

Joachim Wuermeling: Remarks on the growing importance of Green Finance

Introductory remarks by Prof Joachim Wuermeling, Member of the Executive Board of the Deutsche Bundesbank, at the Dinner reception within the scope of the Green Finance Study Group meeting, Frankfurt am Main, 17 January 2017.

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On behalf of the Deutsche Bundesbank I welcome all of you here in Frankfurt heartily for the first core meeting of the Green Finance Study Group under the German G20 presidency.

I'm very happy to host tonight's dinner event in this spectacular museum.

Before giving the floor to Mr. Bräunig, let me make a few short remarks on the growing importance of Green Finance and the latest trends in sustainable investing of Bundesbank in our role as a fiscal agent.

It's a pleasure to welcome you here in this amazing museum. In this museum you may travel through times long ago and learn about the evolution of life on our planet. You are invited to an exclusive tour after dinner. The most spectacular exhibits– not only for kids – are the enormous dinosaur skeletons. To me, they are an impressive example of evolution – but also a warning that even such powerful creatures were very sensitive to changes in the world's ecosystem.

The question how dinosaurs became extinct about 65 million years ago has been analyzed quite extensively. Even though, as I understand it, a prevailing answer hasn't been found yet; at least, there's some common ground between the theories: Climate change – either a very sudden or a rather gradual one – played an important role for the extinction.

Today, in the 21st century, climate change, pollution and natural resource depletion are important challenges all over the world. It goes without saying that the world of finance will play a crucial role in mobilizing private capital for green investments. And I would argue that the financial sector is well advised to embrace this trend towards a greener economy.

The Green Finance Study Group plays a valuable role in this context. All of you have made remarkable contributions. The Chinese presidency brought the project to first base. The German presidency now has the honor to support the run to the second.

When transforming the economy to a greener one, it's crucial in my point of view to rely on market-based concepts: „Going green“ should not only be a moral obligation but a superior economic choice. Environmental factors have to be integrated into the financial decision making properly. Investors have to have all relevant environmental data at their disposal.

I'm convinced that the ongoing work in the Study Group helps to make significant progress in this respect.

The Bundesbank acts as fiscal agent alongside its classical role as central bank of Germany. In this capacity, we help to set up and passively manage pension funds for the federal and various state governments. At the Bundesbank, we recently observe a growing interest in sustainable investment strategies within the public sector. This is particularly true for equity investments. The fixed income market still lags behind slightly. At the current stage, Green Bonds can only be considered a small complement to an existing portfolio allocation due to the fact that the market is still at a nascent stage.

How do we – at Bundesbank – take these developments into account? We take our fiduciary duties very seriously: We share our knowledge and expertise in the field of sustainable

investments. And we ultimately implement our clients' investment decisions.

Some of our clients have either been using sustainability criteria within their equity portfolio for quite some time or recently took the decision to include such criteria in a timely manner. Others currently rethink their investment strategy and consider sustainability criteria as well.

We are working on instruments which allow for further ways to include sustainability criteria in our passive portfolio management.

Investors have plenty of possibilities when investing in sustainable equity indices. They can customize indices according to their own ethical beliefs. In order to achieve the expected mixture of equities various complex questions have to be answered by the investor and considered by the index provider.

For instance:

- ♦ What's our interpretation or definition of sustainability?
- ♦ Are we mainly concerned about environmental issues?
- ♦ Or do we focus on social responsibility as well?
- ♦ What about governance issues?
- ♦ How rigorous are we in pursuing the selected strategy?

for example: if we exclude tobacco producers, how do we treat supermarket chains that sell cigarettes?

These questions are not easy to answer, and they may well differ substantially from investor to investor. It seems that individualization sometimes replaces standardization in terms of constructing an index. I think this is positive. It enhances market variety, diversification and market intelligence. The investors take advantage of ever more choices. It encourages competition and supports a growing universe of green assets.

There's one message I'd like to send: Sustainable investing does not necessarily mean losing performance. It is not a question of "either-or". Incorporating sustainability criteria gives fresh impetus to risk management and may well lead to outperformance.

Ladies and gentlemen, I wish you fruitful discussions in tomorrow's sessions and a lot of success in pushing the topic of Green finance in the coming months. I hope that all of you will take a lot of ideas with you and help to promote their implementation at home.

I also hope that you take a positive impression with you: From Frankfurt as financial capital not only of Germany but of the whole Euro area. London City will be leaving the EU. We are ready for new responsibilities. But we are not competing with other locations in an aggressive manner. Division of labor is key to the success of European markets. Rather than marketing for big shifts from London to Frankfurt, we offer to be the Euro-end of a wide bridge from the City to the continent. Frankfurt stands for a resilient, stable and extremely well-functioning financial industry. And it is open for fresh thinking – and doing. Green Finance is one of our high-priority topics.

For example the KfW, Kreditanstalt für Wiederaufbau, is Germany's most important promotional bank. It was founded in 1948 and has ever since been encouraging forward-looking ideas – in Germany, Europe and throughout the world. With an issuance volume of 2.8 billion Euro in 2016 alone, the KfW is one of the leading issuers of Green bonds. The KfW does not only talk about Green Finance – it does it.

This is why it's a great pleasure for me to introduce to you Mr. Günther Bräunig who is truly an expert in the field of Green Finance. Mr. Bräunig has joined the KfW in 1989 and has been

member of the Executive Board since 2006. He is responsible for capital markets.

After the next course, Mr. Bräunig will take the floor. Mr. Bräunig: I'm really looking forward to your remarks. And to all of you: Have a pleasant and productive stay in Frankfurt.