German Council for SUSTAINABLE Development

High time for a decisive change of direction: German Council for Sustainable Development commends first steps and urgently calls for a comprehensive strategy toward achieving a sustainable financial system for Europe

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The German Council for Sustainable Development (RNE) welcomes the European Commission for its Action Plan on Sustainable Finance. Ten years after the collapse of Lehman Brothers, it is high time for a decisive change of course. In its Action Plan, the European Commission outlines a path towards the core of the capital market, towards the core of entrepreneurial processes and the business practice of financial market players. It is to be commended that the Plan contains a legislative proposal for a contemporary definition of fiduciary duty and of what constitutes a sustainable investment. These are important prerequisites for greater clarity when it comes to competition.

Nevertheless, the German Council for Sustainable Development views the failure to address key elements as critical. In addition to regulation, market-oriented arrangements and voluntary commitments must be afforded higher significance. These should be designed such that they are practicable in application by small and medium-sized companies. Reporting on the part of companies and financial market players must be given central importance and in doing so the Sustainability Code should serve as a model. The RNE would have liked to have seen an assessment made of whether the recommendations of the Action Plan would have consequences for the EU budget and what these would be if so.

Reasoning:

The RNE recognises the pragmatic approach taken and the aim of beginning quickly with development of a classification system for sustainable investment focusing on climate/ecology. It is our opinion, however, that the approach should be broader. In order to swiftly embed a comprehensive understanding of sustainable investing and initiate deep-seated transformation of the financial market's mechanisms, addressing with equal intensity issues related to social-ethical human-rights-aware investments and good corporate governance is a prerequisite for a sustainable finance system. Especially in the Plan's handling of the topic of fiduciary duty, we find that mention of criteria such as governance and legal/statutory compliance are lacking.

The EU Action Plan offers important orientational guidance regarding what performative expectations lawmakers have of financial market players, in particular of banks and insurers. From our perspective, a practically oriented guideline on applying the CSR Directive with respect to disclosure of non-financial information is helpful and long overdue. At present, these legal uncertainties are leading to hesitation among companies, which in turn is resulting in reporting that does not live up to its potential for providing information on material aspects and thus has little market relevance. This phase of practical implementation by companies offers an opportunity to on-board first-timers with respect to integrated sustainability management that is not centred solely around the banking trade, but rather on core processes of banks and the investing and lending business.

The RNE praises the Plan's mentioning of individual environmental goals to be achieved by the year 2030, though a comprehensive sustainable development strategy would need to take this topic further.[1] In addition, a linking of the Action Plan to the aims of the CSR Directive and practical application by companies in the EU member states would also be needed. In the medium term, a qualitative and quantitative review of the reports and the reactions on the financial market is necessary. The Council observes that with respect to the Code, reporting by financial market players has increased substantially and has improved. This creates the foundation necessary for mainstreaming sustainable finance.

In view of these goals, the regulatory suggestions of the Commission fall short. It is regrettable that effective approaches and initiatives from EU member states have not received sufficient consideration in the recommendations of the HLEG and the Action Plan.

The Council developed the Sustainability Code as a market-oriented tool and in response to the financial and economic crisis of 2007 and 2008. It provides answers to many questions posed by the EU Action Plan in a centralised and publicly accessible database. Though its potential was recognised early on by the European Commission, it receives no mention in the HLEG's final report or in the Commission's Action Plan. The Council strongly urges that the Sustainability Code be given serious consideration at the European level as a viable approach worthy of further development. Its standardised reporting format based on a catalogue of 20 criteria, which also fully reflect the requirements of national law,[2] makes it a highly practicable and financial-market-compatible tool that is currently experiencing high demand in the banking sector and among insurers.

[1] Goals for 2030: 40% reduction in carbon emissions as compared to the year 1990, at least 27% share of renewable energies in total energy consumption and at least 30% energy savings.
[2] Cf. publication of the CSR Directive Implementation Act in the German Federal Law Gazette as well as the preamble to the Act