centre of innovation must be given adequate consideration.

7. Thought must also be given to how the German Sustainable Finance Strategy will fit into the European strategy and to possible overlaps or synergies with other strategies such as the Digital Strategy and/or the Industrial Strategy. The findings of these analyses should form the basis on which to develop an overall concept for successful policy for the next few years.

8. The resulting Sustainable Finance Strategy for Germany should consist of simple and effective measures that are easy to implement, form part of an coherent overall concept and be embedded in the European and international context. Creating a successful Sustainable Finance Strategy is not a competition in laying down the most stringent requirements but a matter of elaborating an overall concept that takes national specifics into account and offers a real chance of prompt, efficient and effective implementation. These characteristics could be the distinguishing feature of the German Sustainable Finance Strategy.

9. The European Commission and the federal government have already set themselves very ambitious goals with the Green Deal and the Climate Change Programme and are leading the way in this field on a global level. It would not serve Germany well to now try and set the most stringent requirements in every subcategory. Germany should synchronise itself with Europe here and take care to find a sensible level of regulation.

10. The coronavirus pandemic makes this approach to developing the German Sustainable Finance Strategy all the more important. Even before the crisis began, the strategy was intended to include only effective measures which tackle issues of high priority and whose benefits justify the bureaucratic effort involved. This will now be even more essential due to the severely diminished financial leeway available to public budgets, businesses and private households for investments of any kind. Due to the economic impact of the corona pandemic, the question of what can be expected of businesses must be newly asked and answered both nationally and on a European level.

11. The Sustainable Finance Strategy must strive to support rather than obstruct a farsighted investment and relief package that links growth, employment and ambitious climate change targets as efficiently as possible. We believe

priority should be given to financing issues regarding building refurbishment, energy efficiency, a circular economy and especially hydrogen and carbon neutral fuels.

Assessment of selected topic areas

1. Strategic fundamentals and preliminary considerations

12. We welcome the idea of a creating a closely coordinated policy approach. This should include not only sustainable finance but also other dossiers of the Green Deal as well as aspects of digitalisation and industrial policy requirements. One of the major challenges of the next few years will be to align and coordinate the above-mentioned policy fields and develop concepts for them.

13. Regarding the establishment of a centralised office for sustainable finance in the Federal Ministry of Finance, it would make sense to check the option of adapting existing structures such as those set up in connection with the German Sustainability Strategy before establishing a new one.

14. We oppose the action proposed in the report to turn the Sustainable Finance Committee into a permanent working structure to regularly evaluate the adopted measures. The evaluation of policy measures should be an integral part of the political process and is therefore the task of the respective ministries, with the help of public consultations, for example.

2. Resilience

15. We are sceptical of the Sustainable Finance Committee's conclusion that the financial sector and its structures require transformation. In our opinion, it is rather about making adjustments in response to new or changed risks. This cannot, however, involve abandoning the current structure. The financial system has become significantly more stable since the financial crisis of 2009. The supervisory structures have not just been supplemented by a macroeconomic perspective on the international level. The creation of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) and the strengthening of the European supervisory authorities have made the European Union, and thus Germany, more resilient to crises. The regulations have also been subjected to a general review.

16. We share the view of the Sustainable Finance Committee that the integration of climate-related risks into the risk management of financial market players is an important aspect, both on the micro and on the macroprudential level. Most supervisory authorities and regulators have thus adopted a sustainable

finance strategy. The supervisory tasks include developing new stress tests and further developing existing stress tests as well as considering climate-related risks. To establish and maintain a level playing field, regulations regarding the risk management structures of financial companies should be uniform across all member states. We recommend keeping an eye on developments here but do not see that this is further relevant for the Sustainable Finance Committee or for the development of a German Sustainable Finance Strategy.

17. We welcome the proposal to review the current supervisory framework regarding possible conflicts between a short-term oriented supervisory framework and long-term sustainability risks.

18. We are highly sceptical of and reject preferential regulatory treatment for sustainable financial products over equivalent financial products without a sustainability aspect but with the same risk profile. All financial products should be treated equally by regulations, with risk evaluation always taking first place.

3. Transformation

19. We strongly oppose the introduction of a classification system for all financial products. The primary target of the transformation should be to leave no businesses behind and give all of them the opportunity to adapt their business model. We do not see how the introduction of a classification system for all financial products can serve as a suitable instrument to structure this transition but see it as a rather ineffective instrument with a relatively high bureaucratic burden.

20. The BDI has long supported the deepening of the European capital market to improve financing conditions for business. A real single market for capital that reduces the fragmentation of the European financial markets can improve access to financing for trade and industry, open up new sources of corporate financing, and increase the efficiency and stability of the integrated European capital market. A deepened European capital market can also make a significant contribution to increasing the resilience of the financial industry and transforming the real economy. The following issues are particularly important from the perspective of the real economy:

    a. Strengthening the securitisation market

    b. Facilitating access to the bond and equity markets, particularly for larger medium-sized enterprises

    c. Promoting venture capital and equity financing.

21. As things stand, it is not possible to foresee how regulatory requirements on financial companies regarding the reduction of climate-related risks will impact on businesses and their financing options (e.g. impact on ratings).

The federal government should follow developments here closely. Such regulatory requirements must not create unjustified difficulties for companies in refinancing themselves in the medium term. Solutions are needed here that ensure financial market stability on the one hand but also take account of the financing needs of businesses on the other. Due to the corona pandemic, many businesses no longer have the option of financing their transformation internally. Providing access to stable and individual external financing on reasonable terms and conditions is thus more important than ever.

4. Transparency and disclosure

22. With its recommendations on expanding the group of companies that have sustainability reporting duties, the committee should not lose sight of the objective of the EU Action Plan. To enable capital flows to be steered towards sustainability, reporting duties should apply to capital market participants, but we fundamentally oppose extending the reporting duties to all enterprises, including unlisted companies and small and medium-sized enterprises (SMEs).

23. In this context we also vehemently oppose drawing up a SME standard for sustainability reporting both on a national and on a European level. Regarding indirect reporting duties, for example as part of a supply chain, SMEs need to be given simplified requirements to reduce the burden involved. Efforts should be made to coordinate sustainability reporting duties at a European level and take into account the findings of the process for the National Action Plan for Children (NAP).

24. The expansion of the scope of sustainability reporting always needs to be considered in an international context. The adoption of internationally recognised standards is the only way to secure broad acceptance on international capital markets of a review of non-financial reporting duties. We therefore reject the idea of Germany taking a pioneering role in reporting duties through go-it-alone initiatives, as this would risk putting German companies at a competitive disadvantage by obliging them to publish sensitive corporate data.

25. The same applies to the recommendation to make integrated reporting mandatory. The debate on integrated reporting can only take place on a European level. The debate on expanding the content of sustainability reporting and issues of standardisation must also be held on the European level. We oppose a go-it-alone initiative by Germany. The proposal of the Sustainable Finance Committee to task an independent standard-setting body with defining reporting methods should, in our opinion, take place on an international level and must involve the real economy as well as the

financial sector. The reporting companies have a wealth of expertise in this field and it is also in their interest to provide the financial market with relevant information.

26. The recommendations to make the adoption of the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD) mandatory for all enterprises go beyond the European requirements laid down in the taxonomy regulation and we therefore reject them. A complete implementation of the TFCD recommendations would require setting up complex new management processes. To avoid competitive disadvantages for German enterprises, the implementation of the TCFD recommendations must only take place on a European level.

27. The Sustainable Finance Committee should not throw doubt on existing best practices but should promote them. Sector-specific guidelines should be developed in close coordination with the real economy by directly involving associations and affected companies and their industry expertise. The limits of transparency on account of the competitive relevance of the information requested should be respected. This is an issue in the disclosure of investment and transformation plans as well as internal costs. A qualitative description of a company's environmental and social impact would be preferential to quantification due to the lack of a framework of reference.

28. We oppose the suggestion to create a generally accessible raw database for sustainability data at the European level. For users without a business background, this data is contradictory and can easily be misinterpreted. Furthermore, a lot of raw data is sensitive and relevant to competition. Giving third parties broad access to this raw data would result in unfair terms of competition for European companies compared to non-European competitors.

29. Enterprises in the real economy need more expertise overall in the modelling and application of stress scenarios. It should be reviewed to what extent the Sustainable Finance Committee, in collaboration with similar committees from different member states or, for example, the planned platform for sustainable finance according to Article 20 of the Taxonomy Regulation, can help the affected enterprises in this respect.

30. Regulators of financial companies have seen their mandate and scope of responsibility expand considerably through the introduction of reporting duties connected to climate-related risks. In contrast to prior reporting requirements such as, for example, the implementing standards of the COREP reporting duties for banks, non-financial companies are now the primary supplier of information. This represents a new challenge, and, above all, a new responsibility. We are currently not convinced that European regulators are fully aware of this responsibility. We regard the

scale of the current consultation on European supervisory agencies (Regulatory Technical Standards on ESG disclosures) as evidence of this. Germany should use its influence to strengthen awareness of this responsibility.

5. Role of the public sector

31. We regard public funding as essential for the economic transformation and support all proposals going in this direction, such as subsidies or tax breaks. This will require adapting the regulations on state aid, which the federal government should work towards.

32. The application of the rather complex and still not finalised taxonomy for the promotional business can be a good approach. The success of this measure will depend largely on the design of the technical criteria and how they are applied in practice. Quantitative targets should be ambitious but above all realistic. If the criteria are too stringent, projects that are worthy of promotional funding may not be classified as eligible for this kind of funding. How to deal with business activities that are not covered by the taxonomy is a question that also needs consideration. Moreover, it should be ensured that other sections of the domestic promotional funding business that are not directly connected to the taxonomy but are still important can continue to exist.

33. We very much support the proposal of the Sustainable Finance Committee to use the introductory phase of the taxonomy to test its feasibility in terms of its transformational effect and to make adjustments as necessary. The aim of the transformation must be to give as many businesses as possible a reasonable timeframe in which to adapt their business models and products and not to sanction them too early on, for example by denying them access to taxonomy-related promotional funding instruments.

34. German industry supports the federal government in its mandate to seek solutions to social, economic and ecological challenges. The key aspect of public export credit financing is creating and maintaining jobs in Germany. Over the last few years, however, environmental and social aspects have increasingly been taken into account. Many of the covered projects have a positive impact on development. For example, companies create infrastructure through their exports and help create jobs and provide technology, knowhow and expertise (technology spillover).

    For projects and transactions that lie within the scope of the Common Approaches of the OECD, a review of the environmental, social and human rights aspects is mandatory and an integral part of the monitoring procedure. The federal government already goes beyond the requirements of the Common Approaches. There is a risk of overloading the instruments to

manage risks and of creating additional competitive disadvantages for German exporters.

We therefore call for special considerations on how risk hedging can be aligned with sustainability criteria through public export credit guarantees, investment guarantees and untied loans. Simply excluding individual projects from foreign trade promotion measures would fall short of the mark.

Other factors that also need to be taken into account are the requirements of the customers, which, in developing and emerging countries, are often public sector agencies, and local conditions (e.g. investment backlog in retrofitting and modernising old industries).

It is important to exert positive influence on foreign developers, through additional financial aid (blending), for example. Both industry and export-financing banks in Germany and Europe can use this opportunity to employ sustainable technologies. Competitive pressure in the project business is already high because of China. Export financing supported by export credit guarantees can only act as a signal generator for export contracts awarded by foreign customers if international competitiveness is safeguarded.

35. Guarantees for un-restricted loans (“UFK” guarantees) are issued for commodities and hedge against economic and political default risks. The interim report should be clearer about the fact that UFK guarantees are designed to secure special commodities needed in battery and hydrogen technologies but not the technologies themselves.

About the BDI

The BDI conveys the interests of German industry to the political decision-makers and in the process it provides support for business enterprises engaged in global competition. The BDI has at its disposal a widely branching network in Germany and Europe, in all important markets and in international organizations. The BDI takes care of the political flanking of international market opening. And it offers information and economic policy consultations for all topics related to industry. The BDI is the umbrella organization of German industry and industry-related services. It speaks for 40 trade associations and more than 100,000 enterprises with around 8 million employees. Membership is voluntary. 15 organizations in the regional states represent the interests of industry at the regional level.

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