CENTRE DE DROIT
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Sustainable finance

Voluntary sectoral agreements and increased transparency

Par Sonia De la Fuente le 4 January 2022

In response to the postulate of 16 August 2019 of the Council of States' Committee for the Environment, Spatial Planning and Energy (CEATE-CE), the Federal Council published its report "How can Switzerland make financial flows consistent with climate objectives ?" on 17 November 2021. In it, the Federal Council examines various measures that could more effectively involve the financial sector in the transition to a 'net zero' economy.

The conclusion of voluntary sectoral agreements and greater transparency are the approaches that seem to have the greatest potential for success.

The measures considered are based in particular on the following observations :

- The integration of climate risks into risk management strategies and processes does not necessarily lead to a change in the real economy.
- Although progress has been made in recent years in favour of 'green' investments, Swiss financial institutions continue to invest substantially in fossil fuels.

Based on these findings, the Report sets out nine measures that could lead the financial sector to have a more positive impact on the climate.

Among the proposals discussed are initiatives inspired by European law aimed at improving transparency, such as the creation of green labels or a taxonomy, as well as the integration of climate impact into client advice in order to ascertain investors' preferences in terms of sustainability. The report thus follows on from the report of the Federal Council of 20 June 2020, which presented a series of thirteen potential measures to strengthen the competitiveness and impact of the Swiss financial centre in the field of sustainable finance.

However, some developments are new. Under the influence of the new EU strategy on sustainable finance, the Federal Council is, for example, interested in solutions that could be developed in the insurance sector and in the context of mortgage lending to encourage policyholders and borrowers to favour low-carbon projects. The report also stands out for the increased interest in voluntary sectoral agreements, briefly mentioned in the 2020 report.

The objective of the report is to assess the potential and feasibility of each of the approaches considered, which are analysed according to the following criteria :

- climate impact in order to assess the (direct or indirect) potential of the measure under consideration ;
- the leverage effect of the measure and the conditions required to effectively have an impact on the climate or maximise it ;
- the implementation process ;
- any other relevant aspects (e.g. administrative burdens related to implementation, compatibility with international standards).

For each measure considered, the Report examines several variants that differ from each other in their more or less restrictive nature or the scope of their application.

The recommended measures are the conclusion of voluntary sectoral agreements and data transparency :

- Voluntary sectoral agreements, concluded between the Confederation and the professional associations of the financial sector (in particular the ASB and the AMAS), would set concrete objectives to facilitate the transition to carbon neutrality. According to the three variants presented in the Report, these objectives would be defined independently by the professional associations (subject to minimum requirements set by the Confederation), by mutual agreement between the Confederation and each professional association, or unilaterally by the Confederation. Achievement of the objectives should be regularly assessed, in particular by means of the PACTA climate compatibility test already adopted by several financial market players.
- Rather than a separate measure as such, transparency is a fundamental principle that should be integrated into specific actions, such as the ongoing project to make the *Task Force on Climate-related Financial Disclosures* (TCFD) recommendations on climate reporting binding.

According to the Report, in order to be effective, the requirements for increased transparency must apply not only to information relating to climate-related financial risks, but also to the climate impact (positive or negative) of companies (the principle of double materiality). The quality of the data made available is also an important factor : the data should be comparable and forward-looking.

These solutions are aligned with Switzerland's climate strategy to date. Since the 2020 report, the call for greater transparency has become a key element of Switzerland's sustainable finance strategy.

Furthermore, by encouraging the establishment of voluntary sectoral agreements rather than the adoption of binding regulatory measures, the Federal Council is reiterating its position that public action should remain subsidiary to market-based solutions.

Such a contractual measure certainly has advantages, including a higher degree of individualisation and the possibility of agreeing targeted and concrete commitments to achieve climate objectives. It should also enable better buy-in from the actors concerned. However, there are concerns that this approach involves relatively high transaction costs and leads to compromises that may be insufficient to meet the climate challenges.