COUNTRY EVALUATION | AS OF NOVEMBER 2020

Germany

TRANSPARENCY **(Dimension)**
Common disclosure framework (Sub-dimension)

1. Disclosure on governance **SCORE 5/10**

Reporting on climate change related aspects is partially covered by the CSR Directive Implementation Act (CSR-RUG) of April 2017, transposing NFRD-Directive 2014/95/EU into national law. The CSR-RUG introduced a revision in HGB §289c that makes climate change related reporting part of non-financial reporting. Climate-related governance aspects are not explicitly mentioned. To guide non-financial reporting, there is the European Commission's non-binding "Guidelines on non-financial reporting: Supplement on reporting climate-related information,C/2019/4490 issued in June 2019. They provide guidance to companies on how to disclose climate change related information, in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) and the climate change related metrics developed under the new EU taxonomy.

The guidelines refer to governance aspects (e.g. board's oversight).

The German Stock Corporation Act (AktG), section 161, furthermore requires executives of listed companies to declare in a "comply or explain approach their compliance with the German Corporate Governance Code (DGCK). In its current version as of March 2020, the DCGK asks Management Board and Supervisory Board members to "ensure that the potential impact of these [Social and environmental] factors on corporate strategy and operating decisions is identified and addressed (DGCK 2020)

Also, the German Accounting Standard (GAS) for the Group Management Report GAS 20with the Amendment GAAS 8 (German: DRÄS 8) supplements the GAS 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. The European Commission launched an initiative to review the NFRD in 2020, to improve disclosure of climate and environmental data by companies to better inform investors. Due to the COVID 19 pandemic, the review has been postponed to the first quarter of 2021.

2. Disclosure on strategy **SCORE 4/10**

Reporting on climate change related aspects is partially covered by the CSR Directive Implementation Act (CSR-RUG) of April 2017, transposing NFRD-Directive 2014/95/EU into national law. The CSR-RUG introduced a revision in HGB §289c that makes climate change related reporting part of non-financial reporting. Climate-related strategy aspects are not explicitly mentioned.

To guide non-financial reporting, there is the European Commission's non-binding "Guidelines on non-financial reporting: Supplement on reporting climate-related information,C/2019/4490 issued in June 2019. They provide guidance to companies on how to disclose climate change related information, in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) and the climate change related metrics developed under the new EU taxonomy.

The guidelines refer to strategy aspects (e.g. reflected in the double materiality perspective of the business model description).

The German Stock Corporation Act (AktG), section 161, furthermore requires executives of listed companies to declare in a "comply or explain" approach their compliance with the German Corporate Governance Code (DGCK). In its current version as of March 2020, the DCGK asks Management Board and Supervisory Board members to ensure "that the potential impact of these [Social and environmental] factors on corporate strategy and operating decisions is identified and addressed (DGCK 2020).

The European Commission launched an initiative to review the NFRD in 2020, to improve disclosure of climate and environmental data by companies to better inform investors. Due to the COVID 19 pandemic, the review has been postponed to the first quarter of 2021.

3. Disclosure on risk management **SCORE 4/10**

Reporting on climate change related aspects is partially covered by the CSR Directive Implementation Act (CSR-RUG) of April 2017, transposing NFRD-Directive 2014/95/EU into national law. The CSR-RUG introduced a revision in HGB §289c that makes climate change related reporting part of non-financial reporting. Climate-related risk management aspects are not explicitly mentioned, §289c refers to all material risks and their respective risk management to be described.

The German Stock Corporation Act (AktG), section 161, furthermore requires executives of listed companies to declare in a "comply or explain approach their compliance with the German Corporate Governance Code (DGCK). In its current version as of March 2020, the DCGK asks environmental and social factors to be identified and addressed, while not explicitly referring to climate-related risk.

4. Disclosure on metrics and targets **SCORE 3/10**

Reporting on climate change related aspects is partially covered by the CSR Directive Implementation Act (CSR-RUG) of April 2017, transposing NFRD-Directive 2014/95/EU into national law. The CSR-RUG introduced a revision in HGB §289c that makes climate change related reporting part of non-financial reporting. Metrics and targets are in principle referred to in §289c, requiring the reporting on the most significant non-financial performance indicators as relevant to the business of the company.

5. Adapt accounting standards SCORE 0/10

Current relevant sources (HGB, DRS) show no corresponding existing or planned regulation to account for climate-related risks and factors.

The German Accounting Standard (GAS) for the Group Management Report GAS 20with the Amendment GAAS 8 (German: DRÄS 8) supplements the GAS 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. There is action at the European level, triggered through the EU Action Plan to look into the International Financial Reporting Standards (IFRS). A finding from this "Fitness Check" was that EBA, ESMA and EFRAG found that IFRS rules hinder sustainable investment behaviour.

The European Corporate Reporting Lab Steering Group is carrying out some preparatory work for possible non-financial reporting standards in the revised version of the NFRD, which will be published at the beginning of 2021.

The German Reporting Standards Committee (Deutsches Rechnungslegungs Standards Committee) is a member of IFRS and is providing public information, e.g. on the IFRS foundation's consultation paper on global standardization of sustainability reporting of September 2020.

6. Accounting for stranded assets risk SCORE 0/10

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

TRANSPARENCY (Dimension)

Investors' fiduciary duties (Sub-dimension)

1. Investment evaluation transparency SCORE 8/10

Germany was obliged to transpose the Shareholder Rights Directive II (SRD II) into national law by June 2019. This has been done with the SRD II Implementation Act (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)), published on 12 December 2019.

Based on ARUG II, reflected in a revised §134 of AktG, institutional investors and asset managers are required to draw up and publish and report on 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 does not exceed the minimum requirements of the SRD II.
The inclusion of institutional investors and asset managers represents a novelty in German jurisdiction.

In November 2019 the EU adopted the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial sector (SFDR), which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in investment decision-making process and in insurance advice. SFDR introduces new transparency and periodic reporting requirements for investment management firms at both product and manager level. The requirements at the product level are of particular importance for this indicator.

Disclosures will also include pre-contractual information on the result of the assessment of likely impacts of sustainability risks on the return of the financial products they advise on. Respective regulatory technical standards (RTS) were to be developed originally by December 2020, but were due to the Covid-19 pandemic postponed to a later stage in 2021

2. Shareholder responsibility for governance and strategy **SCORE 6/10**

Germany was obliged to transpose the Shareholder Rights Directive II (SRD II) into national law by June 2019. This has been done with the SRD II Implementation Act (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)), published on 12 December 2019.

SRD II outlines the shareholder's responsibility and includes the concept of shareholder activism. It refers to the UN Principles for Responsible Investment and clearly outlines the necessity for a shift from short termism to a long term investment horizon.

Through ARUG II, this leads to a weak translation on climate-related aspects.

3. Asset manager responsibility **SCORE 8/10**

Germany was obliged to transpose the Shareholder Rights Directive II (SRD II) into national law by June 2019. This has been done with the SRD II Implementation Act (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)) published on 12 December 2019.

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.

SFDR: In April 2020 the EU adopted the SFDR, which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in investment decision-making process and in insurance advice. European supervisory authorities are currently developing further guidance to the SFRD through regulatory technical standards (RTS), which will cover the content, methodology and presentation of ESG disclosures both at entity level and at product level.

Pension funds: 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 6/10**

Germany was obliged to transpose the Shareholder Rights Directive II (SRD II) into national law by June 2019. This has been done with the SRD II Implementation Act (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie (ARUG II)) published on 12 December 2019.

Based on ARUG II, §87 of the German Stock Corporation Act (AktG) has been amended to include the link of the executive remuneration policy to sustainable and long-term oriented business development.

Following SDR II, ARUG II introduces the Say on Pay principle, requiring companies to disclose the principles of executive remuneration and to indicate how the non-financial performance related aspects impact 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 reports.

5. climate change -related risk management **SCORE 7/10**

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.

Institutions falling under the SFDR: In November 2019 the EU adopted the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial sector (SFDR), which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in investment decision-making process and in insurance advice. These policies shall be published on their websites. Moreover, financial market participants shall include descriptions of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available.

TRANSPARENCY (Dimension)

Consumer transparency (Sub-dimension)

1. Packaged Retail and Insurance-based Investment Products (PRIIPs) **SCORE 3/10**

The EU Regulation 2016/2340 applies 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).

The European Supervisory Authorities ESMA, EBA and EIOPA (the ESAs) presented a review of the key information document (KID) and a draft regulatory technical standard to amend the PRIIPs in July 2020. There is however no reference to environmental or social objectives.

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.

At the EU level, ESMA is in the process of updating MIFID II to integrate sustainability risks into risk assessment and management as well as governance structures and consumer preferences. A consultation report was published in December 2018, which shows that ESG risks should be considered where relevant. The final report was published on 30 April 2019. However, since then, only one amendment to the regulation has been made, which did not take sustainability risks into account.

3. Retail fund transparency **SCORE 6/10**

At present, the German Investment Code (Kapitalanlagegesetzbuch KAGB) does not explicitly consider climate change related risk aspects and their measurement even if §166 KAGB regulates that risks are to be presented as part of the essential investor information. Similarly, the stock corporation act (WpPG) comprehensively regulates the content of the product‘s prospectus but does neither explicitly nor implicitly cover climate-related content.

However, stemming from the EU level, in May 2018, the Commission published its proposal to amend the benchmark regulation,in accordance with the Action Plan on Financing Sustainable Growth. In July 2020 the EC adopted new rules setting out minimum technical requirements of the methodology of EU climate benchmarks. Benchmark administrators now must describe how ESG factors are reflected in each benchmark (and its methodology) they provide and publish them.

The Action Plan on financing sustainable growth foresees that the Commission will explore the use of the EU Ecolabel framework for certain financial products. DG ENV and DG FISMA are currently coordinating the process of developing Ecolabel criteria. The extension of the Ecolabel framework to financial products, by way of a Commission Decision, is expected for Q3 2021. The EU Ecolabel will build on the taxonomy framework to assess the underlying assets of financial products.

4. Green products standards **SCORE 0/10**

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

In June 2019, the European Commission's Technical Expert Group (TEG) on sustainable finance published its report on the EU Green Bond Standards, including its key recommendations. After the provision of feedback from more than 100 organizations, this process was completed with a usability guide in March 2020. From June to October 2020, there was another EU consultation on the possibility of a legislative initiative for an EU GBS open. On the basis of this consultation, the EU Commission will take the decision in Q4 2020 on how to take the EU GBS forward. The EC proposes that the financed green investments should be aligned to the taxonomy criteria. It is also foreseen to incorporate the use of proceed within the legal documentation and to publish a Green Bond Framework. A final version is expected earliest in 2021.

SYSTEM STABILITY **(Dimension)**

Supervisory authority positioning (Sub-dimension)

1. Awareness creation to climate change related risk incl. systemic risk

SCORE 9/10

German government with its ministries BMF and BMU raise awareness on climate change related risk by initiating the development of a comprehensive sustainable finance strategy. To that end, the Sustainable Finance Committee has been established and has published an initial thesis paper in October 2019 and an interim report in March 2020 which was consulted with the public. The Sustainable Finance Committee's final recommendations are expected in early 2021.

Regulatory bodies (BaFin, Bundesbank) contribute to awareness 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 (Bafin Perspektiven - Nachhaltigkeit). There is 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.

BaFin has in September 2019 most recently published a dedicated Draft Guidance Notice on Dealing with Sustainability Risks. The Guidance has been in consultation phase until November 3rd 2019 and the final version is not published at the time of this update. So this draft guidance will be included in this assessment but the draft status will be considered in scores.

The draft guidance provides up-to date and comprehensive information on climate change related risk and includes detailed good practice (incl. methodological support) for all relevant financial sector actors being supervised by BaFin on how to align their in-house handling of sustainability risks. The guidance does not change the requirements of the official circulars MaRisk, MaGo and KaMaRisk but rather regards sustainability risks included as components of the known risk types.

German regulatory bodies are also active in relevant international fora as in the Banks and Supervisors "Network for Greening the Financial System" (NGFS) where both BaFin and Bundesbank are members.

2. Provision of data, standard scenarios and methods: **SCORE 6/10**

The need to provide data and methodological guidance is taken up as one of the theses by the Sustainable Finance Committee of October 2019, and taken up in its Interim Report of March 2020.
BaFin as the supervisory authority for banks, insurance, pension funds and asset managers has published its Guidance Notice on Dealing with Sustainability Risks that provides an overview on sustainability risks and how to understand them as part of the existing risk types of the financial sector. The document provides key questions on strategies of supervised entities towards physical and transition risks and further guidance on risk management approaches to integrate sustainability risks.
Regarding standard scenarios that might be accessed by individual entities there is reference made to standard scenario development in the context of the NGFS, linking also to the respective guidance of NGFS and stating the Bundesbank will need to further and more actively support scenario users in explaining these scenarios.

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of banks (Sub-dimension)

1. Requirements for bank governance/strategy **SCORE 7/10**

Supervision of banks' governance/strategy is covered by Art.25a KWG and BaFin's minimum requirements on risk management MaRisk with 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.

BaFin has amended this abstract coverage in MaRisk with its draft publication "Guidance Notice on Dealing with Sustainability Risks (September 2019). The Guidance requires an explicit consideration of climate change related risks as part of sustainability risks as a component of existing risk typs, with guidance how to integrate into this into general governance and strategy of banks.

2. Minimum requirements for bank risk management **SCORE 7/10**

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. There is no explicit link to climate change related risk, but implicitly they should be covered.

This implicit coverage of material sustainability risk is amended by BaFin's Guidance Notice on Dealing with Sustainability Risks that requires an explicit consideration of climate change related risks within the framework of the existing risk types in the risk management system. The guidance furthermore explicitly points to data quality, a broad risk perspective and the specific time-horizon of sustainability risk. The guidance also provides examples of risk management methods that could be applied to banks. Specific for banks, the guidance lines out how to link the consideration of material sustainability risks with the requirements of MaRisk regarding risk inventory, risk profile and the processes for credit business.

3. Bank stress tests **SCORE 5/10**

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. BaFin's Guidance Notice on Dealing with Sustainability Risks amends this by explicitly pointing to the need to consider material sustainability risk in supervised institutions' own stress tests and scenario analysis, also with regard to appropriate time horizons to consider (i.e. more long-term scenario analysis). The guidance also points at the standard climate scenarios that are provided by e.g. Bundesbank, NGFS.

Bafin's guidance makes it explicit that if sustainability risks are identified as significant during the risk inventory, they should be included in the regular and ad hoc stress tests for material risks (link to MaRisk AT 4.3.3).

In Bundesbank's LSI stress test 2019, the consideration of climate change related and ecological risk in banks' risk management has been included in the general survey. Results show that climate related risk is not yet considered broadly by financial institutions' risk management, nor is considered to have a moderate or a significant impact by the majority of financial institutions.

4. Bank capital requirements **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.

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of insurance companies (Sub-dimension)

1. Requirements for insurance governance/strategy **SCORE 7/10**

Regarding insurance governance, Art. 23 VAG and BaFin Circular 2/2017 „MaGo", based on Solvency II and the delegated regulation 2015/35, refer to 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 climate change related risks. BaFin has amended this implicit coverage in MaGo with its publication "Consultation Draft - Guidance Notice on Dealing with Sustainability Risks" (September 2019). The draft guidance requires an explicit consideration of climate change related risks as part of sustainability risks as a component of existing risk types, with guidance how to integrate into this into general governance and strategy The document stresses the role of the actuarial function and requires it to gain understanding of all material sustainability risks, i long-term risks and novel risks.

2. Minimum requirements for insurance risk management **SCORE 7/10**

Requirements for insurance risk management are reflected in BaFin's MaGo and 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 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.

This implicit coverage of material sustainability risk is now amended by BaFin's Draft Guidance that requires an explicit consideration of climate change related risks within the framework of the existing risk types in the risk management system. The guidance furthermore explicitly points to data quality, a broad risk perspective and the specific time-horizon of sustainability risk. Specific for insurance undertakings, the BaFin guidance lines out the links between risk inventory, own-risk assessment, underwriting guidelines and sustainability risks and it explicitly states which risk management areas it deems most prone to be affected by sustainability related risks.

3. Insurance company stress-tests **SCORE 8/10**

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.

BaFin's Draft Guidance Notice on Dealing with Sustainability Risks amends this by explicitly pointing to the need to consider material sustainability risk in supervised institutions' own stress tests and scenario analysis, also with regard to appropriate time horizons to consider (i.e. more long-term scenario analysis). The guidance also points at upcoming climate scenarios that may be provided by e.g. Bundesbank, NGFS.

5. Insurance capital requirements **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

SYSTEM STABILITY (Dimension)

Regulation/Supervision of pension funds (Sub-dimension)

1. Requirements for pension fund governance/strategy **SCORE 7/10**

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.

This is further amended by BaFin's Draft Guidance Notice on Dealing with Sustainability Risks which requires an explicit consideration of climate change related risks as part of sustainability risks as a component of existing risk types, with guidance how to integrate into this into general governance and strategy.

2. Minimum requirements for pension fund risk management **SCORE 7/10**

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 explicitly mentions climate change related risk and the requirement for adequate methods and an appropriate long-term perspective.

This is further amended by BaFin's Draft Guidance that requires an explicit consideration of climate change related risks within the framework of the existing risk types in the risk management system. The document furthermore explicitly points to data quality, a broad risk perspective and the specific time-horizon of sustainability risk.

3. Pension fund stress-tests **SCORE 7/10**

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. BaFin's Draft Guidance Notice on Dealing with Sustainability Risks points to the need to consider material sustainability risk in supervised institutions' own stress tests and scenario analysis, also with regard to appropriate time horizons to consider (i.e. more long-term scenario analysis). The guidance also points at upcoming climate scenarios that may be provided by e.g. Bundesbank, NGFS.

Selected German pension funds participated in the EIOPA EU wide stress tests where ESG exposures are considered for the first time (refer to EU evaluation for details).

4. Pension fund capital requirements **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 explicit cautious remark regarding a green supporting factor" to avoid target conflicts with financial stability objectives.

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of asset managers and investment funds (Sub-dimension)

1. Requirements for governance — SCORE 7/10

Based on KAGB, §28,29, KaMaRisk and EU delegated regulation Nr. 231/2013, asset manager and investment funds need an appropriate governance that oversees all material risks . No explicit reference to climate change related risk. Amending this, BaFin's 2019 Draft Guidance Notice on Dealing with Sustainability Risks requires the management board to explicitly include sustainability risks as a component of the known risk types. Current EU level activities, following ESMA's technical advice to the EU Commission on integrating sustainability risks and factors in the UCITS Directive and AIFMD,) (see EU assessment)might imply amendments in German regulation in the future.

2. Requirements for risk management — SCORE 7/10

Based on KAGB, §28,29, KaMaRisk and delegated regulation Nr. 231/2013, asset manager and investment funds require a risk management that covers all material risks which need to be considered, measured, managed and monitored. No explicit reference to specific risks incl. climate change related risk.

This implicit coverage of material sustainability risk is amended by BaFin's Draft Guidance Notice (2019) which links the KaMaRisk requirements for the regular risk profile (4.1.3 KaMaRisk) with the consideration of sustainability risks. The guidance also generally requires an explicit consideration of climate change related risks within the framework of the existing risk types in the risk management system. The guidance explicitly points to data quality, a broad risk perspective and the specific time-horizon of sustainability risk.

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of rating agencies (Sub-dimension)

1. Requirements for organisation and risk management include ESG/climate risks and a long-term perspective — SCORE N/A

Supervision at EU level (ESMA). Not relevant at the national level.

ENABLING ENVIRONMENT **(Dimension)**
Common green taxonomy (Sub-dimension)

1. Common green taxonomy — SCORE 9/10

Germany had not developed its own green or sustainability taxonomy. With the adoption of the EU taxonomy regulation, the EU taxonomy applies to Germany.

1. Provision of a clear transition pathway — SCORE 7/10

Germany has adopted its Climate Change Act (Klimaschutzgesetz – KSG) in December 2019. The KSG affirms the goal of working towards climate neutrality by 2050 and sets emission reduction targets of minus 55% by 2030 compared with 1990 emission levels. Linked to these targets are sectoral emission allocations. This induces sectoral decarbonization targets for six sectors (energy, industry, transport, buildings, agriculture, waste and others).

2. Risk reduction support for green finance — 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. In cooperation with KfW, the Federal Ministry of Economy and Energy (BMWi) offers loans with preferential interest rate and high repayment subsidies such as:

- The Energy-efficient renovation programme (KfW 151/152) offering up to 100,000 euros low-interest loan with up to 27,500 euros repayment subsidy for energy retrofit.
- the Renewable Energies - Premium (Programme KfW 271/281) conferring attractive loans and high repayment subsidies to companies renewable energy sources are used for heating.

Germany contributes to funding many multilateral institutions and funds with clear proceed of funds guidance.

3. Government incentives for green finance — 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. 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.

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.

In light of the Covid-19 pandemic, the German Government included further incentives to support green finance in its recovery package, e.g. supporting the implementation of its hydrogen strategy through a dedicated investment package. Despite revised targets for renewables, there have been no additional incentives for financing green energy projects.

1. Government investment strategy SCORE 5/10

Based on the German Climate Action Program (October 2019), the Climate Change Act (December 2019), Section 15.1 introduces the goal of a climate-neutral organisation of the German federal administration. The goal is to be reached by 2030 and measures towards achieving this are to be compiled by 2023 (with a five year revisiting period). Section 15.1 refers to procurement and that respective contribution to the climate goals should be examined.

As to corporations, agencies and foundations under the government's supervision, the government's special funds and in the private legal entities that are wholly or partially under public ownership, the Section stipulates that Germany should ensure that these bodies also pursue climate-neutral organisation of their administrative activity.

The German Sustainable Finance Committee has, in its interim report of March 2020, stressed the important role of the public sector's full alignment with the Paris agreement, and this should include strictly aligning e.g. of its capital expenditures and respective investment strategies. More detailed recommendations are expected to be part of the Committee's upcoming final report in early 2021.

Some federal states have developed their own criteria and strategies. For example, Berlin and Baden-Württemberg's strategies include exclusion criteria for coal and gas companies. In June 2019, Hesse was the first German federal state to sign the Principles for Responsible Investment (PRI), thereby committing itself to invest all reserves sustainably. Several other federal states are currently planning to introduce ESG considerations in their investment strategy.

2. Government agencies issue Green Bonds SCORE 8/10

The German development bank KfW issues green bonds regularly since 2014, with a revised Green Bond Framework in 2019 (including energy efficiency) that is aligned with the Green Bond Principles. It transparently reports on its green bond issuances on a dedicated website. During 2019, KfW issued 9 green bonds and one promissory note loan at a volume of 8.1 billion Euros. Next to KfW, Germany issued its first-ever green government bond in September 2020, raising 6.5 billion Euros. The government green bond was issued as a "twin bond , issued alongside conventional federal bonds with a similar rate of return and maturity. The second green government bond issuance took place in November 2020 (5 bn Euros). There is further bond issuance planned, as part of Germany's Climate Package.

3. Green public financial institution SCORE 6/10

KfW Bankengruppe (the German public / development bank) is financing green sectors/projects and is actively seeking to integrate climate-related in its portfolios. Through its sustainable finance roadmap, it is about to become a green financial institution. "KfW wants to develop into the sustainability bank of the future. The roadmap consists of five working groups (Leitbild, Steuerrungskonzepte, Risikomanagement, Kommunikation & Governance).

KfW Bankengruppe is signatory of the UN Principles for Responsible Investments and integrates ESG criteria in the investment approach for its liquidity portfolio.

4.Central banks disclosure on climate-related risks **SCORE 2/10**

Deutsche Bundesbank does not report on climate related risks yet. It acknowledges climate-related risks and invests own portfolios along ESG criteria / in green bonds.

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

1. Consumer education on green finance **SCORE 2/10**

There is no central public government portal providing general information on sustainable finance, e.g. compared to the EU's comprehensive portal providing an overview on the most important policy developments.

The Verbraucherzentrale (the German public consumer advice centre) provides information material on green and sustainable financing within reports on general finance. However, no dedicated publications exist so far.

No dedicated information leaflets are mandatorily provided at public financial institutions.

2. Curriculae on green finance (schools, universities, general public education) **SCORE 6/10**

Education at the school-, university-, city- or state-level on sustainable finance has not been systematically integrated into curricula yet. There are several university and business school courses related to sustainable finance in Germany. Furthermore, an increasing number of (fee-based) certificate courses on green finance exists on the market.

At the level of research, the "Wissenschaftsplattform Sustainable Finance (Research Platform Sustainable Finance) has been established as a network of five German research institution with the objective to provide "scientific support in answering key social, political and private sector questions, to provide established and emerging knowledge and to play an advisory role in the political and public discourse.

1. Green public-private initiatives of financial centres: **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, BNP Paribas, KFW Bankengruppe and DekaBank are partially representative of the financial industry. The GSFC Germany holds events and provides publications on sustainable finance topics such as the operationalization of the recommendations by the Task Force on Climate-related Financial Disclosures. It has recently published its Action Roadmap (August 2020). In September 2020, it hosted the European Sustainable Finance Summit, bringing together industry experts from all over Europe to advance the sustainable finance agenda.