DWS: BIG BONUSES FOR GREENWASHING

How the remuneration system of Deutsche Bank subsidiary DWS undermines effective climate and sustainability goals

GREENPEACE

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Greenpeace is an independent campaigning network which uses non-violent, creative confrontation to expose global environmental problems and to force solutions which are essential for a green and peaceful future.

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Executive Summary

In the summer of 2021, whistleblower Desiree Fixler sparked a greenwashing scandal that rocked the financial industry and continues to make headlines today. Fixler, a former sustainability manager at DWS, revealed that the asset management firm was promoting its investment fund products as greener than they actually were. Since then, US and German regulators have been investigating DWS and its parent company Deutsche Bank for suspected investment fraud stemming from greenwashing – a first in the sector. Meanwhile, in several studies of the Deutsche Bank subsidiary, Greenpeace has managed to identify additional instances of greenwashing. **All of this suggests that the fraud with sustainability promises at DWS might be systematic.**

In light of these revelations, the present report examines the role played by the DWS senior executive remuneration system in the greenwashing scandal and its ongoing impact today. It is based on publicly available data such as annual and remuneration reports. This analysis focuses on three recognized principles of sustainability that must be fulfilled to pave the way for effective operational implementation of a company-wide sustainability strategy – principles which DWS itself was involved in developing:

— Company remuneration structures must adhere to the principle of proportionality.
— The achievement of sustainability targets must have a sizeable impact on executive remuneration.
— The relevance and materiality of the sustainability targets must be assured.

The research conducted by Greenpeace has led to the following findings on the DWS remuneration system:

- A review of the proportionality of the DWS remuneration system has revealed that, given the size of the company, the DWS CEO is by far Germany's best-paid manager of a listed company. A peer group comparison shows that the salary of the DWS CEO is significantly higher than what is paid for similar positions in the industry, and even exceeds the salary of most CEOs of DAX-listed companies. **Hence, the company fails to take an appropriate approach to top executive salaries as a key means of achieving sustainability goals.**

- When it comes to weighting sustainability targets in executive board remuneration, there is ample evidence that environmental, social and governance (ESG) criteria have had a substantial influence on the salaries received by top management and by the CEO in particular since 2020. **The structuring of bonus-related sustainability targets has proven to be highly problematic, though, because it gives top management massive incentives to pursue systematic greenwashing.** The relabeling of funds to meet 2020 sustainability goals can be considered as manipulation. This questionable approach enabled former CEO Asoka Wöhrmann to receive higher bonuses.

- By all appearance, this massive perverse incentive has now been recognized. In the Compensation Report 2021, the problematic goal of "ESG-specific assets under management" has been removed from the performance targets for the CEO. **But the revised set of sustainability targets has been reduced to largely ineffective pseudo-sustainability indicators.** For example, employee trash collection campaigns help to boost the bonuses paid to the CEO. Yet relevant indicators are missing, such as the inclusion of financed emissions from investments, which account for 99 percent of greenhouse gas emissions. **The ineffectiveness of the new DWS sustainability targets constitutes a new form of greenwashing.**

In light of these findings, Greenpeace is calling on DWS to adopt a remuneration structure that maintains a balanced approach to salaries and ensures the relevance and tangibility of environmental objectives, such as achieving the goals of the Paris Climate Agreement. As the parent company of DWS, Deutsche Bank bears a significant responsibility for these greenwashing scandals and has a duty to remedy these abuses as quickly as possible.

Introduction

The business of sustainability is booming – and is becoming an increasingly important factor in the approach adopted by financial institutions. Companies generally start out by revamping their corporate image so they can present themselves to the general public as a pioneer of the green transition. But adding a coat of green paint to a firm's image does not always go hand in hand with the appropriate revisions of its business practices. This discrepancy between words and deeds is called **greenwashing**. In the past, depending on the magnitude of the greenwashing, this has sparked a certain amount of negative press and aroused a certain degree of public indignation. As a rule, though, there have been no tangible consequences. The case of DWS, Germany's largest asset manager and a subsidiary of Deutsche Bank, is an exception: **For the first time, allegations of greenwashing were not treated as a minor infraction, but as a potential criminal offence**. Currently, US and German financial market regulatory authorities and law enforcement agencies are probing DWS for alleged investment fraud.

An important starting point to ensure the credible and effective implementation of sustainability principles in companies is the inclusion of sustainability goals in the remuneration structure of top management. At any rate, this is the recommendation of a working group that put forward the "Guidelines for Sustainable Management Board Remuneration Systems" for the implementation of environmental, social and governance (ESG) criteria. This white paper was jointly prepared by supervisory board chairpersons, representatives of major institutional investors, academic representatives and experts in corporate governance. As one of Germany's largest institutional investors, DWS itself played a leading role in the development of these guidelines.[1]

Generally speaking, the remuneration of senior management should be based on **transparent, measurable and effective** criteria. Furthermore, many experts in the field consider the following **three key principles[2] to be indispensable for a credible approach to sustainability:**

PRINCIPLE 1: The remuneration structure for the top management of a company must comply with certain principles of sustainability, such as the **principle of proportionality.**

PRINCIPLE 2: The achievement of **sustainability goals must have a sizeable impact on executive remuneration** in order to anchor a corporate sustainability strategy in a credible manner.

PRINCIPLE 3: When formulating remuneration targets, it is important to ensure that these goals lead to effective implementation of the planned sustainability strategy and do not provide incentives for greenwashing by top management. **The relevance and materiality[3] of the sustainability goals must be ensured.**

In addition to the recently raised allegations of greenwashing, in 2022 Greenpeace has published several research papers[4] on the climate protection pledges made by DWS. These publications prove that, despite its claims, the Deutsche Bank subsidiary is systematically undermining the implementation of its sustainability objectives at both the organizational and product levels. This raises the question of the extent to which DWS may have violated standards of good governance through its remuneration structures and may even have created financial incentives for misconduct by management when it came to anchoring the company's sustainability goals.

The present analysis examines the compensation system that was in place under former CEO Asoka Wöhrmann and current practices at DWS with respect to the three sustainability principles mentioned above.

1 Available here (select "EN" for the English version): http://www.leitlinien-vorstandsverguetung.de

2 These principles are derived from the Guidelines for Sustainable Management Board Remuneration Systems and the German Corporate Governance Code (GCGC). Also see the PWC analysis (2023) Paying for net zero – Using incentives to create accountability for climate goals: https://www.pwc.co.uk/human-resource-services/pdf/paying-for-net-zero-using-incentives-to-create-accountability-for-climate-goals.pdf

3 From the Guidelines for Sustainable Management Board Remuneration Systems: "[O]nly the improvement of material relevant targets will have a sustainably positive effect on corporate performance."

4 All Greenpeace publications can be found on the campaign website (website in German): https://www.greenpeace.de/klimaschutz/finanzwende/deutsche-bank-tochter-dws-greenwashing-betrug

The remuneration system of Deutsche Bank subsidiary DWS

The formal structure of DWS's remuneration system is based on the requirements of Section 162 of the German Stock Corporation Act[5] and the recommendations of the German Corporate Governance Code (GCGC)[6], which is a standard for good corporate governance commissioned by the German government. The GCGC concretely states that *"the remuneration structure of listed companies is to be oriented towards the company's sustainable and long-term development. The remuneration of Management Board members shall promote the corporate strategy and support the long-term development of the company."*

The GCGC specifically recommends that compensation should include a short-term and long-term component. This requirement is also reflected in the remuneration system for DWS executives, which essentially consists of two salary components:

First, there is a **fixed, non-performance-related remuneration component**, which consists of a basic salary along with pension contributions and additional perks like the use of a company car.

Second, this remuneration is supplemented by a **performance-related variable component, commonly referred to as a bonus**, which may not exceed twice the basic salary. This variable part of the compensation is divided into a **portion that may be paid out as short-term incentives** (short-term award, STA) and currently amounts to 40 percent of the bonuses, and a portion to be paid out as a **long-term award** (LTA), which is paid over a period of five years and accounts for 60 percent of the total variable remuneration. The aim of these staggered payments is to make it possible to withhold disbursement under malus and clawback contract clauses that provide for the subsequent reduction or complete forfeiture of variable remuneration in the event of serious compliance violations. Such a payment scheme is intended to ensure that management can also be held liable for decisions with ramifications that only become apparent over the long term. This means, for example, that DWS CEO Asoka Wöhrmann, who resigned in 2022, could still be held accountable for greenwashing at DWS by deducting from his as yet unpaid bonuses.

Sustainability review of the 2020 DWS remuneration system

PRINCIPLE 1: Remuneration must be appropriate

The proportionality or "usual level" of remuneration constitutes an important aspect of a company's credible sustainability strategy. This is explained in Section G.2 of the GCGC as follows: *"The Supervisory Board shall establish the specific target total remuneration for each Management Board member [...] which shall [...] not exceed the usual level of remuneration without specific reasons."*

The code then specifies the process used to determine the appropriateness of the level of remuneration:

"In order to assess whether the specific total remuneration of Management Board members is in line with usual levels compared to other enterprises, the Supervisory Board shall use an appropriate peer group of other third-party entities, and shall disclose the composition of such group. The peer-group comparison shall be applied with a sense of perspective, in order to prevent an automatic upward trend."

How well is DWS performing in terms of the proportionality of its remuneration? In the run-up to the 2021 Annual General Meeting, proxy advisory firm Glass Lewis **criticized the proposed total remuneration of €6.9 million for then CEO Asoka Wöhrmann as "excessive" and recommended that shareholders reject the pay package**. The recent change in leadership at DWS has only further fueled allegations of excessively high salaries for the company's top executive. According to news reports, the planned **remuneration of the new DWS CEO, Stefan Hoops, with a total salary of €7.2 million, significantly exceeds that of his predecessor.**[7]

But how do the salary levels of DWS executives compare with their peers in the industry? DWS Group is a stock corporation listed on Germany's SDAX index, where the average total remuneration for CEOs in 2021 was €1.334 million[8]. That same year, the total remuneration of then DWS CEO Asoka Wöhrmann amounted to €6.945 million, or more than **five times the average for SDAX-listed companies**. Even compared with the MDAX (average total remuneration €2.748 million), the DWS CEO's total remuneration is many times higher than the average for MDAX CEOs.

5 English translation available here: https://www.gesetze-im-internet.de/englisch_aktg/

6 English translation available here: https://www.ecgi.global/node/9896

7 See "Das üppige Gehalt des neuen DWS-Chef", an article published in the Süddeutsche Zeitung on June 27, 2022 (text in German): https://www.sueddeutsche.de/wirtschaft/dws-deutsche-bank-hoops-1.5610003

8 See: EY (2022): Mixed Compensation Barometer 2022, available here (text in German): https://assets.ey.com/content/dam/ey-sites/ey-com/de_de/news/2022/11/ey-mixed-compensation-2022.pdf. The remuneration of the DWS CEO was excluded from the mean value.

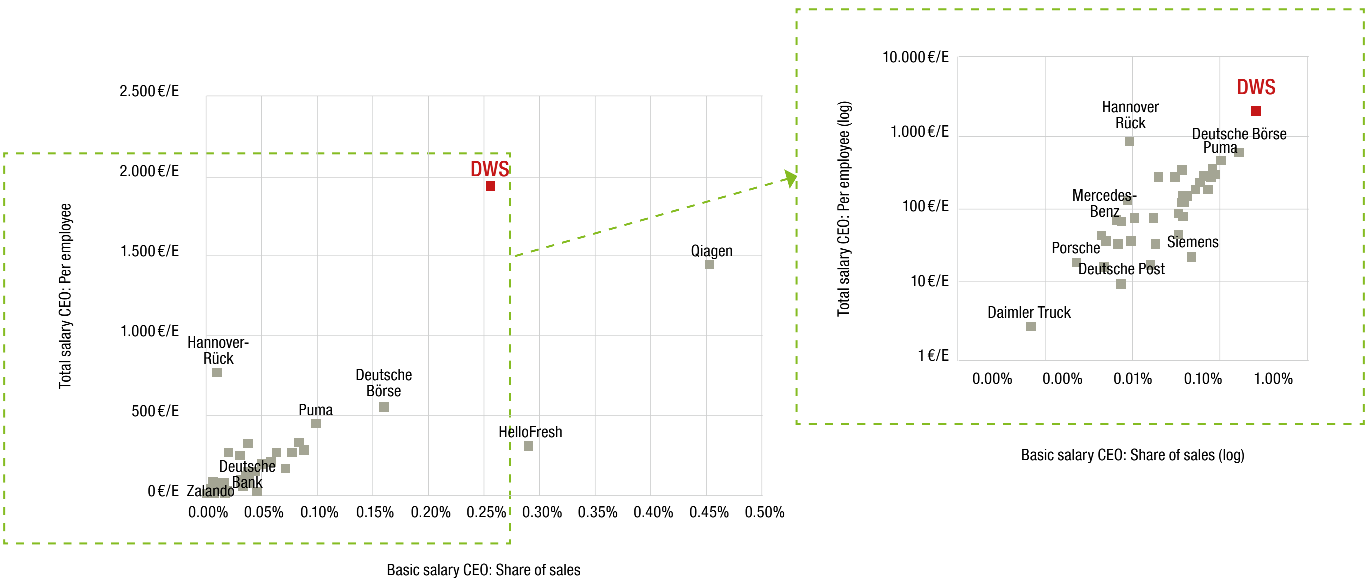
A comparison with Germany's largest companies reveals that the DWS CEO receives a salary that favorably compares with that of large DAX-listed companies. In fact, **the remuneration of the DWS CEO is significantly higher than the average for DAX CEOs** of €5.961 million and roughly corresponds to the remuneration of the CEO of Allianz SE. The comparison with Allianz SE raises doubts about the appropriateness of the DWS pay structure. After all, Allianz is a global corporation with an annual profit of €13.4 billion (12 times that of DWS), a market capitalization of €89 billion (14 times that of DWS)[9], annual sales of €148.5 billion (55 times that of DWS) and 152,840 employees worldwide (45 times that of DWS).[10]

For a further verification of this impression of disproportionately high levels of payment at DWS, it seems appropriate to draw a broad comparison with all 40 DAX companies. Such a comparison is only meaningful if the respective size of the companies is taken into account. Factoring in the size of a company to evaluate proportionality is warranted because the level of compensation paid to top management should clearly reflect the extent of their responsibilities. It only stands to reason that mistakes made at a large corporation with several hundred thousand employees, billions in sales and a comparably high market capitalization will have more far-reaching repercussions than what would normally be expected at smaller companies.

Figure 1 shows the remuneration structures of the DAX 40 corporations in relation to the size of the company, as measured by the size of the workforce and sales. The DWS compensation structure immediately stands out as an outlier compared with the German DAX companies, further underpinning the grave doubts about the proportionality of the salaries paid to top executives. This is especially true if we exclude the two newcomers to the DAX from the (bio)tech sector, whose key performance indicators, as major beneficiaries of the COVID pandemic, are subject to considerable fluctuations and are therefore not particularly representative.

- **In summary, given the size of DWS, the remuneration structure and the amount of compensation awarded in 2021, it would appear that the DWS CEO is by far Germany's best-paid manager of a listed company. Consequently, the company fails to comply with the principle of proportionality, which is a key aspect of a pay structure that promotes an effective approach to sustainability.**

Figure 1 → **CEO remuneration relative to the size of the company in comparison to DAX listed companies**



9 Reference date: January 27, 2023

10 Data from the annual reports. Key figures for DWS for 2021: Sales 2.72 billion euros, profit 1.14 billion euros, 3422 employees.

PRINCIPLE 2: Sustainability goals must be appropriately weighted to have an impact

The high salary paid to the DWS CEO raises further questions regarding the targets and goal achievement that are used to determine the performance-related component of the remuneration. Since this analysis primarily focuses on the implementation of sustainability aspects in the business strategy, particular attention is paid to the **anchoring and assessment of sustainability objectives in the remuneration of the Executive Board.**

The implementation of a sustainable business strategy plays a prominent role in DWS corporate communications. For example, **whereas the term ESG "only" appeared 70 times in the 2019 annual report, it crops up 728 times in the following year's annual report.**[11] This vigorous DWS sustainability campaign was also accompanied by a corresponding anchoring of sustainability objectives in the compensation of the Executive Board. Accordingly, when reviewing the 2020 and 2021 compensation reports, readers are left with the distinct impression that sustainability has been widely incorporated into the remuneration structure of senior executives and, in particular, of the CEO.

DWS also misses no opportunity in its annual reports to proudly proclaim its commitment to **implementing sustainability criteria in the management of the company**. For instance, in the 2020 Annual Report, DWS writes (p. 10): *"We [intend] to make sustainability a key strategic focus of both our fiduciary and corporate activities. [...] Our aim is to become a leading ESG asset manager, which requires sustainability to be embedded in everything we do. To achieve our ambitions, we developed a Sustainability Strategy, which relies on 4 focus areas:* ***making sustainability the highest management priority****, integrating ESG in the investment process, developing market leading products, and leading and engaging to promote sustainability practices."*

DWS then uses this as a basis for specifying its objectives and emphasizing the importance of sustainability aspects in the formulation of its compensation structure. **Sustainability is explicitly named as one of five principles for determining the amount of remuneration:**

"Responsible and sustainable action are of paramount strategic importance. For that reason, the ***performance parameters of the compensation system are closely linked with DWS's ESG/sustainability strategy.*** *[...] DWS aims at shaping the future of investing. [...] Against this backdrop, responsible investing and a clear focus on sustainability concepts such as environmental, social and governance (ESG) underpin DWS's fiduciary credo."* [12]

The high priority accorded to sustainability is reflected in its high weighting in the variable component of the remuneration:

"Overall, the ESG objectives account for at least 20% of the total reference variable compensation." [13]

Hence, the weighting of at least 20 percent specified for 2021 is to be understood as the mean value of the weighting of sustainability in short- and long-term objective achievement. Indeed, ESG implementation is predominantly achieved for short-term objectives with 27 percent and trails among long-term objectives with 15 percent.

In the previous year, i.e. 2020, the weighting of ESG implementation in determining the amount of remuneration was less clearly defined, but nevertheless still substantial. Thus, in addition to a personal balance score card, which was designed to include ESG targets and represent 50 percent of short-term compensation, individual goals with a weighting of 33 percent were used to determine short-term compensation. Likewise, when it came to long-term compensation, the company-wide implementation of sustainability was anchored with a weighting of 10 percent.

Despite the ambiguities regarding the exact weighting, an overall assessment of these specifications indicates that ESG criteria were already accorded a substantial weighting in the remuneration of top management and, in particular, the CEO on the order of between 15 and 20 percent in 2020.[14]

▸ **In summary, the sustainability goals are weighted sufficiently high to have an effective impact. However, the concrete definition of the goals is decisive for the overall effectiveness.**

11 The aforementioned annual reports are available here: https://group.dws.com/ir/reports-and-events/annual-report/ Numbers refer to the German version.

12 Compensation system for the Managing Directors of the General Partner. Published in the run-up to the 2021 AGM, downloadable at: https://download.dws.com/download?elib-assetguid=04a356d46c0b407ebd88ff8e3361fb6e&publishLocationGuid=eacbc9cf4b8e4d2189eb69cd09e2ff4f

13 Ibid.

14 These are our own estimates based on the 2020 Compensation Report and the assumption that 25 percent of the short term performance component was linked to ESG topics. The basis for this assumption is that within the DWS Executive Board the responsibility for implementing the sustainability strategy lies primarily with the CEO. Indeed, the DWS officially announced in 2019: "Dr. Asoka Woehrmann is the CEO and Chairman of the Executive Board. [...] Dr. Woehrmann has [...] assumed the responsibility for setting the overall DWS Group ESG and Sustainability strategy." See DWS 2019 Annual Report, p. 155

PRINCIPLE 3: Sustainability goals must be ambitious and offer no incentives for greenwashing

The implementation of sustainability in management board compensation is given a correspondingly high weighting in line with the recommendations that were made. However, it goes without saying that establishing a policy like this is not an end in itself. Anchoring sustainability criteria in top management remuneration must ultimately specify relevant and effective sustainability criteria as measurable performance targets that are used to determine the amount of remuneration, in accordance with the white paper of the working group "Guidelines for Sustainable Management Board Remuneration Systems," which, as previously described, DWS itself helped to compile.

To implement its company-wide sustainability strategy, DWS also developed transparent and measurable performance indicators for its objectives, which it describes in its compensation reports while, in some cases, also reporting on the concrete extent of target achievement.[15]

In 2020, the Compensation Report addressed the ESG targets with reference to the following key performance indicators (KPIs) as a means of identifying sustainability performance, and this was included in the 2020 Annual Report.[16]

As shown in Figure 2, the increase in dedicated ESG assets under management is a key indicator of the achievement of sustainability objectives. It is worth noting that the conversion of non-sustainable funds into ESG products is also

Figure 2 → **ESG KPIs defined by DWS to identify sustainability performance**

KPI	Near-term ambition	2019 Result	2020 Result
Dedicated ESG AuM (assets under management)	Grow our ESG AuM through a combination of flows into existing products, flows into new products and enabling the transfer of existing client assets from non-ESG products into ESG dedicated products	9.7 bn	93.6 bn
PRI rating for Strategy & Governance[a]	Maintain 2019 result of A+	A+	A+
Global emissions – Scope 1, 2 and 3[b]	Reduce Scope 1 and Scope 2 as well as our Scope 3 emissions at which we have influence on such as business travel	11,982	6,822
Sustainability rating	Achieve a CDP rating in 2020	N/A	C
Gender diversity	Progress towards our 2021 target of 26% of positions at the first management level below the Executive Board held by female executives and 29% at the second management level below the Executive Board	21.5 % – 1st level 26.8 % – 2nd level	27.0 % – 1st level 28.2 % – 2nd level
Corporate engagements	Increase the number of corporate engagements	250	454
Proxy voting	Increase the number of companies whose shareholder meetings we vote at, for portfolios domiciled in Europe and Asia[c]	1,722	1,859

a Due to methodology change in PRI ratings we will not be disclosing an updated ambition in this report

b In t/CO2e. Includes Scope 3 emissions from Real Estate, Air Travel and Car Fleet/Leased Vehicles. DWS Real Estate emissions for 2020 are determined on a pro-rata average FTE basis from DB Group emissions (natural gas, liquid fossil fuels, renewable and grid electricity, district heating, cooling and steam) and relate to the period October 1, 2019 to September 30, 2020. Q4 2019 is used as a proxy for activity in Q4 2020. 2020 Air Travel and Leased vehicles based on January 1, 2020 to December 31, 2020 DWS data. All 2019 emissions results based upon the calendar year. Air travel derived from actual DWS flight data and leased vehicles from driven kilometers with diesel or gasoline cars. The most appropriate emission factors have been used for each activity data type from internationally recognized sources e.g. DEFRA (2018 and 2019), GHG Protocol, eGRID (2018) and IEA (2019), RE-DISS (2018) or, if more relevant, from country or contract specific sources. The factors include all GHGs where possible and the gases' Global Warming Potential as per the IPCC AR5 assessments

c Ambition restated to reflect number of companies whose meetings we vote at instead of number of meetings voted disclosed in 2019 NFR

15 The question of whether all of these objectives are effective will remain unanswered here for the time being. However, there are legitimate doubts as to whether, for example, the CSR activities of DWS employees, such as planting trees, actually have a relevant ecological impact or are primarily intended for PR purposes. It is also perplexing that, at first glance, the key Scope 3 emissions are to be reduced, but this does not include the significant "financed emissions" that represent >99% of Scope 3 emissions. To gain a better understanding of the importance of Scope 3 emissions, DWS could have consulted the in-house research department of its parent company Deutsche Bank: What are Scope 3 emissions and why are they important?
https://www.dbresearch.com/PROD/RPS_EN-PROD/What_are_Scope_3_emissions_and_why_are_they_import/RPS_EN_DOC_VIEW.calias?rwnode=PROD0000000000517071&ProdCollection=PROD0000000000518185

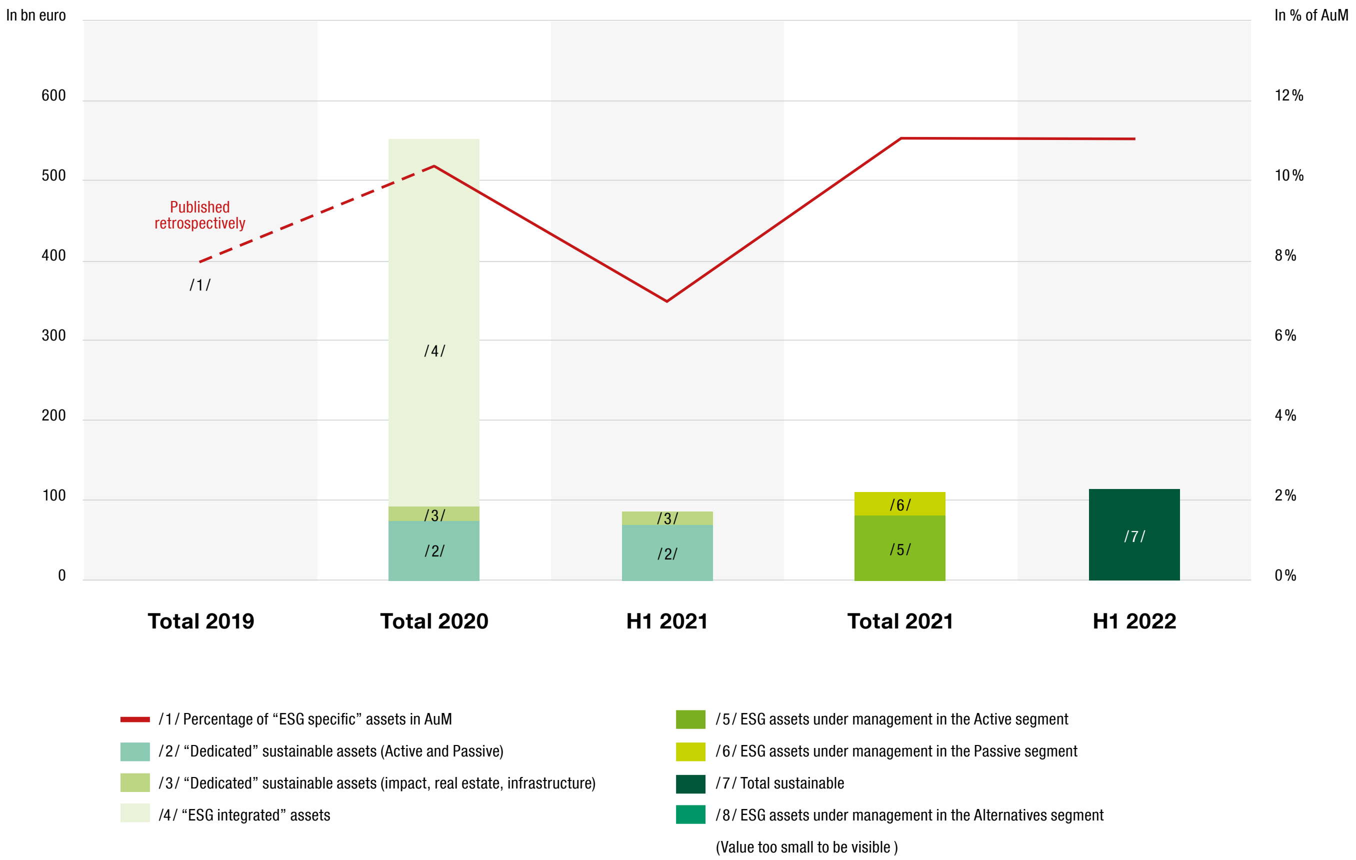
16 The concrete objectives were referenced in the Compensation Report (p. 114) of the DWS Annual Report 2020 as follows: "Detailed information on the Key Performance Indicators and successes in the area of ESG can be found in the chapter 'Operating and Financial Review – DWS Performance' and in the chapter 'Operating and Financial Review – Overview of 2020'.

attributed to the increase. It follows, then, that there is a **tangible incentive for top management to increase the volume of ESG funds**, which can also be accomplished by reclassifying funds that were originally considered unsustainable. In fact, the "hard" numbers show that the **proportion of "sustainable" fund assets soared from 2019 to 2020.**

Figure 3 shows the changes in the proportion of "sustainably" managed fund assets, as disclosed by DWS in its annual reports since 2019. It should be noted that there was no consistent classification of sustainability throughout the period under review, as DWS itself admits.[17] In its Annual Report 2020, for instance, DWS distinguishes between **"ESG-integrated"** and **"dedicated ESG"** investments. Furthermore, the German version of the report refers to a third category, namely so-called "ESG-specific" (ESG-spezifische) assets, although this was translated in the English version of the text as "dedicated ESG AuM" or simply "ESG AuM".

The amount of "specific" sustainable assets under management grew rapidly by 34 percent in 2020 com-

Figure 3 → **"Sustainable" assets under management, as reported by DWS**
source: annual and semi-annual reports, 2019 to 2022



17 See: Annual Report 2021, p. 37: "A comparison of the ESG AuM figures for 2020 and 2021 is not feasible, as the framework for determining the figure has been revised […]."

pared to the volume reported (retroactively) in 2019, which was 10 times faster than the growth rate for the total amount of assets under management. Total assets designated as "sustainable" – or in DWS's wording, "ESG-integrated" – grew to an aggregate volume of €552 billion, or 70 percent of assets under management, according to the 2020 annual report. While this ballooning in the number of "ESG-integrated" assets under management was heavily criticized in public due to the allegations of manipulation brought by former DWS Group Sustainability Officer Desiree Fixler[18] , which also sparked investigations by the financial supervisory authorities, **the explosive growth in "dedicated ESG"[19] assets under management went largely unnoticed.**

However, in view of the fact that bonuses were linked to these parameters, this development is highly problematic. It creates a **tremendous incentive to label existing funds as sustainable and thus achieve the sustainability objectives without making the necessary changes to the basic underlying concepts of the funds.** This development has also been observed in recent years. For example, numerous funds were awarded a so-called Article 8 sustainability classification[20] and in some cases also given an ESG label in the fund name, without any substantial changes being made in the asset management.

This approach has **sparked considerable consternation among the general public.** For example, DWS's flagship product, DWS Top Dividende, was changed to a so-called Article 8 sustainability fund with "ESG integration," although the de facto orientation of the fund remained unchanged, according to news reports.[21] Numerous existing funds were given a makeover and even had an ESG sustainability label added to their names, such as the fund heavyweight DWS ESG Akkumula. Paradoxically, however, this ESG fund is currently no longer marketed by DWS as a "sustainable" fund investment, despite the inclusion of "ESG" in the fund name.[22]

▸ The facts add up to a highly disturbing overall picture for the year 2020. To successfully achieve their objectives, management had to increase the volume of "sustainably" managed funds, with simple relabeling of the funds as an apparently widely accepted practice. From an empirical perspective, we have determined that the fund volume in question did indeed surge that same year and there was consequently a correspondingly high level of target achievement for the payment of bonuses.

18 For example, see here (text in German): https://www.handelsblatt.com/finanzen/anlagestrategie/trends/greenwashing-verdacht-wie-schwammige-esg-kriterien-vermoegensverwalter-in-misskredit-bringen/27619212.html

19 DWS uses diverse ESG categories in its annual reports in a highly inconsistent, confusing and downright questionable manner: It refers to "ESG-integrated," "dedicated ESG," and "ESG-specific" assets along with "ESG assets" and "sustainably" managed assets. Aggregate reporting was based on estimates that only appeared plausible due to a lack of clarity in the DWS reports.

20 According to the EU Sustainable Finance Disclosure Regulation (SFDR), DWS is required to classify its funds in one of three sustainability categories: Article 6, Article 8 or Article 9. Article 8 funds promote environmental or social characteristics, while Article 9 funds pursue sustainable investments and have explicit sustainability objectives.

21 See the the article "Schöner grüner Schein," published in the Süddeutsche Zeitung on August 31, 2021 (text in German): https://www.sueddeutsche.de/wirtschaft/dws-greenwashing-top-dividende-deutsche-bank-fonds-1.5397374

22 A search of the funds listed on the DWS website, made on Feb. 10, 2023, failed to reveal the fund listed among the sustainable products. Nevertheless, in test purchases commissioned by Greenpeace in September 2022, the fund was explicitly recommended as sustainable during advisory talks with the parent company. The results of the test purchases can be found here (text in German): https://www.greenpeace.de/publikationen/schwache-performance-klimavertraegliche-dws-fonds-beratungs-check

Adjustments to the DWS remuneration system as of 2021

An admission of past misguided incentives?

The following year, 2021, changes were made to the corresponding compensation report and the ESG objectives to be achieved were adapted and specified:

Evidently, a significant modification is that, in contrast to 2020, the increase in "sustainably" managed assets has been dispensed with and now only the net cash inflow is taken into account in achieving the target of sustainable financing. It is unclear whether this correction can be considered an implicit admission of previous perverse incentives. What is clear, however, is that the new sustainability targets have corrected a glaring weakness in the previous bonus system, which raises the question of whether, with these changes, the revised DWS remuneration system now provides the right incentives for top management to implement an effective sustainability strategy.

Picking up litter and planting trees instead of instituting effective investment guidelines

It is conspicuously obvious that the focus of the sustainability goals has shifted markedly toward the company itself, **with some goals that are extremely feeble or irrelevant from the point of view of sustainability.** For example, in the interest of protecting the climate, the primary focus of a financial services provider such as DWS should clearly not be on Scope 1 or Scope 2 emissions[23] but rather on the financed emissions (that fall under Scope 3).[24] The level of ambition of the modified targets is thus highly questionable, especially since it also relies on a very narrowly defined climate rating that aims to disclose climate metrics and again places a strong focus on the reduction of Scope 1 and Scope 2 emissions. For the reasons cited above, this fails to make the grade for a financial institution.[25] By the same token, it is questionable whether CSR activities that involve the company's workforce, like planting trees and collecting waste, which DWS showcases on its social media channels, should be considered key sustainability goals when, for example, **the firm lacks binding investment guidelines aimed at complying with international environmental agreements.** Last but not least, the governance goal "ethical conduct, integrity and speak-up culture" is bewildering because no key figures are provided for this in the ESG key performance indicators that are used in the annual report to

Figure 4 → **The ESG objectives of top management for the year 2021 and their respective weighting within the long-term remuneration components.**[a]

Environmental, Social and Governance (ESG) footprint			Share of long-term remuneration (25%)
Environment	Sustainable finance and investment	ESG net flows	5 %
		Sustainability rating	5 %
	Reduce own CO2 emissions	Energy consumption	0.8 %
		Travel emissions	4.2 %
Social		Corporate social responsibility activities of DWS employees	5 %
Governance		Ethical conduct, integrity and speak-up culture	5 %

a source: Own calculations based on the DWS Annual Report 2021, p. 104

23 Scope 1 and 2 describe emissions that result directly from a company's own business operations, while Scope 3 also includes indirect emissions along the entire value chain, such as emissions generated by DWS's financial investments. See the aforementioned definition by Deutsche Bank's in-house research department: What are Scope 3 emissions and why are they important?

24 For example, the emissions financed via the loan book at the parent company Deutsche Bank exceed the emissions of its own business operations by a factor of 385, according to its own information. https://www.db.com/news/detail/20220304-deutsche-bank-veroeffentlicht-details-zum-co2-fussabdruck-ihrer-unternehmenskredite?language_id=3=

25 See the research conducted by the Guardian on the limitations of the CDP rating: https://www.theguardian.com/environment/2022/apr/09/why-eco-conscious-fashion-brands-can-continue-to-increase-emissions

determine progress in sustainability[26] At any rate, the high level of achievement of this target area stands in stark contrast to the recent allegations made by whistleblower Desiree Fixler about DWS's poor handling of internal criticism.[27]

One has the distinct impression that the most glaring flaws in the 2020 remuneration system – which led to the mismanagement of the sustainability strategy and the systematic greenwashing of investment funds – were initially addressed with the new bonus structure. However, this was accomplished by **introducing largely toothless environmental targets**. It is hard to imagine how top management, and especially the Chairman of the Executive Board who explicitly cites "driving sustainability as a core principle for DWS"[28] among his performance targets, can expect to make any substantive progress on enhancing the company's sustainability based on these unambitious goals.

One thing seems certain, though: **the company has lowered the hurdle for achieving high targets in implementing the sustainability strategy, making it that much easier for the head of DWS to secure record salaries.** So it comes as no surprise that the company exceeded its targets for ESG in 2021 by 134 percent, which is close to the maximum possible target achievement level (150%):[29]

Figure 5 → **Achievement of objectives for sustainability KPIs in 2021**[a]

ESG-KPIs	Achievement of objectives
ESG net flows	150 %
Sustainability rating	140 %
Reduction of own CO2 emissions (air & rail)	142 %
CSR of employees	100 %
Corporate & speak-up culture	140 %
Total ESG achievement of objectives	**134 %**

a Source: DWS Compensation Report 2021, p. 93.

This high level of ESG target achievement was what drove the record total salary of €6.945 million for DWS CEO Asoka Wöhrmann in 2021. However, the greenwashing scandal and allegations of fraud have cast considerable doubt on the validity of this result.

▸ Although the revised 2021 bonus system no longer features the appalling incentive to inflate the number of "ESG-labeled" funds, **it remains an equally flagrant form of greenwashing.** While sustainability aspects figure prominently in the remuneration requirements for top executives, in keeping with the recommendations for implementing a credible sustainability strategy, the **company's environmental goals still lack relevance and effectiveness,** rendering it impossible for the objectives to have a substantial impact. This makes it very easy for company officials to achieve their goals and secure large bonuses without much effort – an approach that essentially reduces the DWS sustainability strategy to nothing more than an exercise in smoke and mirrors.

26 Elsewhere in the text (Annual Report 2021, p. 93), reference is made to positive feedback from employee surveys and the 140% target achievement is attributed to a nuanced improvement in the corporate feedback culture. It is not clear why this target was mentioned, even though it did not appear in the ESG performance indicators, while the earlier target of a gender quota aimed at increasing the number of women in the first two management levels below the Executive Board, for example, was omitted from the report for apparently arbitrary reasons.

27 For more on this criticism, see the webinar "Greenwashing – An inside perspective," with Desiree Fixler, hosted by Finanzwende e.V. Available at https://www.youtube.com/watch?v=P8JCLzm-HAA

28 DWS Compensation Report 2021, p. 92.

29 Performance is based on a success factor, which is expressed as a 100% achievement grade if the target is met, but can climb to 150% if the target is surpassed. The success factor is multiplied by the agreed target figure for the variable component of the remuneration to determine the final bonus.

Conclusion

The present research of the remuneration system of Germany's largest asset management company has revealed that **DWS is violating the fundamental principles of a sustainability bonus scheme.**

Indeed, in light of the size of the company, it is fair to say that the CEO of DWS is by far best-paid chief executive of a German stock corporation. **The amount of money paid to the CEO thus far exceeds what is permissible according to the principle of proportionality.**

Furthermore, it has become clear that DWS has been pursuing a highly aggressive PR campaign since 2020 to promote its sustainability strategy and that, as recommended by the company, this strategy has been incorporated into the bonus scheme for top management with a correspondingly high degree of weighting. This means that sustainability is ostensibly accorded an appropriate degree of importance in the remuneration of DWS executives, which **at first glance** lends credibility to DWS's efforts to promote sustainability.

However, our analysis of the established sustainability objectives has revealed that these targets were fraught with significant perverse incentives in 2020. Specifically, the option of converting existing non-sustainable funds into investments that bear the coveted ESG label has made it possible to meet sustainability targets without enacting any major changes to DWS investment strategies. **This is a significant conflict of interest for top executives, who were able to personally benefit from this greenwashing of the funds.** In keeping with these perverse incentives, the proportion of "sustainably" labeled funds soared, which in turn justified correspondingly high bonus payments.

The following year, 2021, DWS apparently recognized the misguided nature of its incentives – and the resulting conflict of interest – and removed the highly problematic parameter of "ESG-specific" assets under management from its performance targets. Nevertheless, the revised catalog of sustainability targets was also reduced to now largely ineffective indicators that, although they addressed the conflicts of interest, narrowed the focus of environmental targets to irrelevant corporate metrics. **The toothlessness of the new DWS sustainability targets ultimately amounts to a new form of greenwashing.**

Greenpeace demands

DWS must implement a remuneration structure that complies with the Paris agreement

In order to be truly credible and consistent, DWS needs to adopt a compensation structure that maintains the proportionality of salaries and ensures the relevance and materiality of environmental objectives. When it comes to implementing climate protection policies, this would require science based and ambitious targets that are not restricted to internal company parameters. These targets should stipulate a reduction of all financed emissions in line with the Paris climate agreement, and they should reward the implementation of credible investment guidelines that regulate aspects such as ways of dealing with companies that are considered particularly detrimental to the climate. For effective investment guidelines on climate protection, Greenpeace has drawn up concrete proposals in the form of a blueprint that DWS can immediately put into practice.[30]

As the parent company of DWS, Deutsche Bank must assume responsibility

In view of what has come to light, it is clear that the multitude of greenwashing allegations at DWS can be traced to structural deficits and explained by the misguided incentive schemes of the bonus system. As the parent company of DWS, Deutsche Bank bears a major share of the responsibility for these glaring lapses. It is thus called upon to rectify this misconduct as quickly as possible and to put a stop to excessive bonus payments for greenwashing.

30 See the blueprint for investment guidelines for dealing with coal, oil and gas companies in line with the goals of the Paris agreement (text in German): https://www.greenpeace.de/publikationen/blaupause-dws