

Closing data gaps in a structured way – the TCFD recommendations as a tool for the financial and the real economy

How do political objectives, such as the Sustainable Development Goals or the Paris Agreement, transform into concrete sustainable action in the financial sector? What does an operationalisation of Sustainable Finance exactly look like?

Daniel Sonnenburg, Project Manager of the 'Sectoral Data' project, which is part of the TCFD think tank of the Green and Sustainable Finance Cluster Germany, talk to Rüdiger Senft, Head of Sustainability at Commerzbank AG, and Lukas Simon, Senior Advisor, Sustainable Advisory & Finance at BNP Paribas Corporate & Institutional Banking.

Daniel Sonnenburg:

Rüdiger, Lukas, welcome. Your institutions are part of the Cluster's 'Sectoral Data' project. The improvement of the data situation on climate- and environment-related risks of companies is of crucial importance for the financial sector to finance the transformation of the real economy towards more sustainability. Our project is a continuation of the TCFD think tank and targets SMEs. Why are you participating in this project?

Rüdiger Senft:

Large capital market-oriented companies have been subject to disclosure requirements for quite some time. Data quantity and quality of their disclosure has improved over time. However, we at Commerzbank are also the bank of the German Mittelstand, Germany's strong SMEs with several hidden champions. The topic is naturally a special challenge for a family-run SME. This is why we actively want to accompany SMEs, while also pointing out which opportunities new information flows offer. But, we will only make progress if we cooperate in the pre-competitive area. The Green and Sustainable Finance Cluster is the ideal platform for this.

Lukas Simon:

Thank you for mentioning the opportunities, Rüdiger. These are often forgotten but can be identified for many business models as part of a structured analysis of possible climate-related risks. Therefore, we intend to include the real economy into the strategic discourse of this second phase of the TCFD think tank. Sustainability is a core component of the business strategy of BNP Paribas. Due to our regular strategic dialogue with our corporate clients, we are able to link our clients' transformation and decarbonisation strategies with tailor-made Sustainable Finance solutions. To do this successfully it is essential to identify the industry-specific material ESG-related risks to derive opportunities from this.

Daniel Sonnenburg:

You mentioned the active dialogue with the real economy. This is another objective of our project and of the Cluster. We have to leave our own silo and work together on mutual solutions. What could this look like?

Rüdiger Senft:

What applies to the reporting listed company also applies to SMEs. They want to react in a pragmatic way to information needs by using already available data points. Ideally, we can tell SMEs: you already have the data, we only need to structure them.

Lukas Simon:

The recommendations of the TCFD are a useful tool for this structuring. It enables a better understanding of climate-related influences on a company's business model. From this, information and data can be derived that can be used to steer-relevant indicators.

Daniel Sonnenburg:

The clients' perspective is one side of the coin. The flip side concerns financial supervision: the finance industry has done a lot to further develop its risk management since the financial crisis and is regularly subject to macroeconomic stress tests. Climate-related scenario analyses will form another important pillar of risk management. To what extent is the topic driven by regulation?

Lukas Simon:

As finance industry it is important to communicate to our clients within the real economy why and which climate-related information we need and in which quality to be able to make an adequate risk assessment. If we do not take ESG-related risks sufficiently into account, we run the risk of stranded assets and cluster risks in the credit portfolio.

Rüdiger Senft:

Additionally, I'd expect ESG-related risk to be reflected in the capital adequacy requirements and the refinancing opportunities. Here, too, we are guided by regulatory requirements. These require a consideration of the double materiality of non-financial information. In other words, what impact does a company have on the climate but also vice versa – what climate risks affect the company.

Daniel Sonnenburg:

I have already mentioned it: Sustainable Finance is a cross-disciplinary topic and there are touch points with practically all fields within the finance industry. It can only be compared with digitalisation, the other prevalent topic. How important is interdisciplinary work for you and the project?

Lukas Simon:

It is the key to success. The involvement of various departments, such as investor relations, controlling or treasury, of a real economy company is essential to getting to know the different perspectives and information needs, key for any viable solution.

Rüdiger Senft:

The close collaboration both within the bank, but also amongst the sponsors of the cluster is very fruitful. Sustainable Finance is developing extremely dynamically, and we are all learn a lot every day.

Daniel Sonnenburg:

Rüdiger, Lukas, thank you very much for the interview. We look forward to continuing the work with you and the other sponsors of the cluster.