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THE SWISS APPROACH TO SUSTAINABLE FINANCE

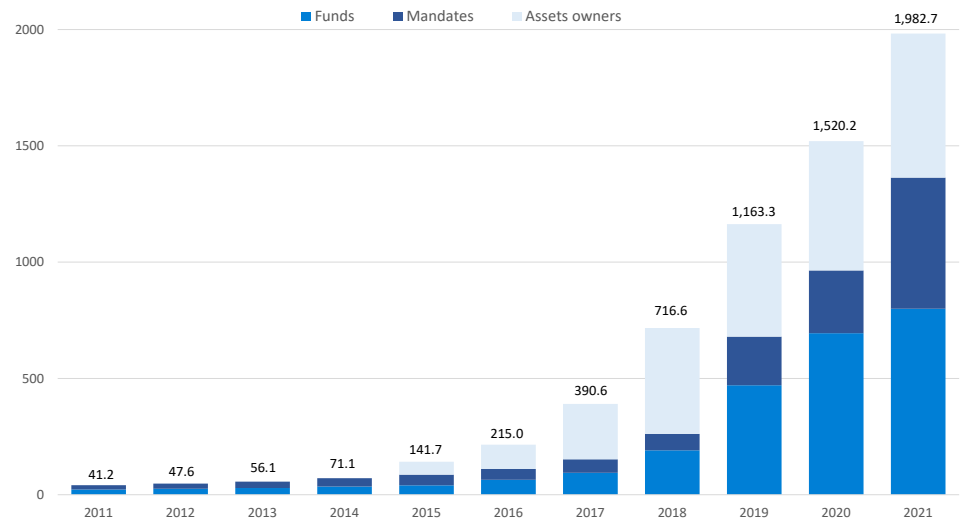
Introduction and overview

The first sustainable financial products were launched in Switzerland as early as in the 1980s, making the Swiss financial centre a pioneer of sustainable finance. Over the last decade, sustainable investments in Switzerland grew exponentially, mainly driven by market-led initiatives, reaching a total of 1.98 trillion CHF in 2021 (see Figure 1).

With the ambition of strengthening Switzerland's position as a leading global hub for sustainable financial services and actively contributing towards achieving the Sustainable Development Goals (SDGs) of the United Nations 2030 Agenda, the Swiss government primarily acts as mediator and facilitator, cultivating an intensive dialogue with the financial industry alongside interested third parties while supporting the creation of a market- and principles-based regulatory framework. Financial market and environmental policy instruments are used in a targeted and effective way for specific objectives. In this context, financial market regulation improves transparency to take full account of long-term risks and appropriately price them, while environmental policy aims at internalising external costs caused by activities harmful to the environment.

Over the last year, some major initiatives have been presented by both the Swiss government and the financial industry, shaping Switzerland's approach to sustainable finance. First of all, the government introduced mandatory disclosure obligations for large companies based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and based on a 'double materiality' perspective as of 2024. Secondly, the government launched the Swiss Climate Scores, a set of voluntary best practice indicators aimed at improving transparency on the alignment of investments with climate goals. The Swiss Climate Scores are based on internationally recognised metrics that allow to better assess alignment with the Paris Agreement, and thus offer a market-based alternative to more complex and prescriptive taxonomies. Crucially, the regulatory framework is enhanced by a long tradition of self-regulation in financial services, as evidenced by the bankers' and asset managers' associations current work in the area of sustainable finance. The latest self-regulation published by the Swiss Bankers Association (SBA) focuses on the integration of environmental, social and governance (ESG) criteria into investment advice and portfolio management, while the Asset Management Association Switzerland (AMAS) adopted rules on the disclosure of sustainability information and the governance of asset managers.

Figure 1: Development of sustainable investments in Switzerland (in CHF billion)
Total sustainable investment volume now at CHF 1,982.7 Billion (+30% compared to 2020)



Source: Swiss Sustainable Finance, Swiss Sustainable Investment Market Study 2022

The nuanced, principle-based Swiss approach allows for a dynamic adaptation to best practices in light of fast-changing expectations of stakeholders. Ultimately, this approach not only fosters the highest possible level of transparency and simplicity from a consumer/investor perspective but also takes into account real-time feedback for the continuous improvement of the regulatory framework.

Swiss regulatory framework and initiatives

Key institutions and players driving sustainable finance policy

The main institutions driving sustainable finance policy in Switzerland are the Federal Council, the State Secretariat for International Finance (SIF), the Federal Office for the Environment (FOEN), the financial-markets supervisory authority (FINMA), as well as the Swiss National Bank (SNB). Business associations and NGOs have considerable influence as they are invited to respond to targeted consultations that are not open to the public. More information about these key institutions and players can be found in the Annex.

Overarching objective

Switzerland is committed to reaching climate neutrality by 2050 and reducing greenhouse gas (GHG) emissions by 50% by 2030 compared to 1990 levels. The Federal Council set the net-zero target in 2019 and adopted the corresponding 'Long-Term Climate Strategy for Switzerland' in January 2021 that was submitted to the UN Climate Change Secretariat as part of its Paris Agreement obligations. Moreover, in the context of the Paris Agreement's Article 6 on the functioning of international carbon markets, Switzerland signed different bilateral agreements with other jurisdictions to facilitate joint projects in reducing greenhouse gas emissions[1].

The financial sector plays a central role in meeting the Swiss obligations under the Paris Agreement. This is reflected in the report on 'Sustainability in Switzerland's financial sector' adopted by the Federal Council in June 2020[2]. In that context, the Federal Council aims to shape the framework conditions in such a way that the competitiveness of Switzerland's financial centre is improved and, at the same time, that the financial sector can make an effective contribution to sustainability. In this regard, the Federal Council adopted the report 'Sustainable finance in Switzerland', outlining the sustainable finance strategy for the period 2022-2025 in December 2022[3]. The report sets 15 specific measures under four areas: (1) sustainability data from all sectors of the economy, (2) transparency in the financial sector, (3) impact investments and green bonds, and (4) pricing pollution, with the objective of strengthening the framework conditions for sustainable finance. The most important initiatives taken up in the report are discussed below.

Climate-related risks in the banking sector

From a financial stability perspective, the SNB focuses on whether the banking system and systemically important financial market infrastructures are adequately prepared for potential climate-related shocks and whether climate risks are properly covered by existing regulations. The SNB, jointly with FINMA, conducted a pilot project to assess climate-related transition risks for the two globally active banks, Credit Suisse and UBS. The objectives were twofold: first, to gain experience in climate-related scenario analysis and, second, to obtain an initial picture of the climate-related transition risks these two banks face. The analysis conducted in the pilot project provided an initial estimate of transition risk. FINMA and the SNB, in close cooperation with the banks, are enhancing and refining their current approach to measuring and managing climate risk accordingly. In this regard, FINMA published a Guidance on the developments in the field of the management of climate risks, setting out its expectation that supervised institutions establish an appropriate climate risk management framework based on recognised practices[4].

Task Force on Climate-related Financial Disclosures (TCFD)

In January 2021, Switzerland officially became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) that was tasked by the Financial Stability Board (FSB) to develop disclosure recommendations for companies with regard to climate change[5]. Following this endorsement, FINMA introduced mandatory disclosure obligations for climate-related financial risks for large banks and insurance companies in May 2021[6]. The disclosure obligations are based on the TCFD recommendations and are designed to be principles-based and focused on financial materiality.

Moreover, the Federal Council adopted an ordinance in November 2022 to introduce mandatory climate reporting for all companies with either 500 or more employees, more than 20 million CHF in total assets or more than 40 million CHF in turnover, based on the implementation of the counter-proposal to the Responsible Business Initiative (RBI). The disclosures, based on the TCFD recommendations, have been subject to a public consultation until July 2022 and will become applicable on 1st January 2024, with the first reporting by companies to be issued in 2025[7]. Importantly, the public reporting will not only include the financial risk that a company incurs as a result of climate-related activities, but also the impact of a company's own business activities on the climate and the environment, thereby implementing the concept of 'double materiality' in line with the EU approach[8]. Switzerland intends to assess the development of international standards in the coming years and to consider reviewing reporting requirements accordingly.

Furthermore, the Federal Council issued new due diligence requirements on conflict minerals and child labour as part of its counter-proposal to the RBI. The new provisions in the Code of Obligations and respective ordinance came into force on 1st January 2022[9].

SWISS CLIMATE SCORES

In June 2022, the Federal Council launched the Swiss Climate Scores that establish best-practice transparency on the Paris-alignment of financial products to foster investment decisions aligned with climate goals[10]. The Federal Council recommends that Swiss financial market players apply the Swiss Climate Scores to financial investments and client portfolios where appropriate. The Swiss Climate Scores contain indicators that not only reflect the current situation of global companies in the financial product or portfolio (actual situation), but also show where these companies are currently positioned regarding global climate goals (net-zero target by 2050). In particular, they introduce six indicators matched to existing, internationally established criteria and methods: 1) Greenhouse gas emissions; 2) Exposure to fossil fuel activities; 3) Global warming potential; 4) Verified commitments to net zero; 5) Credible climate stewardship; and 6) Management to net-zero. The voluntary use of the Swiss Climate Scores is intended to allow investors to make better-informed decisions and devise investment strategies with the climate in mind.

Climate-related fiduciary duties

In November 2019, a legal opinion, commissioned by the Federal Office for the Environment (FOEN), concluded that financial service providers are obliged, based on the rules of conduct as well as their duties of loyalty and due diligence, to take climate risks into account as part of their risk clarification and information to their clients[11]. However, they are not obliged to include climate impacts, i.e. the effects of their investment and financing decisions on the climate, in their investment and advisory process. Consideration is only required if this has been agreed with the respective clients. Moreover, in its 2020 proposal on 'Sustainability in Switzerland's financial sector', the Federal Council recommended that financial market players publish methods and strategies to take into account climate and environmental risks when managing their clients' assets, in accordance with the existing legal duties of loyalty and diligence[12]. The SIF will inform the Federal Council by the end of 2022 on how this recommendation will be addressed.

Greenwashing

In the context of the increasing success of sustainability-related financial products, FINMA has taken certain measures against greenwashing, issuing a new guidance on preventing and combating greenwashing in November 2021[13]. Therein, FINMA sets out its expectations and current practice regarding the management of sustainability-related collective investment schemes at fund and institutional level in its *FINMA Guidance 05/2021 on preventing and combating greenwashing*. In addition, FINMA warned financial service providers who offer sustainability-related financial products of potential greenwashing risks in the advisory process and at the point of sale. Furthermore, the Federal Council outlined its position on greenwashing in financial markets in November 2022, specifying that financial products or services should only be advertised as being sustainable if they are compatible with at least one specific sustainability goal[14]. The Federal Council instructed a working group, led by the Federal Department of Finance (FDF), to examine the best way to implement the Federal Council's position on the prevention of greenwashing.

Net zero alliances

In November 2021, the Federal Council encouraged the financial sector to join net-zero international alliances and to consider working towards industry agreements in this regard[15]. In particular, banks, asset managers and insurances are encouraged to join the alliances under the umbrella of the Glasgow Financial Alliance for Net Zero (GFANZ) that are the most relevant to their business model, namely the Net-Zero Banking Alliance (NZBA), Net-Zero Asset Managers Initiative (NZAM), Net-Zero Asset Owner Alliance (NZAOA), or the Net-Zero Insurance Alliance (NZIA). These alliances can help ensure that the net-zero commitments of financial institutions are credible. They offer participating financial institutions a valuable platform for exchange, especially on developments and best practices in the industry, and can support institutions in setting and achieving concrete and comparable targets.

The support for private-sector alliances is in line with the Swiss approach of relying on market- and principles-based approaches to the greatest extent possible to avoid heavy-handed government intervention or bureaucracy. Switzerland also views alliances as a useful tool to communicate the financial centre's sustainability ambitions to the outside world and position Switzerland as a financial hub with a positive impact on the environment and society.

Green Fintech Network

As a leader in innovation and financial services, Switzerland is ideally positioned to leverage on the opportunities arising from the combination of digital technology and sustainable finance. Accordingly, in November 2020, the Green Fintech Network, an informal group of experts from the green digital finance ecosystem, was set up with the support of SIF. The Network presented its Action Plan in April 2021, containing 16 concrete actions points that aim to support the Swiss government and the financial services industry in better understanding how a global leadership position in sustainable finance can be achieved by leveraging green fintech solutions[16]. The Action Plan's suggested measures range from setting up a platform for sustainability data to the launch of an innovation challenge for green fintech start-ups, to the promotion of open finance and the expansion of funding options for green fintechs.

Switzerland's engagement at the international level

Switzerland is represented by the SNB and FINMA within the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), which is committed to better understanding and managing the financial risks of climate change, as well as to mobilising capital for green and low-carbon investments. Since its inception, the NGFS has been focusing on the creation of climate scenarios to identify, assess and understand climate risks in the financial system.

The NGFS scenarios quickly became a foundational component in almost all the climate scenario exercises performed worldwide[17].

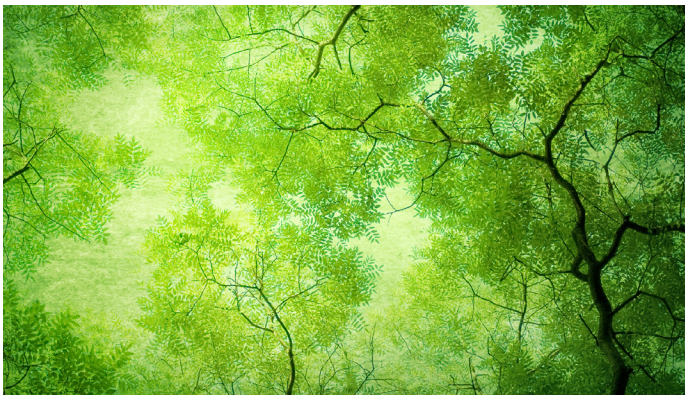
Switzerland is also a member of the International Platform on Sustainable Finance (IPSF), launched by the European Commission in 2019, to scale up the mobilisation of private capital towards environmentally sustainable investments. The IPSF offers a multilateral forum of dialogue between policymakers that are in charge of developing sustainable finance frameworks to help investors identify and seize sustainable investment opportunities that contribute to climate and environmental objectives.

Together with the EU and Japan, Switzerland is co-chairing the IPSF working group on transition finance to explore how policy measures at the activity, entity and portfolio level can support the transition and to develop a set of high-level transition finance principles.

Since its inception in 2016, Switzerland, while not being a member of the G20, has been invited by the different G20 Presidencies to be part of the G20 Sustainable Finance Working Group (G20 SFWG). The Working Group is mandated to develop an evidence-based and climate-focused G20 sustainable finance roadmap, improving sustainability reporting, identifying sustainable investments, and aligning international financial institutions' efforts with the Paris Agreement. Under the Indonesian Presidency in 2022, the work focused on 1) developing a framework for transition finance and improving the credibility of financial institutions' commitments; 2) scaling-up sustainable finance with a focus on improving accessibility and affordability, and; 3) discussing policy levers that incentivise financing and investment that support the transition.

Moreover, in October 2019 Switzerland joined the Coalition of Finance Ministers for Climate Action that brings together fiscal and economic policymakers from over 74 countries[18]. The objective of the coalition, supported by the World Bank and the International Monetary Fund (IMF) is to promote the exchange of climate-related policymaking experiences and best practices, thereby accelerating the implementation of the Paris Agreement.

Lastly, Switzerland actively supports efforts to establish international standards in the area of sustainable finance. This includes supporting the work of the International Sustainability Standards Board (ISSB) to establish a global baseline of sustainability-related disclosures. In addition, Switzerland is among the funders of the Taskforce on Nature-related Financial Disclosures (TNFD) that is developing a framework for organisations to better take into account nature-related risks and dependencies within their strategy and processes, as well as to establish disclosure recommendations similar to the TCFD. Switzerland was also among the first countries to set up a TNFD National Consultation Group in May 2022 to build a national network of learning, best practice and awareness-raising, to encourage feedback from a wider number of companies on TNFD pilots, as well as to encourage a wider adoption of the TNFD recommendations by the private sector.



Self-regulation of the financial sector

The Swiss financial sector has a long tradition of self-regulation issued by financial industry associations, offering the advantages of a practical and flexible approach. One of the biggest benefits of self-regulation is that it is based on practical experience, and it is developed relatively quickly compared to traditional legislation. The standards are drafted in close collaboration with experts from the associations' member institutions, ensuring both market proximity and widespread acceptance. Requirements can be adapted relatively quickly and reflect changing market conditions alongside technological developments. Self-regulation is also typically principles-based, leaving scope for effective action geared to the specific situation of an individual financial institution.

The Swiss Bankers Association (SBA) and the Asset Management Association Switzerland (AMAS) are the Swiss financial sector's leading industry associations and regularly issue self-regulatory guidelines to their members.

In March 2022, the SBA announced its sustainable finance action plan that includes further self-regulation initiatives. The SBA's new self-regulation guidelines, published in June 2022, define minimum standards for its members in the area of sustainable finance to ensure high-quality advice for customers[19]. The new guidelines govern the inclusion of sustainability preferences and risks in investment advice as well as in portfolio management. In addition, they encourage mortgage providers advising clients to consider the energy efficiency of the building to be financed.

AMAS released its principle-based self-regulation for sustainable asset management[20]. The guidelines, binding for AMAS' members, impact not only the publication and reporting of sustainability-related information, but also the governance and internal processes of asset managers and producers of collective investment schemes.

SFC Members' commitments and achievements

SFC Members, Credit Suisse and UBS, firmly support and advocate for a strong and ambitious response to climate change as demonstrated by their commitment to transparency through TCFD aligned disclosures and by working with peers to embed sustainability into their business strategy and practice through the UN-supported Principles for Responsible Banking (PRB) and the Principles for Responsible Investment (PRI).

In 2000, Credit Suisse and UBS were among the first signatories to the UN Global Compact, the world's largest corporate sustainability initiative defining principle relating to human rights, labour standards, environmental protection and anti-corruption efforts. More recently, SFC Members have committed to aligning operational and attributable emissions from their portfolios with pathways to net-zero by 2050 at the latest, through the GFANZ, the NZBA, and the NZAMi.

Moreover, SFC Members have committed to providing an aggregated amount of around CHF 700 billion of sustainable financing by 2030[21,22]. Lastly, Credit Suisse and UBS were among the founding members of the Thun Group of Banks, an informal group of banks who work together with the purpose of understanding how human rights can best be respected and promoted across the breadth of different banking activities.

Next steps

Following the instruction of the Federal Council, the FDF in cooperation with FINMA will work with the industry and representatives of the general public to identify how to optimally implement the Federal Council's position on greenwashing in a conducive manner. Moreover, the FDF will review the comparability and incentive effect of the Swiss Climate Scores by the end of 2023, and refine them as necessary. An extension to other asset classes (e.g. real estate) will also be considered.

Conclusion

Switzerland and its financial centre are fully committed to the target of reducing greenhouse gas emissions to net zero by 2050, in line with the goals of the Paris Agreement on climate change. The new rules on transparency and self-regulation mark a decisive step in the creation of an effective sustainable finance framework that follows a market-based approach and supports climate alignment. In this context, the continued and intense dialogue between the private sector and the government helps to maintain a balance between market-driven solutions and a supporting regulatory framework, creating the optimal conditions to align financial flows with climate goals. Most importantly, the Swiss approach to sustainable finance not only has the potential to position Switzerland as an international leader in sustainable finance, but also offers concrete policy alternatives and complementary approaches to the more prescriptive and complex regulatory frameworks that are emerging worldwide.

Annex

Key institutions and players driving sustainable finance policy in Switzerland

The **Federal Council** is the highest executive authority in the country. The Federal Council's seven members (Ministers) are elected by the Federal Assembly, which is formed by the two parliamentary chambers. Each Minister heads a government department, including the Federal Department of Finance, which is responsible for sustainable finance.

The **State Secretariat for International Finance (SIF)** is part of the Federal Department of Finance (FDF) and defends Switzerland's interests in international financial, tax and monetary matters, while promoting international competitiveness, the integrity of Switzerland's financial centre, the access to foreign financial markets and the stability of the Swiss financial sector. The SIF defines the overall Swiss sustainable finance strategy as outlined in the 2020 Sustainable finance guidelines[23].

The F**ederal Office for the Environment (FOEN)** is the federal government's centre of environmental expertise, whose mission is to ensure the sustainable use of natural resources, including soil, water, air and forests. The FOEN is responsible for representing Switzerland in international environmental policy arenas.

The **Swiss National Bank (SNB)** actively monitors climate-related risks to financial stability. The SNB became a member of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in April 2019. The SNB's goal in joining the NGFS is to engage in dialogue and share knowledge in order to better understand and anticipate the potential impact of climate risks on macroeconomics and financial stability. The SNB also joins the SIF in representing Switzerland at the G20 Sustainable Finance Working Group (SFWG) with the goal of scaling up sustainable finance that supports the objectives of the 2030 Agenda and the goals of the Paris Agreement.

FINMA is Switzerland's independent financial-markets supervisory authority. FINMA is addressing the subject of climate-related financial risks as part of its supervisory remit. It is also reviewing regulatory measures to increase transparency regarding such risks in the financial system. In addition, FINMA sets transparency expectations to prevent the risk of greenwashing in the provision of financial services and the distribution of sustainability-related financial products. FINMA has also been a member of the NGFS since 2019[24].

Business associations and **NGOs** have considerable influence as they are invited to respond to targeted consultations from the Swiss Government and FINMA that are not open to the public. Business associations are driving the sustainable finance self-regulation as well.

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The Swiss Finance Council (SFC) engages in dialogue around policy developments in finance at a European and international level. It represents the interests of internationally active Swiss financial institutions and provides a platform to share their experience, expertise and knowledge through a permanent representative office in Brussels.