8.11.2019

EFTA ECOFIN MEETING

EFTA Common Paper (Sustainable Finance)

Mr Chairman

Excellencies, dear colleagues,

On behalf of the EFTA States, I thank you for this opportunity to delve into the economic and financial situation in the EU and EFTA countries together.

Since our last meeting a year ago, we were able to witness a slowdown in the growth of the European economy.

At the same time, unemployment has continued to fall and has reached low levels in many European countries, which is positive.

In the second half of 2019 and in 2020, growth is expected to pick up only modestly.

Risks for the economic development are linked to the international environment (keywords: trade disputes, Brexit).

The EFTA states expect growth rates between 1.7% up to 2.6% for 2020. And the employment situation in the EFTA states is expected to remain in a healthy state.

Challenges like climate change or the implementation of the Agenda 2030 as well as the Paris agreement have to be tackled jointly by the community of states.

In addressing these challenges, the financial sector can play an important role, be it through better diversification of risks or through improved risk management. To this end, appropriate corporate disclosure of risks and exposures is key.

The challenges posed by sustainability have a global dimension, which is true equally for the financial markets with their global reach.

At the same time, sustainable finance creates opportunities for the financial sector.

For example, new business ideas could be realized in this area coupled with digital technology.

The potential benefits from Sustainable Finance could be maximised through comprehensive and coordinated approaches.

These approaches could be situated at global level or also at regional levels.

Another important question in relation to Sustainable Finance lies with the potential implications climate change might have for our financial system.

Let me give you an example: More frequent extreme natural events could lead to larger claims for non-life insurance companies or may affect the value of mortgaged assets that secure banks' lending.

The physical impact of climate change could have implications for economic development in our countries and therefore should be taken into consideration.

In addition to that, the path towards a more sustainable economy itself is not without some risks.

It is conceivable that transitional risks could materialise when changing to a low-carbon economy.

This could have implications for the stability of our financial systems.

In short: Financial risks stemming from climate change and their implications need to be better understood, before these risks can be addressed together with the private sector.

The wealth of experience of the private sector in assessing and managing different kinds of risks will be a valuable tool in that regard.

For profit-seeking investors, transparency about the climate-related risks companies are facing is key.

Only with the relevant information at their disposal will it be possible for such investors, to identify profitable investments in a low-carbon economy.

In particular, industry-led initiatives such as the *Climate-related Financial Disclosures Task Force* can help improve transparency around the sustainability of certain investments

In this development, it is essential to consider what role financial markets can play.

It is clear that the financial sector cannot tackle these challenges all by itself and the real economy will need to contribute.

If countries agree on the importance of the sustainable use of resources in the economies, the framework conditions for goods and services should be adjusted.

It would be important in this context to make sure that the internalisation of external costs is ensured by the right set of incentives.

In the real economy, action is needed through producers and consumers.

The financial sector can engage in this process as an intermediary.

If investors change their demand structure with regard to sustainability, the financial market will automatically follow and adapt its offers.

This adjustment would support the path towards a more sustainable economy.

Therefore, reforms in the context of sustainable finance should focus on enabling financial markets to facilitate the economies' transition to a more sustainable path.

The increasing demand for sustainable investments represents a strong incentive for financial market players to offer sustainable products and services.

This increased demand may also lead to the promotion of industry-driven standard setting within the financial industry.

In order to promote sustainable investments and to avoid greenwashing, it is important to develop a common understanding of sustainability in the financial market and to establish common definitions or standards.

The EFTA states observe the efforts of the EU in developing a common taxonomy for sustainable economic activities, hoping to integrate inputs from industry and international organisations, as well as the EU Action Plan on financing sustainable growth.

The EFTA States welcome the efforts the EU has initiated in the field of sustainable finance and follow the work with great interest.

In order to harness the benefits of open and globally integrated markets, appropriate participation and inclusion of third countries and third country financial service providers should be considered as part of the EU Action Plan.

Designing an open and inclusive sustainable finance framework will lead to a more even playing field across sustainable financial services and product providers.

The EFTA States also congratulate the EU on the launch of the *International Platform on Sustainable Finance*, an important step to global cooperation.

The EFTA states themselves have chosen to implement different approaches when it comes to Sustainable Finance.

I would like to present Switzerland’s efforts in this area in a moment while my colleagues will explain their respective approaches in detail afterwards