

Sustainability – recommendations to support the transformation of the German economy

February 2025

Sustainability – supporting the transformation of the German economy

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Context - the transformation of the German economy

In Germany, the green transformation alone will require over 300 billion euros per year until 2030. Companies will be able to finance part of this from their balance sheets, but more than half (around 175 billion euros) will have to be raised through external financing.

Where will this money come from? According to estimates from consultancy zeb for the German market as a whole, the banking system will not be able to provide all the additional funds required.

In addition, private capital will be needed, as well as public funding.

What measures would support the transformation of the German economy?

Policy certainty

Companies need policy clarity and certainty in order to be able to invest for the long term.

The government should therefore set out roadmaps for investment and transition of key industrial sectors.

Private and public funding

Private capital will be needed, as well as public funding.

The government should develop the German capital markets and support the Capital Markets Union, including the use of securitisation to broaden the investor base. The government should seek to work together with industry, to scale up public/private partnerships.

Equity finance

The green transition will require more equity finance. Necessary regulatory reforms to allow investments in infrastructure and transition finance should be explored, considering that investors invest on the grounds of expected future returns and that green transition projects should ensure sufficient return to attract investors.

Guarantee programmes and other risk mitigating tools drive private investments. Tax incentives with a long-term focus are equally important. A solid capital base is also key for entities and projects willing to attract lenders, regardless of the form of the debt envisaged (bond issuance or bank lending).

Regulatory framework conditions

It is essential that the regulatory framework enables banks' role in helping finance the transition and that it works in a way that supports the growth and competitiveness of the economy. The government should evaluate the regulatory framework conditions to enhance competitiveness and minimise complexity and bureaucracy. It is important to recognise and address areas of the framework where regulation is not mobilising much needed capital but hindering financing by imposing burdensome, duplicative or ineffective requirements.

We emphasise that streamlining disclosures for non-financial companies, including SMEs, cannot be addressed without reflecting changes in the requirements placed on financial institutions, which necessarily rely on corporates' information for their own reporting and risk management.

Annex A provides summary recommendations, grouped under the following headings:

- Enhancing competitiveness and reducing bureaucracy
- Corporate Sustainability Reporting Directive (CSRD)
- Corporate Sustainability Due Diligence Directive (CSDDD)
- EU Taxonomy

Annex B is provided for further reference. It sets out AFME's detailed recommendations in the context of the European Commission's 'omnibus' initiative on simplification.

Annex A – summary recommendations for the regulatory framework

Recommendations for enhancing competitiveness and reducing bureaucracy

- We strongly encourage the government to actively contribute to the European Commission's competitiveness and simplification agenda, including a holistic review of the EU regulatory framework for sustainable finance in the context of the Omnibus simplification package.
- Key priorities should include streamlining reporting under the Corporate Sustainability Reporting Directive (CSRD) and Taxonomy Regulation; and addressing challenges under the Corporate Sustainability Due Diligence Directive (CSDDD). AFME has made detailed recommendations across these areas, enclosed as Annex B.
- As a general principle, when transposing key pieces of EU legislation (e.g. relating to supply chains) into national law, Germany should avoid gold-plating.
- We also encourage the government to maintain close dialogue with industry (corporates, investors, financial institutions) to minimise the compliance burden and the associated administrative/bureaucratic costs. For example, further dialogue between policymakers and financial institutions would be welcomed with respect to further promoting and facilitating transition finance.

Recommendations related to the CSRD

- In light of the current status of CSRD transposition and further changes to be potentially enacted through the European Commission's Omnibus proposal, it is essential that companies are not adversely impacted in respect of their financial statements for FY 2024. National competent authorities should therefore refrain from prioritising any supervisory or enforcement action pending full transposition of CSRD across the EU, and completion of the Omnibus process.
- We also recommend pausing the development of sector-specific ESRS, so as not to further add to the complexity and volume of disclosures required under CSRD.
- The Government should support a review of the sector agnostic ESRS in order to identify opportunities for reducing burdens, addressing issues from the first reporting cycle and increasing international alignment.
- The approach to the subsidiary exemption should also be reviewed, to avoid multiple entities in a group having to report on an individual basis, where this does not provide material benefits to users of reporting.

Recommendations related to the CSDDD

- We recommend that transposition and implementation of CSDDD be paused pending the outcome of the 'Omnibus' process announced by the European Commission.
- The CSDDD should not introduce transition plan requirements that go beyond the adoption of a transition plan for climate change mitigation in accordance with CSRD.
- We also see scope for addressing challenges under the current text of the CSDDD – e.g. with a view to reducing litigation risks and clarifying a proportionate and practicable approach to due diligence for a company's chain of activities.
- Removing the review clause for the potential extension of the CSDDD scope to the downstream part of financial undertakings' chains of activities would be impactful to avoid the introduction of additional burdensome requirements.

Recommendations related to the EU Taxonomy

- The main Taxonomy KPI for credit institutions, the Green Asset Ratio (GAR), should be reviewed. We do not believe that the GAR, as currently formulated, is achieving its policy objectives for investors and other stakeholders. The review should consider whether the GAR should be removed in light of experience to date, feedback from investors, and the evolution of the broader EU sustainability reporting framework.
- If the GAR is retained, the Commission should conduct a substantive review of its calculation methodology and disclosure templates, to increase its relevance, streamline reporting and reduce operational burdens. AFME's detailed recommendations for this exercise are accessible [here](#).
- It is also important not to proceed with the introduction of the Taxonomy reporting KPIs for the trading book GAR and Fees and Commissions KPI.
- The approach to the Do-No-Significant Harm (DNSH) assessment needs to be simplified. AFME's and Oliver Wyman recently published a report highlighting challenges and making policy recommendations¹.

¹ [AFME and Oliver Wyman, A Review of the DNSH Assessment in the EU Taxonomy, December 2024](#)

Annex B: AFME's recommendations for reducing burdens and enhancing competitiveness under EU sustainable finance regulation

No.	Recommendation	Reasoning
Cross-cutting recommendations		
1.	Avoid introducing further regulation that would exacerbate complexity and reporting burdens across the framework or damage the competitiveness of firms doing business in the EU.	It is essential not to further increase complexity or burdens which would exacerbate existing challenges.
2.	Ensure that guidance and FAQs are developed in close collaboration with industry and issued with sufficient time for implementation ahead of application dates.	Banks have experienced significant challenges with necessary guidance not being available ahead of the application of relevant requirements, as well as with impactful guidance creating new implementation challenges, and in certain cases additional and/or contradicting requirements, resulting in banks having to change their approach as guidance is produced. Examples include guidance and FAQs developed under SFDR, CSRD and Taxonomy.
Corporate Sustainability Reporting Directive (CSRD)		
3.	Avoid introducing additional disclosure requirements for the financial services sector e.g. under sectoral ESRS. We therefore recommend pausing the development of sector-specific ESRS.	It is important not to further add to the complexity and volume of disclosures required and ensure that the reporting burden under the CSRD is not increased through the sector-specific ESRS. Financial institutions are already subject to substantial sector-specific reporting, e.g. through Pillar 3 disclosures.

Association for Financial Markets in Europe

London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540

Frankfurt Office: Große Gallusstraße 16-18, 60312, Frankfurt am Main, Germany T: +49 (0)69 710 456 660

www.afme.eu

No.	Recommendation	Reasoning
4.	<p>Review the sector-agnostic ESRS with a view to identifying opportunities for reducing burdens, addressing issues from the first reporting cycle and increasing international alignment.</p> <p>Areas for consideration should include:</p> <ul style="list-style-type: none"> • The process and criteria for conducting and assuring a double materiality assessment. • Providing flexibility to address challenges with the application of sector-agnostic ESRS for financial institutions (FIs). • Avoiding overlaps and misalignment with disclosure requirements in other regulation, especially Pillar 3. • Ensuring that disclosures are decision-useful for investors. 	<p>Users of disclosures would benefit from simpler, more meaningful and accessible reporting. Streamlined disclosures would not only reduce reporting burdens but would also enhance decision-usefulness.</p> <p>The unclear process for identifying material topics and asset classes for financial institutions, as well as determining materiality thresholds, creates burdens and leads companies to incur expenses by seeking external advice.</p> <p>Several ESRS data points are not suitable for the banking sector, for example, the requirement to publish emission reduction targets in absolute values, which does not correspond to the methodology developed within the NZBA.</p> <p>These challenges could be mitigated by ensuring that financial institutions are able to take a pragmatic approach, with adequate flexibility provided while they are addressed.</p> <p>This exercise should also serve to ensure that, for data already covered by banking regulations (eg Pillar 3), the CSRD/ESRS does not add new or different obligations and aim for coherence with existing widely used international frameworks.</p>
5.	<p>Clarify a proportionate and practical approach to the value chain for financial institutions. Maintain transitional relief until a workable approach is in place.</p>	<p>The value chain for financial institutions is highly complex and different from non-financial corporates including, for example, varying level of proximity to impact depending on the nature of relationships and products/services provided (e.g. impact proximity of direct lending vs AUM from non-discretionary investment management).</p> <p>It is essential to provide a proportionate and workable approach to the value chain that distinguishes financial and non-financial corporates and addresses the complexity of business activities of financial institutions.</p>
6.	<p>Review the subsidiary exemptions to avoid multiple entities in a group having to report on an individual basis where this does not provide material benefits to users of reporting.</p>	<p>Companies are required to prepare multiple reports for different entities within the same group, multiplying reporting burdens without materially enhancing transparency for investors.</p>

No.	Recommendation	Reasoning
	<p>The subsidiary exemption should be available to subsidiaries of a parent reporting under CSRD, even if they have securities listed on an exchange, and the existing transitional relief enabling consolidation under Article 48i(1) of the Accounting Directive should be made permanent.</p>	<p>To the extent that the review of the subsidiary exemption impacts the availability of information that is required under SFDR and/or MiFID, solutions should be explored under the respective frameworks.</p>
7.	<p>Improve alignment with ISSB disclosure standards and provide an effective mechanism for groups reporting under both CSRD and ISSB to avoid duplication of reporting. The EU should work with international counterparts to maximise convergence and minimise duplication of reporting.</p> <p>The Commission should also establish solutions under the EU framework, e.g. clarifying how equivalence could work for ISSB-based standards and exploring how the Non-EU ESRS (“NESRS”) could be further used in combination with ISSB standards to meet the EU’s double materiality perspective.</p> <p>Work with the ISSB to create an in-depth datapoint comparison to facilitate interoperability.</p>	<p>While we welcome efforts to improve interoperability of ESRS and ISSB, currently companies will have to report under both standards and meet requirements under different jurisdictions, duplicating reporting and creating confusion for investors. This creates significant burdens on companies despite international agreement on the importance of a common international baseline for sustainability reporting.</p>
8.	<p>Rapidly provide direction to auditors to ensure that they take a pragmatic approach to assurance during the first few years of adoption.</p>	<p>Despite the emphasis from the Commission and EFRAG that auditors should take a pragmatic approach to limited assurance, companies’ experience is that auditors do not feel that they have sufficient leeway to take a sufficiently pragmatic approach and are taking a de maximus approach instead, requesting exhaustive implementation from companies.</p>

No.	Recommendation	Reasoning
	Do not move beyond limited assurance until a workable framework for reasonable assurance is in place.	
9.	Ensure that the implications for banks' reporting and risk management are considered when making any changes for non-financial corporates. For example, Pillar 3 and SFDR reporting should be revised if relevant information for banks' required disclosures is not provided by companies under CSRD.	Banks are reliant upon disclosures from their clients to enable their own reporting and risk management. It is therefore essential to look at the framework holistically and not only focus e.g. on smaller companies. To the extent that CSRD reporting is streamlined for non-financial corporates, financial sector reporting and ESG risk management requirements need to also be reviewed to accommodate this. Without such alignment, banks will be required to still ask companies for the information on a bilateral basis, creating more burdens for companies than standardised reporting, failing to reach the simplification objective.
10.	Introduce a safe harbour for forward-looking information e.g. in transition plans.	We recommend providing companies with a safe harbour from liability for forward-looking sustainability disclosures, for example in transition plans, to avoid disclosures being driven by liability concerns.
11.	Adjust EFRAG's mandate to include the objectives of minimising reporting burdens and supporting the competitiveness of EU companies.	It is important that EFRAG has these objectives clearly established in its ongoing work advising the Commission and producing guidance on sustainability reporting.
Corporate Sustainability Due Diligence Directive (CSDDD)		
12.	Ensure that all relevant implementation guidance is in place at least two years prior to application and if necessary, defer the application date.	It is essential to provide time for companies to implement the far-reaching requirements once the necessary guidance and model clauses are in place. Many concepts require clarification and guidance before companies can start their implementation, and in many instances, this may include extensive operational and technology transformation for FIs which need long-term planning for effective execution. Currently, the deadline for the Commission to adopt guidelines under the CSDDD coincides with, or falls very close to, the first application of the Directive.

No.	Recommendation	Reasoning
13.	Remove requirements that go beyond the adoption of a transition plan for climate change mitigation in accordance with CSRD.	Transition plans are inherently strategy documents. Legal obligations to put transition plans compatible with 1.5C 'into effect' (as set under Article 22) are unclear and give rise to concerns for companies, as achieving compliance is dependent upon many external factors outside their control. This may also disincentivise preparers from setting ambitious plans and/or require financial institutions to cease financing high emitting companies that require investment to transition. Prescriptive requirements would turn this strategic exercise into a compliance exercise, adding to the administrative burden.
14.	Reduce litigation risks for in-scope companies, e.g. by deleting civil liability (Article 29).	Companies are set to face significant litigation risks under CSDDD, particularly in light of private rights of action and loosely defined terms such as 'stakeholders' and 'substantiated concerns'. These risks create compliance burdens and adversely impact the attractiveness of doing business in the EU.
15.	Clarify a proportionate and practicable approach to due diligence for a company's chain of activities to avoid excessive burdens on companies. For example, by limiting business partners to direct contractual relationships and excluding non-EU relationships.	It is essential to ensure that a practicable approach to due diligence requirements is established to avoid introducing excessive burdens on companies. Companies have very limited influence over companies with which they have no legal relationship. Global businesses are subject to different jurisdictional requirements and the inclusion of non-EU relationships with no nexus to the EU would put EU companies at a competitive disadvantage globally, as their regional competitors would not be subject to these obligations.
16.	Remove the review clause for the potential extension of the scope of CSDDD to the downstream part of financial undertakings' chains of activities.	This is essential to avoid introducing additional highly burdensome and duplicative requirements which will have a significant impact not only on the competitiveness of banks operating in the EU but also companies seeking access to finance.
EU Taxonomy Regulation/Taxonomy Disclosures		

No.	Recommendation	Reasoning
17.	<p>Review the Green Asset Ratio (GAR) for the banking book. The review should consider whether the GAR should be removed in light of experience to date, feedback from investors, and the evolution of the broader EU sustainability reporting framework.</p> <p>If the GAR is retained, the Commission should conduct a substantive review of its calculation methodology and disclosure templates, to increase its relevance, streamline reporting and reduce operational burdens.</p>	<p>The GAR is not providing meaningful information for investors in financial institutions. GAR reporting entails a very significant operational exercise for banks, requiring detailed information from clients, counterparties and investee companies. Banks have to disclose more than 50 templates and feedback from investors demonstrates that they do not deem this information to be adding value. In addition to requiring very substantial resources for banks, it also creates burdens for their clients in providing the required information.</p> <p>The review should consider the following aspects:</p> <ul style="list-style-type: none"> • Whether the GAR provides significant added value for stakeholders beyond other sustainability reporting, for example CSRD reporting and transition plans which provide comprehensive sustainability information; • Whether the GAR is well understood by stakeholders and whether a focus on Taxonomy-alignment is compatible with the importance of promoting the provision of transition finance to meet the EU's environmental objectives; and • The high costs and significant resources required for banks to meet Taxonomy reporting and the consequential impact on their clients, especially SMEs which may lack resources to provide the necessary information. <p>We have made a number of detailed recommendations for the review in our recent dedicated paper².</p>
18.	Remove Taxonomy disclosures, including the Green Asset Ratio and BTAR, from Pillar 3 ESG disclosures.	The Taxonomy is not designed, and should not be used, as a risk management tool. The GAR and BTAR are not risk metrics and therefore should not be included in Pillar 3 disclosures.

² See AFME Recommendations for the Review of the Green Asset Ratio, https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20Recommendations%20for%20the%20review%20of%20the%20GAR_July%202024.pdf

No.	Recommendation	Reasoning
19.	Do not proceed with the introduction of the Taxonomy reporting KPIs for the trading book GAR and Fees and Commissions KPI. These KPIs should be removed (or urgently suspended pending removal) due to the existing timeline of reporting in 2026.	Assessing the Taxonomy alignment of the trading book and fees and commissions is expected to be extremely challenging, creating a significant administrative burden, while the benefits of these KPIs are unclear. It is essential to provide timely action to avoid banks allocating significant resources ahead of reporting in 2026, as banks will start to allocate resources early this year. A quick fix in this respect would be impactful for firms.
20.	Implement measures to enhance the usability of the Taxonomy and reduce operational burdens with assessing Taxonomy alignment.	Assessment of Taxonomy alignment creates significant operational challenges and burdens. These should be reduced through a streamlined approach, including to the Do-No-Significant-Harm (DNSH) assessment ³ and minimum social safeguards (MSS), in particular for retail clients. It is important to provide a simplified, workable approach to the assessment of EU Taxonomy alignment for retail financing. For example, this could involve limiting the EU Taxonomy assessment to substantial contribution criteria. Enhanced usability of the Taxonomy is important to support the uptake of the Taxonomy, Taxonomy reporting, the success of the EU Green Bond Standard as well as to enable banks to utilise the infrastructure supporting factor under CRR3, where the current criteria raise significant challenges.
Transition plans		
21.	Amend transition plan requirements to ensure a coherent EU framework (across CSRD, CSDDD and CRD6) and alignment with international standards. Ensure a workable approach for groups with international operations and provide for equivalence with	It is essential to avoid companies having to create multiple transition plans under different frameworks or for multiple entities. As transition planning and strategy are set at group level, obligations at subsidiary level are a source of burden without added value.

³ See AFME Recommendations for streamlining the DNSH assessment, https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_OW_DNSH%20Report.pdf

No.	Recommendation	Reasoning
	ISSB standards to enable groups headquartered outside the EU with subsidiaries within the EU to utilise group-level transition plans to satisfy EU obligations, provided that the group publishes a transition plan under a similar standard such as TCFD/ISSB.	
22.	See recommendation 13 above under CSDDD.	
Sustainable Finance Disclosure Regulation (SFDR)		
23.	Coordinate the review of SFDR with the process and outcome of the Omnibus simplification initiative.	This coordination is necessary to ensure coherence and avoid sequencing issues.
24.	Review entity level disclosures under SFDR in light of CSRD.	With the CSRD in place, entity-level reporting under SFDR should be reviewed. Consideration should be given to streamlining SFDR disclosures.
EU Deforestation Regulation (EUDR)		
25.	Do not expand the scope of the EUDR to financial services.	Extending the Deforestation Regulation to financial services would increase burdens and complexity for firms and their clients. It is also necessary to reflect upon experience of the existing Regulation, the application of which has been postponed.
MiFID Sustainability Preferences		
26.	Simplify the sustainability preferences framework to enhance usability and reduce operational challenges.	The current sustainability preferences framework does not align with customers' understanding, introducing complexity and operational challenges.