

Sustainable Finance Research Platform



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for Climate & Sustainable Energy Finance



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Statement on the German Federal Government's Sustainable Finance Strategy

Germany introduces a comprehensive sustainable finance plan

(5 May 2021) The members of the Sustainable Finance Research Platform welcome the German government's Sustainable Finance Strategy which was published today. The strategy affects every part of finance and plays a key role in the transformation to a sustainable economy and society. With this strategy, the German government contributes to the European and international sustainable finance agenda. This statement highlights five central aspects of the strategy, which from the perspective of the Sustainable Finance Research Platform contribute to a fundamental change towards sustainability.

Clear commitment to the EU Taxonomy

The German government is undoubtedly committed to the EU Taxonomy as the central basis for the transformation towards a sustainable economy and society. Thus, it supports the extension of the EU Taxonomy on social issues. The Taxonomy aims to identify both future economic activities and investments that are beneficial to the transformation towards sustainability and those that are harmful. The resulting transparency will contribute to the development of various measures for the targeted transformation of the flow of capital from private, institutional and public stakeholders. Thus, we believe that all companies can and should adapt quickly to these upcoming changes.

Improving the quality and comparability of sustainability reporting

The strategy involves a significant enhancement of sustainability reporting. In coordination with the EU, the German government plans to develop specific guidelines including industry-specific and forward-looking indicators. Furthermore, it plans to prescribe a mandatory audit of the non-financial statement ('nichtfinanzielle Erklärung') and expand the scope of mandatory sustainability reporting. From our point of view, it is also important to determine how small and medium-sized enterprises can be included in the strategy.

Stronger focus on sustainability risks and opportunities

The German government expects that long-term risks and opportunities related to the transformation towards sustainability as well as climate change-related risks are recognized, measured and taken into account in decision-making. To this end, it unambiguously supports the further development of risk management, for example through stress tests and by also involving the central banks and supervisory authorities (Bafin). From our point of view, the planned forward-looking reporting should be used for this purpose as it can strengthen the importance of investments in the transformation towards sustainability and thus the long-term competitiveness of the financial and real economy.

Thorough measurement of sustainability for all financial products

The process of measuring the impact a sustainable financial product could have is still in its infancy. The strategy rightly emphasizes that impact measurement is a highly complex topic and that terminology and measurement methods have not yet clearly been defined. We welcome the German government's call to further develop instruments based on science, which should for

example also enable the measurement of the impact of financial activities on biodiversity or human rights.

Introduction of a "sustainability traffic light" for investment products

The introduction of a "sustainability traffic light" for as many financial products as possible should help investors quickly and easily incorporate sustainability aspects into their investment decisions. We consider this to be a useful addition to existing sustainability labels. A "traffic light" could help ensure that sustainable financial products (e.g., insurances or current accounts) are able to establish themselves in the retail sector. With a mandatory labeling system for financial products, Germany would thus take on a pioneering role in the field of sustainable finance.

Overall, the Sustainable Finance Strategy of the German government represents a comprehensive future-oriented concept. Evidently, the details and implementation of this concept will have to be discussed and reflected upon over the next few weeks and months. It is now up to the German government to specify as quickly as possible the scheduled time horizons, to name the responsible parties for the implementation of the measures and to ensure effective monitoring. All stakeholder groups should also be included in the implementation phase since their past involvement was very successful. The members of the Sustainable Finance Research Platform will also take part in this discourse.

Prof. Dr. Alexander Bassen (Universität Hamburg), Prof. Dr. Timo Busch (Universität Hamburg), Dr. Gunnar Gutsche (University of Kassel), Ingmar Jürgens (Frankfurt School of Finance and Management), Dr. Karol Kempa (Frankfurt School of Finance and Management), Prof. Dr. Christian Klein (University of Kassel), Prof. Dr. Kerstin Lopatta (University of Hamburg), Prof. Dr. Ulf Moslener (Frankfurt School of Finance and Management), Prof. Dr. Karsten Neuhoff (DIW Berlin), PD Dr. Martin Rohleder (University of Augsburg), Prof. Dr. Oliver Schenker (Frankfurt School of Finance and Management), Prof. Dr. Frank Schiemann (Universität Hamburg), Dr. Franziska Schütze (DIW Berlin) und Prof. Dr. Marco Wilkens (University of Augsburg)

Media contact:

Bastian Tittor
Communications Manager
+49 30 89789 – 153
btittor@diw.de

About the project

The **Sustainable Finance Research Platform** is a network of five German research institutions that have been conducting intensive research on sustainable finance for many years. The network is funded by Stiftung Mercator.

The aim of the platform is to provide scientific support in answering key social, political and private sector questions, to provide established and emerging knowledge and to play an active role in the political and public discourse. In addition, the platform aims at establishing sustainable finance as an important theme in the German research landscape, while ensuring close links with European and international institutions and processes.

More information can be found on the project's website wpsf.de.