Sustainable finance

First update of the Swiss Climate Scores

Par Sonia De la Fuente le 18 January 2024

On December 8, 2023, the Federal Council published a Swiss Climate Scores Update, a (slight) update of the Swiss Climate Scores introduced in June 2022. Without making any major changes, the review of this rating system introduces two new features :

a new (optional) indicator focusing on the portfolio's investment objectives, to determine the extent to which the portfolio is aligned with the Paris Agreement objective (i.e., to keep the global average temperature increase below 2 C° above pre-industrial levels, and to continue efforts to limit the temperature increase to 1.5 C°), and
in addition to exposure to fossil fuels (coal in particular), the calculation of Swiss Climate Scores will in future also involve assessing what proportion of the portfolio is exposed to renewable energies. This will make it easier to assess the extent to which the portfolio is actively participating in the climate transition.

For the rest, the revised Swiss Climate Scores contain further details on the methodology to be followed, including, for each indicator, more detailed sections on the minimum criteria to be considered and how to implement the indicator concerned. In addition, the conditions under which a portfolio may refer to the Swiss Climate Scores have been clarified, in order to avoid practices that could mislead investors.

The aim of this first update of the Swiss Climate Scores is to facilitate their implementation by financial institutions and make them more comprehensible to investors. The latter includes a more systematic requirement to specify the benchmark index used. This should enable investors to compare data and gain a clearer picture of the "environmental quality" of the portfolio in question. That said, it would have been welcome if the Swiss Climate Scores had specified which indices could be taken into account.

Financial institutions that apply or wish to apply the Swiss Climate Scores in future have until January 1, 2025 to implement the revised Swiss Climate Scores. As foreseen at the time of its adoption, this methodology will continue to evolve, and will be revised at regular intervals.

The Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF) are also working on updating the tool (Swiss Climate Scores AMAS SSF Template) they developed in 2022 to help implement this rating system.

In addition, the Swiss Federal Department of Finance (FDF) has been commissioned to conduct an in-depth study in 2024 to determine the extent to which Swiss Climate Scores are actually being adopted by the financial industry. According to the latest available data, resulting in particular from a survey conducted by AMAS among its members, around 160 investment funds use Swiss Climate Scores. Others have announced their intention to apply them in the near future.

It is too early to anticipate whether, and to what extent, the recent revision of the Swiss Climate Scores will accelerate their adoption. The study to be conducted by the FDF will be essential in this respect. For such an approach to be beneficial, and indeed to provide a better understanding of the reasons for the relative success of the Swiss Climate Scores to date, it would be advisable to carry out an in-depth, large-scale consultation, along the lines of the consultation recently conducted by the European Commission with interested parties as part of the evaluation of the SFDR regulation.

As things stand, in the absence of concrete data, we can only speculate as to the reasons why financial establishments are not applying Swiss Climate Scores more widely (costs, lack of sufficient skills or resources, difficulty of accessing reliable data, lack of interest…).

While we wait to see how the implementation of the Swiss Climate Scores evolves, it should be noted that two of the organizations involved in the development of this methodology in 2022, namely WWF and Greenpeace, have already expressed their scepticism about the effectiveness of the recent revision, which they consider too timid.

One of the main criticisms is that the Swiss Climate Scores remain non-binding. The forthcoming (mandatory) (self-)regulation on the prevention of greenwashing, the draft of which is due to be put out to consultation by the end of August 2024, could lead to greater adherence to the Swiss Climate Scores. In its position on combating greenwashing in the financial sector, in order to meet (future) reporting obligations, the Federal Council in fact recommends using the Swiss Climate Scores to report on the chosen sustainability objective(s).

The optional application of the newly introduced indicator (general climate investment objectives) is also seen as a weakness of the revision. It is indeed regrettable that this new indicator remains optional, whereas it should clarify the scope of the Swiss Climate Scores by offering a more global – and no doubt more accessible for investors – view of the portfolio’s degree of compatibility with the net-zero objective.

Despite this update, the Swiss Climate Scores remain a complex rating system whose major challenge (like many transparency tools and mechanisms in the sustainability field) continues to be access to sufficient, high-quality data.
