EUROFI VIEWS MAGAZINE - BERLIN SEPTEMBER 2020

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Data do make the difference

With the adoption of the EU action plan on sustainable finance in March 2018, the issue of data needs has rapidly gained attention amongst legislators, financial regulators, domestically and worldwide. Sustainability disclosures are essential to meet the objective of the Paris Agreement targeting a carbon neutral economy by 2050. Rescuing our human life on earth will mark the biggest structural challenge since the industrial revolution in the 19th century. In order to achieve this goal, it is not just capital to be allocated. It is also information, education and a de-ideologised assessment of the risks ahead to us.

Now, the financial industry is put into a delicate sandwich position. Sandwich between political and social goals on one side and the needed real economy's structural change on the flipside. Financial industry is obliged to disclose information about their approaches on integration of sustainability risks into their business strategies. It has to report on the integration of sustainability risks, on the consideration of adverse sustainability impacts, on sustainable investment objectives, as well as on the promotion of environmental or social characteristics, in investment decision making and in advisory processes. Harmonised requirements for financial companies and their products will ensure a certain standard of investor and consumer protection and will help to mitigate the risk of greenwashing.

Hence, we are faced with three key challenges: First, to fulfil its role in sustainable finance, the financial industry needs information from non-financial industries. Therefore, non-financial reporting must be enhanced. Secondly, as long as we are bound by the obstacle of limited ESG data availability, data must be pooled and publicly available to level the playing field. I plead for a publicly funded data pool of raw data. Thirdly, we need to find the right balance of information. Foremost, data must be comparable and transparent. Disclosures should be simple, clear, concise and not misleading. Information overload that would ultimately confuse an investor must not happen. As well as we need to ensure that disclosures are not overly burdensome for the industry. It is of paramount importance that we may not lose track of continuing to apply the principle of "supervision with a sense of proportion" almost good practice in the roll-out of previous comprehensive frameworks. So, the biggest challenge is creating proportionality in a field that could not be wider by now. That is why the taxonomy will extraordinary support streamlining all efforts towards well informed but not too punishing ESG disclosures.

The better all players are informed, the clearer business strategies, risk management practices and ESG cultural behaviours can be drawn, either, in the financial and in the non-financial industries. BaFin requires, for instance, a strategic assessment of sustainability risks and has issued a "Guidance Notice on Dealing with Sustainability Risks" which serves as a compendium of proportional good practice principles to be applied. However, such risk management practices just get into life when necessary data is available. ●