Rat für NACHHALTIGE Entwicklung

Keynote speech by Marlehn Thieme, Chair of the Council for Sustainable Development on the occasion of the presentation of the FNG's Sustainable Investment Market Report on 1 June 2017 in Berlin

Ladies and gentlemen,

Many thanks for your invitation to this important key event in the sustainable investment scene. When this day is over and the FNG Market Report is online, a great many people and institutions will set about adapting their presentations and notes to reflect the new data on the market share of sustainable investments.

I would like to congratulate your members on another double-digit increase of 15%. But as you already suspect, I have to douse your spirits almost as quickly as I raise them, because the low market share being at 2.8% shows that this is still a niche area of financial investment.

Nonetheless, I remain optimistic, as there is a palpable sense of anticipation in the air.

The elections that lie behind and ahead of us and the new security-policy challenges we face are creating a new willingness to engage and shape our future:

- There is a new will to develop a European vision of a viable market economy.
- There are business managers who are voicing more clearly than ever their intention to implement the Paris Climate Accord in their respective sphere of activity.
- Within the political and administrative structures, more and more individuals are working to achieve viable developments in operations, infrastructure and overall conditions that favour sustainable business.

And more people are beginning to think in the same way.

The process of re-engineering has begun.

Of course, there are still a lot of people out there who believe they can just continue to do business as usual.

- Take the automotive firms for example that continue to back the combustion engine as a means of mobility and that, flying in the face of exemplary sustainability reports, cling to the idea of re-vamping diesel's image instead of embracing mobility 4.0!
- There are investors and analysts who continue to rely on the old risk models and incentives structures of the past instead of investigating the opportunities afforded by smart resource-light solutions.
- And there are heads of state who evidently hanker for bygone days when a reliable friend-or-foe formula meant everyone knew where they stood.

These dinosaurs from the last century are on the road to extinction!

I would like to state quite unequivocally that we still come up against them in the sustainability scene, too. They are the ones that want to continue doing business as usual under the sustainability mantra without having to put aside their restricted views and leave the comfort zone of their own business model.

Of course, we need a transition phase and of course this approach may well continue to bring rewards for a good while longer. I am convinced though that we can only achieve broad-based impacts and economies of scale through cooperation.

When we cooperate and learn from each other without renouncing our independence and unique identities, we can also drive forward transparency among hardliners.

And what about all of you here? Do you think it's time to move out of the niche? Then let's talk to each other and learn from one another in those sectors in which we cannot make headway on our own.

There need to be more investors whose aim is to achieve long-term returns that benefit not only their own portfolios but also the environment and society.

We need a greater number of sound, effective sustainable investment products in all asset classes. They require high-visibility marketing and they need to be easily identifiable and actively sold. We also need a better understanding of sustainability and the financial markets – not only among private and institutional investors but also embedded in training for tomorrow's bankers.

We need to sit down together and think about how we can quickly change key parameters in order to undo this Gordian knot.

Let's work together to unleash the dynamics of doing business sustainably that, as things stand, is still insider knowledge reserved for the initiated!

You all know the Council for Sustainable Development. We have been experimenting with smart co-regulation processes for a while now. And the things we are learning through our dialogue with market actors and politicians at many different levels are astonishing.

In spite of all the intermittent hiccoughs along the way, we wish to push ahead with this dialogue approach on a matter close to my heart: the development of sustainable financial markets.

In the autumn of last year, Germany's Federal Chancellor Angela Merkel appointed the current members of the Sustainability Council. Among those reappointed was Professor Alexander Bassen, a man whom you all know and who has assisted the Council with the development of the German Sustainability Code since 2009. Achim Steiner is a new member. He is the former Executive Director of the United Nations Environment Programme and the newly appointed Administrator of the UNDP.

Together with our Secretary-General, Guenther Bachmann, they have drafted a discussion paper on sustainable finance (its working title is 'living document green finance') that we, as the Council for Sustainable Development, are presenting for public debate.

In it you will find 12 items with which we wish to kick-start the discussion process. In the months ahead, we would like to delve further into these topics in order to refine, grow and expand them or reject them.

The key approaches here include:

1. A proposal to set up a sustainable finance hub in Germany. We are only just initiating this debate. We are working on the idea of a joint forum-like structure involving all interested parties from the financial sector that networks actors, enabling them to share experience, promote self-organised standards and be a platform for partnerships.

   The remarkable thing here is that just last week Deutsche Boerse held an 'Accelerator Conference on Sustainable Finance'. It goes to show that sometimes good thoughts are generated in parallel at several places. We are engaged in close dialogue with Deutsche Boerse and will see how we can bring these two approaches together.

2. We suggest embarking on a dialogue process with the state and customers about a financial market reset. And as our starting point we suggest the topic of pension schemes. Since this is an important topic for everyone in Germany, it is especially suited for developing a long-term perspective.

   In our digitally accelerated age, this will be a real learning curve for analysts, investors and customers alike. Also, it is such a structurally important topic that each group of actors will be able to find their own point of departure.

3. Sustainability should be a budgetary principle: We believe that sustainability should play a greater role, both on the income and on the expenditure side of the government budget. Fiscal strategies, subsidies and funding structures, pension reserves and special funds for

civil servants' pensions, development financing and foreign trade promotion could all support the goals of sustainable finance more markedly than they have up till now. The state too can become a role model for integrated thinking and management by harnessing all options at its disposal for mainstreaming its national policy objective of sustainability into existing instruments.

I warmly invite you to engage with this living document and to bring your proposals to the table!

We know there are already thriving green finance hubs in London and Singapore as well as at other financial centres. Competition is in full swing.

I am convinced that with the actors we have we can easily keep up with our competitors – all it takes is for Corporate Germany and the investment community to earnestly commit to an integrated sustainability mindset.

In my opinion, the following are absolutely vital for this:

- Greatly expand the volume of money invested in sustainable products
- Companies must examine their own investment behaviour and become sustainability drivers by demanding sustainable investment options, e.g. off-balance-sheet occupational pension schemes should be geared consistently to socially responsible investments (SRI). Mere three out of 208 companies report to have taken sustainability into account in their investments according to their Sustainability Code reports. That is clearly not enough.
- It is imperative that banks accept that structural sustainability goes beyond equity capital ratios and take a closer look at their borrowers' supply chains. It is anything but absurd to view companies that access loans or investments via banks as part of those banks' value chains.

Unsustainable commitments are already a serious reputational hazard – this has already been made clear numerous times in media reports and by civil society. And more and more decision-makers are coming round to the fact that, as a result, they pose a financial risk.

It is essential that we recognise the opportunities inherent in a future-oriented mindset that is conservative in a positive sense.

Evaluate the sustainability performance and potential of companies you lend to! If you apply strict climate protection goals in your portfolios and business activities, you will always be one step ahead of the rest. Aim for 95 per cent CO_2 reduction and get your customers, your companies to commit, too. Think in terms of partnerships. This will enable us to achieve the energy transition and our climate protection goals.

How does your institution bear up with regard to data protection and corruption? Are the systems themselves sustainable? Do you operate safe, energy-efficient servers driven by power from renewable sources? How much creativity do you invest in the development of sustainable financial products?

The energy transition means that investments in renewables and infrastructure should take precedence. And the ongoing downward spiral of confidence in financial markets is a clear signal that the financial industry needs to do more for the people. Integrity and sustainability are the benchmarks of our time. Whoever is unable or unwilling to commit to transparency and accountability will fall behind.

The tables are turning. Thirty years on from the Brundtland Report, the question as to how we are to shape our 'common but differentiated responsibilities' and whether we will actually be resolute enough to carry development forward is still completely open.

I hope that the pressure that we are currently experiencing in Germany with regard to our refugee policy and our trade surplus will prompt the natural allies of those who have been campaigning for sustainable development for many years and decades to come together and pool their strengths.

We know everything we need to know to get started. We must usher in a new information age – one in which we share useful data and show that this really generates a competitive edge while those companies that resist the imperative of transparency are at a disadvantage.

This also calls for a global exchange. Our aim should be to create a global framework for fair competition that can also help resolve social and ecological challenges and conflicts.

I am truly convinced that companies can change. We all know that the market economy is capable of adapting very quickly to new demands. Companies that adopt sustainable practices voluntarily and ahead of time should enjoy certain competitive advantages, like being able to access capital and orders more easily – as opposed to those that continue to leave it to others. This means that the costs of CO2, ecosystem services and water need to be integrated into market structures and pricing mechanisms.

And last but not least, the CSR Directive Implementation Act with new disclosure requirements will enrich the discussion on corporate sustainability performance. My vision of an enlightened and developed European economy is one of a humane, social and ecological market economy that harnesses its value chains to unfold global impact.

What's yours?

I look forward to exchanging views with you on this over the coming weeks and months.

Many thanks for listening and I hope you have a very inspiring conference!