

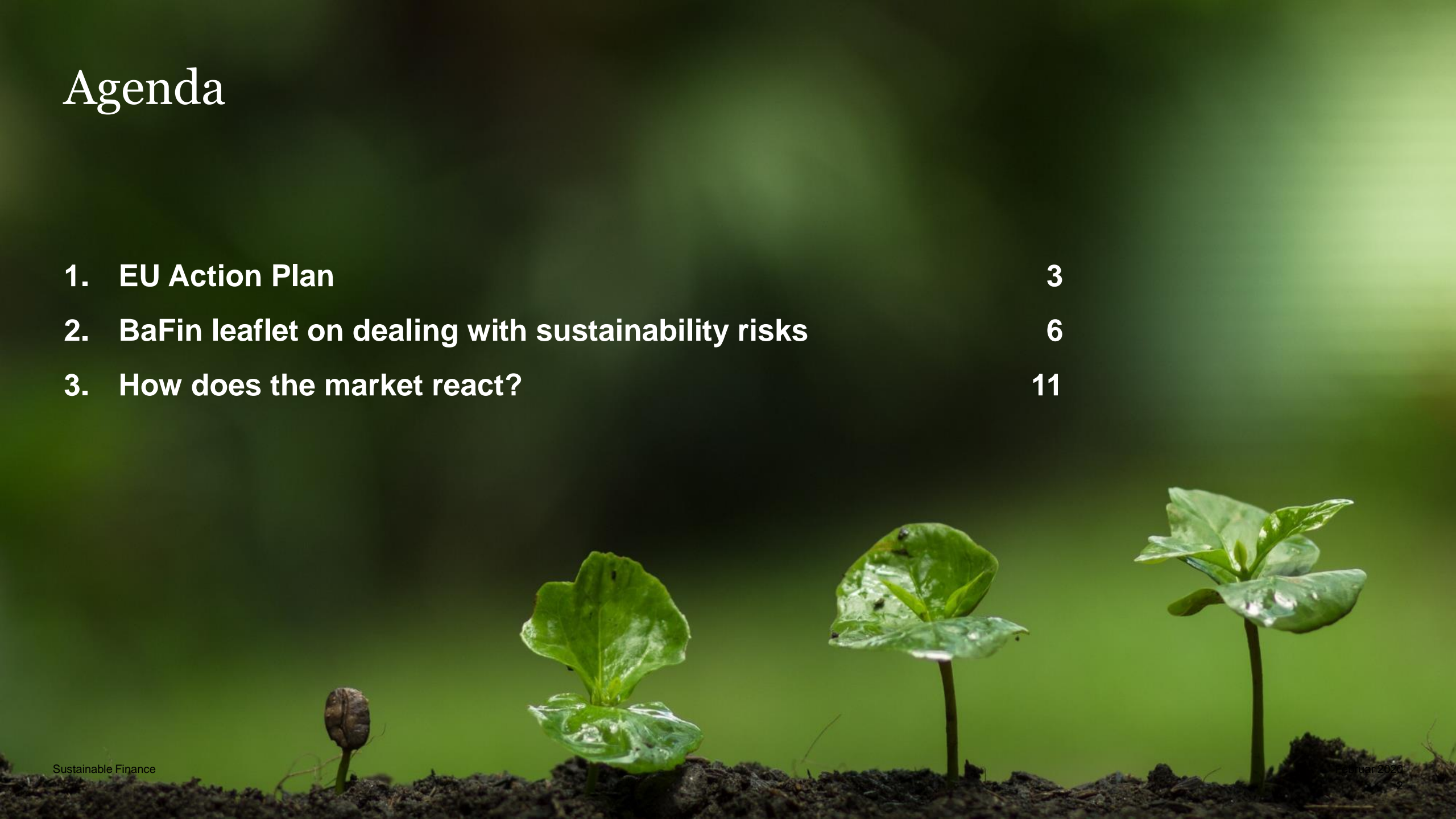
EU Action Plan Sustainable Finance – A European and German Perspective

February 2020



Agenda

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EU Action Plan on sustainable Finance

The EU has committed itself to three ambitious climate and energy targets by 2030

40%

Reduction of greenhouse gas emissions by at least 40% compared to 1990



27%

At least 27% share of renewable energies in final energy consumption



30%

At least 30% energy saving compared to the business-as-usual scenario

Energy and Climate targets

To achieve these energy and climate targets, additional funding of **180 billion euros per year** is required. According to the European Investment Bank, if the targets for the energy, transport, water and waste sectors are considered, a total of **270 billion euros per year** will be needed.

Green investments

With assets of over 100 trillion euros, the financial sector has enormous potential for green investments.

Part of the solution

The **financial sector must be part of the solution** and can play a crucial role in achieving the EU's sustainability objectives.

The ambitious goals require a redirection of capital flows towards a sustainable economy!



Work packages of the EU action plan

EU Action Plan for Sustainable Finance

1 Orientation of capital flows towards a sustainable financial system

- In order to achieve the EU's climate and energy goals by 2030, a gap of 180 billion euros per year must be closed
- The EU expects a more resilient and competitive economy due to green transformation and more efficient production processes

2 Environmental, governance and sustainability aspects as standard in risk management

- the financial impact of environmental and social risks
- Achieve adequate consideration of environmental, governance and social risks by the financial sector in risk analysis

3 Promotion of transparency and sustainability

- Enable an appropriate assessment of long-term value creation
- Steering companies in a more sustainable and long-term direction

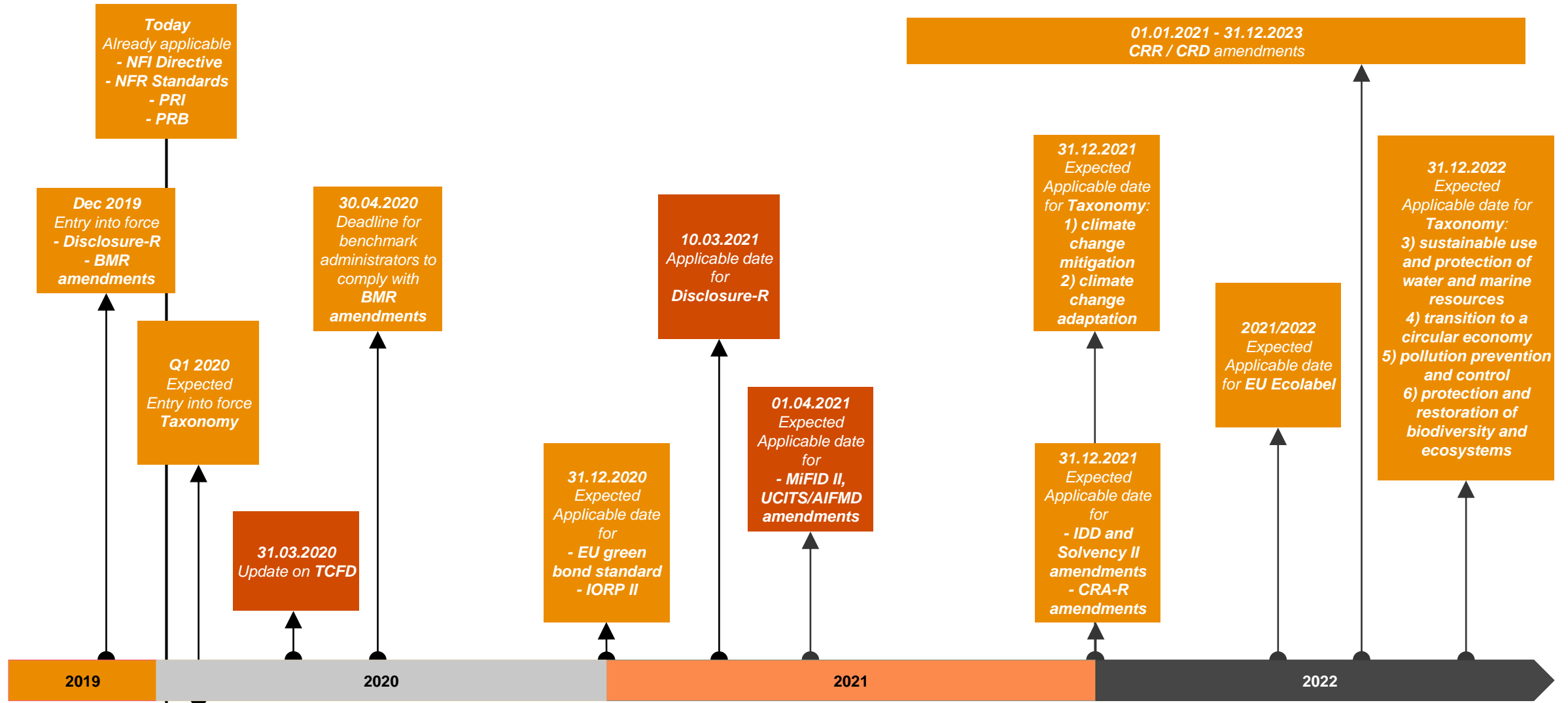
Action points set out in the EU Action Plan

- 1 **Taxonomy:** Establishment of an EU classification system for sustainability activities
- 2 **Standards:** Creation of standards and labels for green financial products
- 3 **Sustainable projects:** Promotion of investments in sustainable projects
- 4 **Investment advice:** Integrating sustainability into financial advice / target market according to MiFID II
- 5 **Benchmarks:** Development of sustainability benchmarks
- 6 **Sustainable ratings:** Better integration of sustainability in ratings and market research
- 7 **Sustainability obligations:** Clarification of the obligations of institutional investors and asset managers
- 8 **Risk management:** Integrating sustainability into regulatory requirements
- 9 **Sustainability disclosure:** Strengthening sustainability disclosure and accounting standards
- 10 **Corporate governance:** Promoting sustainable corporate governance and dampening short-termism in the capital markets

Legislative proposals follow

Proposed legislation

Timeline for the EU action plan



2

BaFin leaflet on dealing with
sustainability risks

BaFin

Final publication of the leaflet on dealing with sustainability risks



Merkblatt
zum Umgang
mit Nachhaltig-
keitsrisiken

Background

- BaFin has already gone public with the topic at an event in **Berlin** in spring 2019
- The leaflet more than often points out that everything has the character of a recommendation ("Compendium of **non-binding** procedures")
- But also: "BaFin **does not initially** pursue the goal of formulating concrete examination requirements". This indicates that the schemes will later become relevant for examination.
- As of this week, Sustainable Finance is one of the four BaFin **supervisory focuses** 2020
- The declared **aim** is to include sustainability risks in risk management
- It is expected, that BaFin will ask the IDW that in 2020 it would like to see a presentation in the audit reports of what the institutions are doing in the area of sustainability risks. From 2021, auditors are to **audit** the subject area.
- Due to the fact that the information sheet refers to MaRisk, MaGo and KAMaRisk, there is a certain audit relevance anyway

BaFin leaflet

Content - Overview



Merkblatt
zum Umgang

Sustainability risks are not a new type of risk - but they can have a strong impact on existing risk types



Investigation explicitly requested:
How do (physical and transitory) sustainability risks affect the existing risk situation in the institution?

Institutions need a sustainability strategy or must adapt their existing strategy accordingly
Business model change?



Integration into risk management,
Risk culture and risk strategy

BaFin leaflet

Content - Risk management

Directly in risk management

- 1 Review/adjustment of the risk strategy
- 2 Integration of sustainability risks in the control cycle: Identification, measurement, control and reporting
- 3 Which types of risk are affected (KreditR, OpR, and?)
- 4 Risk concentrations, risk mitigation techniques,
- 5 Effects on capital ratios/stress/scenario analyses
- 6 Integration into processes (e.g. loan approval, loan decision, risk management, risk controlling)
- 7 Reporting and external communication on dealing with sustainability risks

...with reference:

- 1 Adapt organizational guidelines
- 2 Additional employees / knowledge / sustainability area/unit?
- 3 Risk Controlling prepares report to the Management Board
- 4 Compliance acts as 2 LoD and acts as MaRisk compliance function
- 5 Internal Audit reviews the appropriate handling of sustainability risks
- 6 Emergency concept e.g. for physical risks that have occurred
- 7 Reporting and external communication on dealing with sustainability risks

BaFin Leaflet

Sample Todos

1 • Adaptation of the organizational guidelines

2 • Systems for early risk detection

3 • Definition of appropriate risk indicators

4 • Determination of methods for controlling and/or limiting sustainability risks

5 • Risk analysis/risk classification procedures: Add to existing ones or implement new ones. Tools from external providers for risk analysis.

6 • Consideration in ICAAP

7 • Consideration of sustainability risks in internal stress tests / scenario analyses

8 • Consideration in outsourcing management/contracts

9 • Group-wide consideration

10 • Use of ESG ratings for the valuation of financial instruments and own plausibility checks of the ratings

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keitsrisiken

Do you need an impact analysis and an implementation project now, in 2020?

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How is the market reacting?

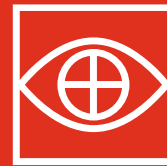
How does the market actually react?

- Since 2017/18, the European regulatory authorities and the EU have been devoting increasing attention to this topic
- EU, ESMA, EBA, BaFin - all actors develop their (own) approach
- The FS industry is changing into a new direction of non-financial management
- Players are now entering the market
- The new BaFin leaflet continues the German market under pressure
- When do YOU start?

Full implementation



What is the baseline that a company should follow?



How can you lead the market with this scheme? Evaluation? Portfolio?



Thank you for driving forward sustainable financing



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