

Draft, check against delivery

Ladies and gentlemen,

Einleitung

Thank you very much for the opportunity to offer some remarks at the end of this public hearing. It is an honour to be invited by the European Commission to speak on this occasion and I would like to thank the Commission for driving the discussion and organizing such a high-profile event for this important topic.

It is both an honour and a pleasure to take the floor after my good friend Corso Bavagnoli. France and Germany have both championed the cause of addressing climate change. Perhaps it is a good omen that the High level expert group is led by a german working and living in France. We need to join forces in Europe with renewed energy – on many topics, and especially on climate change and sustainable finance.

Many ideas and suggestions have been offered and discussed today, which makes it a challenge to be the last speaker.

On the one hand, I am at risk of repeating a lot of things and bore you. On the other, some might expect me to offer a conclusive solution, which would of course be premature. We are at the beginning of a consultation. The high level expert group has been very productive and already in the interim report provided a lot of input for our discussion.

Let me therefore take a step back and remind us why we are having this discussion in the first place and then reflect on what could guide us in defining the financial sector contribution to the challenge.

Klimawandel und der notwendige Übergang zu einer kohlestoffarmen Wirtschaft

There is climate change [although some politicians may prefer the term “weather change”] and there are very visible environmental risks. We have all seen the

discussions at the recent G20 summit. Fortunately there continues to be a broad consensus on the need to act. And if the leadership of one large country does not agree (by the way many of the citizens in that large country do agree) we should double our efforts in Europe to act on climate change.

The OECD estimates that to meet 2° target climate goals, an additional US\$40 trillion in additional investments are needed in low-carbon energy by the middle of the century. But not only is there little alternative, there are also opportunities. Because while those 40 trillion are less than 1% of cumulative global GDP over the period 2016-2050, these investments are estimated to lead to fuel cost savings of 115 trillion.

The transition process of our entire economies has already begun and its speed is increasing.

But not only environmental regulation is changing. Technology and consumer

behavior are changing as well. And sooner or later this has an effect on all companies of the real economy. Some change may come very rapid: Look at the utility sector. In other areas it may take more time, but it will come, and it will also come to the financial sector.

Our discussions in the G20 this year and the input of the High Level Expert Group discussed today is only one of numerous examples for the momentum in Europe: Green Finance matters and Europe is taking a strong common position in addressing climate change, related risks and the transformation of our economies. We could observe this also in Hamburg at the G20 summit, where Europe and most other G20 members stood together in difficult negotiations.

Transformation (Change management)

Getting to a carbon neutral economy in time requires a huge process of change at all levels.

What is essential to manage a process of change successfully? It is crucial to use existing competencies and focus each unit on what it really does best.

What financial systems are meant to do best is to process information and allocate capital efficiently, in line with such information.

Capital allocation by the financial system means that it offers financing for all kinds of activities, but that it does so in line with risk and return, based on an assessment of all information available. More specifically, it means that a financial market should be best at making out what is the best investment.

Transposed to the context of climate change and the transition to a carbon neutral system, this means that a financial system should **not** decide sectoral policies, but rather that it should help **finding** the climate change **transition champions** in each sector, to enable informed investment decisions.

There are not only green and brown investments. A significant environmental improvement in a brown sector may bring more environmental benefit and thus be more important for change than an investment that would be relatively greener.

What really matters to achieve change is to identify the best companies – meaning those that will have a sound and greener business model in the future.

This means: transforming the economy requires not only finding the currently best in class in a static sense. We also need to know the strongest transformers and high potentials in a dynamic sense.

This has implications for the question of data and methods for environmental risk analysis

Rolle des F Systems & Regulierung

How can the financial sector contribute to the change towards a low carbon economy?

We need strong financial institutions that are able to finance the necessary short-term and long-term investments. Whether we like it or not, there will be failing companies in the future, be they brown or green.

Consequently, the financial system should be prepared to develop along with this transition. Good risk management will be needed in the process, and more focus indeed is needed on environmental risks, especially those materializing over a long time horizon.

But also the other way round is true: a necessary condition for a smooth transformation is the financing of green and greener investments which is only possible if there is financial stability.

I did not mention financial market regulation until now: in the general current environment it is a bit surprising to hear from private financial experts a request for more regulation.

I think we need to tread a fine line here. Financial regulation or deregulation is not the appropriate tool to set financial incentives that would **stimulate** specific green or punish specific brown investment. Ideas such as reducing regulatory capital requirements for environmental reasons would carry the risk of distorting allocation on the basis of half-baked information. This could result in increased non-performing loans in the future and damage the transition.

Our shared intention is to improve long-term finance. Since long-term risks are difficult to predict, financial institutions need sufficient capital to bear potential risks in the future.

We should be very careful to change regulatory capital requirements based just on a label or a policy goal with insufficient information. The financial system works best if it (and the regulators) can adequately price risk and return. So our focus should be to increase the availability of information relevant for risk and return calculation.

Environmental risks should be factored into these calculations as good as possible. This should prevent us from creating a system in which regulators or supervisors would have to make ex ante judgments on the best technology, the best approach to address climate change, on which firms are transition champions and which are not.

If governments knew ex ante, we maybe would not even need market economies.

The existing regulatory framework already today requires financial market participants, especially banks and insurance companies, to identify, assess and manage **all material** risks. And this is where I think the focus for financial market policy should lie:

Which financial risks – including environment risks – are indeed material and how can these material risks be identified?

Indeed, if we were only counting on financial regulation, we would miss important opportunities and time. We cannot wait decades until we know enough. We

think that the intelligence, expertise and creativity of financial markets can strongly contribute to identify and adequately manage environmental risks and that we will be able to benefit from their ability to process information efficiently.

German G20 Presidency

In order to support this process, the German G20 presidency initiated discussions on Green Finance in several meetings of the G20 finance ministers and central bank governors in 2017.

The aim was – and still is – to mitigate barriers to environmental-friendly private investment. Therefore, we promote discussions on how to improve environmental risk analysis and the use of existing environmental data. Hence, we appreciated the work of the G20 Green Finance Study Group very much and are glad that its final 2017 report and three background papers are now available on the G20 website.

And we also very much welcome the work of the financial disclosure task force set up

by the Financial Stability Board under the leadership of Mark Carney and Michael Bloomberg. It is encouraging that this task force is led by an American and that a number of American corporations have already announced their willingness to adhere to the recommendations of the task force. We need more private sector initiative of this sort, and we need to build on the work of this task force.

Way forward

What does this mean for the way forward?

- Climate change matters. Transition will come and requires massive change.
- If governments want to promote investment in certain green technologies or sectors, this should be done by the respective tools and Ministries, for example through environmental standards – but not via financial regulation.
- Financial market policies should continue to support those change processes by focussing on information, capital allocation and risk management.

- We will need learning processes for this, e.g. a regular dialogue in and with the private sector to improve environmental risk analysis. This might be of interest also for supervisors.

On the valuable proposals and substantial ideas presented in the interim report already:

- I am very positive about
 - thinking about environmental risks in the category of at least a **potentially** material risk,
 - improving transparency,
 - learning networks,
 - capacity building,
 - common taxonomy and metrics.
- I have not yet fully grasped whether there is really a need to change the concept of **fiduciary duty**, which is currently not uniformly defined throughout Europe and which is closely connected to related areas of corporate and civil law. Risks and future business models of investment should always be analyzed. Rather than changing the existing concepts of fiduciary duty I would rather strive to

incorporate materially relevant environmental risks into this framework.

- And I would be very careful to use financial regulation as a tool for **financial incentives**, i.e. to meddling with capital risk weights and accounting rules to incentive or disincentivize certain investments beyond proven categories of material risk.

Environmental issues, the transition of an entire economy, risk management and financial stability are quite complex issues. Good governance is always important and a key to improve risk management; social aspects should be a complementary condition. So in my view we should discuss whether it is more adequate to focus now within sustainable finance on environmental risks.

Ladies and gentlemen,

Let me conclude:

We have had a fascinating day here in Brussels discussing the interim report on sustainable finance. We have heard many new ideas and insights. The ideas of the Expert Group presented are very stimulating and thoughtful, with many pointing in the right direction.

Today, we have been discussing first recommendations of the expert group which are mostly addressed at policy makers. It would be great if the group in the coming months could also look in more depth at private sector initiatives, for example a proposal on how to improve quantitative and qualitative environmental risk analysis, and how to implement the recommendations of the financial disclosure task force here in Europe.

Today we have also witnessed a common commitment throughout Europe to act on the issue of climate change. A common commitment not to leave this issue as a very general discussion, but to dive into the details of what this means for the financial

sector and how we can act in our area of responsibility.

I very much look forward to the discussions in the next weeks and months, the final report and the ensuing action.

I hope you feel sustainably energized from today's discussion and I wish you all the best for your ongoing work.

Thank you