BAI Newsletter V/2021– October 2021

Editorial article from Frank Dornseifer

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Ladies and Gentlemen, Dear Members,

On Monday, October 26th, the new Bundestag began its work. With a total of 736 parliamentarians, the 20th Bundestag is not only larger than ever before, the German Bundestag is also the second largest parliament in the world. In view of the main topic of this newsletter, the question arises - with a twinkle in our eyes - how this sprawling political scene is to be assessed in terms of sustainability?

It is therefore worth taking a look at the EU regulations of the Sustainable Finance Initiative, in particular the taxonomy, which provides a detailed checklist for sustainable activities, initially with a focus on climate and environmental targets.

With E for Environmental, the screening would have to start with the Reichstag and all the government buildings, continue with the car fleet of the Bundestag and all the national and international business trips that the parliamentarians take (not always with green electricity), and end with the other resources that an ever-larger Bundestag consumes. So perhaps this is not quite as taxonomically compliant as it is expected now form real economy and financial industry under aforementioned regulations.

With reference to S as in social, one could initially argue that it is already good if 736 people and their staff are now employed and also make use of numerous service providers and, above all, consultants and thus, of course, also increase the national product. It can also be assumed that the working standards in the second largest parliament in the world really do correspond to this ranking. However, in this context it must also be asked whether such an apparatus is really needed for proper legislation, which is also financed with tax money that could otherwise be used elsewhere. With a few less lawyers, tax advisors, civil servants, etc., who, as we know, make up the largest group of the parliament, the legislative machinery would certainly not grind to a halt!

That leaves G for governance, and there is room for improvement here as well, even though the 20th Bundestag has seen a slight increase in both young MPs (the average age is lower than it has been for decades at around 47) and MPs with an immigrant background (around 11%). The proportion of female parliamentarians has also risen slightly from 31% to just under 35%, but remains not only below the previous peak of 2013, but also does not reflect the gender distribution in Germany.

In short: if the standards of taxonomy, disclosure regulation, etc. were applied to the Bundestag, the result would probably be rather mixed. Whether the new Bundestag will receive the Article 9 seal of approval according to the Disclosure Regulation (dark green) with a verifiable impact, or can rather be regarded as Article 8 "light green" product, or even "only" receives the minimalist Article 6 classification, remains to be seen; the balance will be drawn at the end of the legislative period. It can only be hoped that the new federal government will think well beyond the end of the 20th legislative period. The exploratory paper of SPD, Bündnis 90/Die Grünen and FDP contains in any case some good approaches and the BAI is looking forward to a constructive cooperation with a new federal government.

Focus on ESG & Impact Investing

Let's move on to the main topic of this newsletter. On October 31, the COP26 started with a huge expectation of the world public, 26 years after the first "official" UN climate conference in Berlin, which followed the adoption of the Framework Convention on Climate Change in Rio in 1992. If you look at the timeline, it is almost surprising that it has taken so long for a Green Deal to be adopted here in Europe, especially, since the facts and the need for action have been on the table for decades.

But let's look at the status quo of the Sustainable Finance Initiative. The EU's associated package of regulatory measures is not yet or only in part on the home straight. However, more and more milestones of this mammoth project have already been reached or are within reach, especially with regard to the area of "environmental". The implementation effort for the financial sector is already gigantic, which is precisely why calm and prudence are now called for, both in terms of the next steps and measures, but above all in terms of implementation. The whole thing is a Herculean task! However, the signal that the EU Commission recently sent out at the presentation of the "Renewed Sustainable Finance Initiative" was that it now wants to "commit itself even more ambitiously to a sustainable financial sector", thereby naturally also increasing the pressure on all financial market participants - and indeed at all levels of the value chain - to set themselves up in a strategically and organisationally sound manner with regard to ESG and to continue to drive forward the implementation of the EU regulatory framework with the highest priority.

As a reminder, various fundamental Level I (amendment) legal acts have been launched this year or last year and are in part already being applied or will be applied in the near future, such as the Disclosure Regulation, the Taxonomy Regulation, the Benchmark Regulation, or amendments to the MiFID, UCITS, AIMFD, IDD, Solvency II or the Non-Financial Disclosure Directive (CSRD, previously NFRD). Complementary implementing acts at Level II have also been initiated in some cases or are currently being finalised. The same applies to related regulatory technical standards (RTS), which regulate important details and contain templates etc. for technical implementation. The final report of the ESAs on RTS based on the Disclosure Regulation has just been presented and now has to be adopted by the EU Commission. All this is flanked by various industry initiatives that are developing guidelines and standards to ensure the most practical implementation possible, such as FinDatEx, which is working on a uniform European ESG Template (EET), among other things.

With each new milestone, with each new legal act, not only the complexity of ESG regulation grows, but also the pressure on all financial market participants to act. But how do you find, structure and manage or administer, for example, taxonomy-compliant investments, how do you fulfil and comply with the countless disclosure and transparency obligations, how do you carry out, for example, an analysis of the DNSH or PAI criteria (Do No Significant Harm or Principal Adverse Impact) or the minimum requirements for social security for the large number of different assets? How do I educate investors and how, for example, do I determine the target market while taking ESG characteristics into account? New questions of interpretation and application or even contradictions constantly arise that need to be answered or resolved. And last, but not least: what do not only the individual financial market players do, but above all what does the supervisory authority do with the vast amounts of data that now have to be additionally collected, evaluated, processed and reported?

The support for the Sustainable Finance Initiative from the entire financial sector is enormous, but many investors and asset managers have also long since taken up the three letters E, S and G and joined industry initiatives such as UNPRI etc., in some cases well before Green Deal & Co. in order to help shape sustainable change in the financial and real economy. This should not be forgotten either. It is precisely this motivation and this broad acceptance that must now be maintained, and it is precisely in this respect that politics and supervisory bodies are now called upon above all.

At present, financial market participants are facing immense complexity and the associated bureaucracy is threatening to get out of hand, as has been documented in the past, for example, by the ESAs with the first proposals for RTS on disclosure and reporting obligations. It is precisely the data issue including reporting and disclosure that is causing headaches for many players, and it is not without reason that the question must be asked as to whether another green data graveyard is being created here? Or to put it another way: should BaFin, for example, verify the green asset ratio or other ESG indicators reported by a financial company, or check the taxonomy conformity of the portfolio? Is the supervisory authority now moving from being the financial police to being the sustainability police? And just as an aside: what organisational and human resources are to be used to bring this about? The approach of individual national supervisory authorities, e.g. to launch their own guidelines for sustainable investment assets while coordination is already taking place at European and international level to avoid greenwashing, must also be critically questioned.

As I said at the outset, it is precisely now that calm and prudence are called for, and the entire industry must have a realistic chance of implementing the many new ESG requirements in a practical manner, also from the point of view of proportionality and materiality, and of subjecting them to the litmus test. A highly ambitious timetable, ever new pressures and a proliferating bureaucracy of forms and data are of less help than pragmatism, clarity and, above all, personal responsibility on the part of the financial market players who, for reputational reasons alone and under pressure from investors, are taking an over-obligatory approach to the issue of ESG. If sustainable investing is only possible by following thousands of pages of regulations and meticulously filling out countless templates, the question arises as to whether this is really in the spirit of sustainability? In any case, as part of our lobbying work, we strongly advocate a pragmatic approach so that sustainable investing is made possible and not bureaucratised.

For the regular exchange on ESG topics within the circle of members, but also with investors, we would like to refer once again to our relevant BAI working group. In the future, we will also report on the ongoing work of the working group on the BAI homepage. If you are interested in joining the working group, please contact the BAI office.

BAI Investor Survey 2021

Attention spoilers! The BAI Investor Survey 2021 is nearing completion and we will soon present to you exciting findings from this year's survey of around 100 institutional investors from Germany. How has the allocation of the various alternative asset classes developed? Is real estate still the dominant asset class, or is there a new frontrunner? How do investors assess the perceived risks in terms of greenwashing? And are crypto assets slowly making their way into institutional portfolios? We provide insightful answers to these exciting questions. This year's insights will be particularly interesting because we have conducted a member survey in parallel, which gives us the opportunity to compare the respective views of investors and managers and to draw conclusions from them. For a short time there is still the possibility to participate in the investor or member survey. Take advantage of this opportunity. It is not only worthwhile for you, but also for various charitable organizations, to which we make donations depending on the number of participants!

BAI Science Award / BAI AIC 2022

In the last newsletter I had already announced that the BAI Science Award would again be presented at an onsite event this year. Now we have put this plan into practice and I am pleased to announce the date of November 25th, 2021, for the award ceremony, to which you are of course cordially invited. The award ceremony will take place on the occasion of a BAI Insight together with our member company FERI on the topic of "Private Markets & Impact Investing - Requirements for Measurement and Reporting in Practice", which of course also follows our current focus, on which we already presented a wide-ranging webinar on October 27. The presentation documents and the video recording are available on the BAI homepage.

With the aforementioned BAI Insight 59, we are also resuming our face-to-face event formats. If you are interested in organizing a BAI Insight with us next year, please contact our office. And next year's AIC on May 3rd and 4th, 2022, will also take place as a live event at Kap Europa in Frankfurt. Our program planning for this has already begun. We will provide you with further information shortly, especially regarding the announcement of the member slots and panels.

on the articles in this newsletter

As always, our newsletter with its focus on ESG is packed with articles that are well worth reading and to which I would like to draw your attention at this point. At the same time, I would like to remind you that - as usual - we also provide information on the highly topical subject area of ESG & Impact Investing in the relevant thematic focus on the BAI homepage with a large number of further specialist articles, interviews, guidelines, studies, lecture documents and, of course, statistics and market data and hopefully provide new food for thought. Click in once.

I wish you an informative and enjoyable read.

Frank Dornseifer