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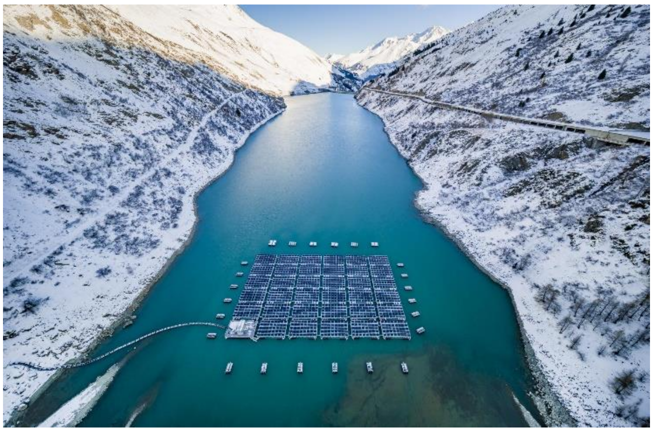
The Federal Council

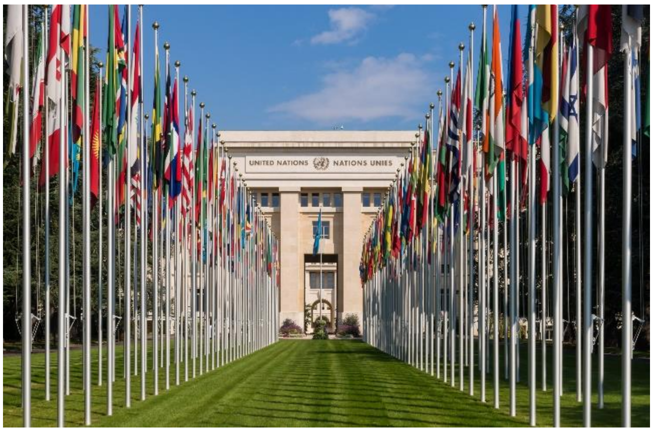
Berne, 16th December 2022

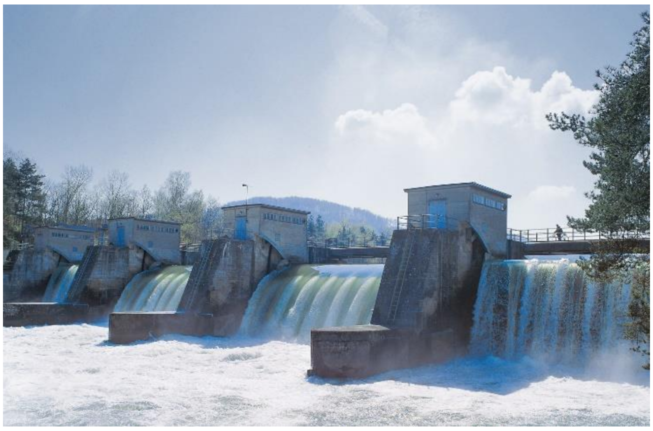
Sustainable finance in Switzerland

Areas for action for a leading sustainable financial centre, 2022–2025

Federal Council report







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Floating solar system on the Lac des Toules,
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European headquarters of the UN in Geneva

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Introduction

Objective and context of the report

The report "Sustainability in Switzerland's financial sector"[1] of June 2020 demonstrated Switzerland's high ambitions with regard to sustainable finance and provided a fundamental situation analysis. Moreover, the report "Leading worldwide, rooted in Switzerland"[2] of December 2020 placed the focus on sustainability as one of the three pillars of the Swiss financial market strategy, along with innovation and interconnectedness. Furthermore, the report "How can Switzerland make financial flows climate-compatible?"[3] of November 2021 examined possible climate-related measures from an impact perspective.

For 2022, the Federal Council set itself the goal of reinforcing Switzerland's position as a leading location for sustainable finance.[4] With this report, it is laying the groundwork for further action and establishing the strategic foundation for the Confederation's work in the area of sustainable finance for 2022 to 2025.

The fifteen (existing and new) Federal Council measures listed in this report are divided into four areas for action (sustainability data from the overall economy, transparency in the financial sector, impact investments and green bonds, and pricing pollution).

Focus and overview

In the area of finance too, the Federal Council adopts a holistic view of sustainability in line with the seventeen Sustainable Development Goals (SDGs) agreed by the UN member states as part of the 2030 Agenda for Sustainable Development in 2015. The federal government's current sustainable finance efforts are focused on climate and biodiversity aspects in particular, as these are the areas where requirements on aligning the financial flows either already exist or are being drawn up, and where the foundations such as data, measurability and pricing approaches are most advanced at the international level. Still, climate and biodiversity challenges can be successfully addressed only when taking account of the interplay with social cohesion and economic performance.

Global transition to net zero

The Paris Agreement of 2015 that Switzerland ratified in 2017, aims to keep the rise in global average temperature to well below 2 °C. Moreover, efforts should be made to limit the temperature increase to less than 1.5 °C. These goals can be achieved only if no more greenhouse gases are emitted globally by 2050 than can be absorbed by natural and technical sinks. To this effect, in 2019, the Federal Council set a net zero target for Switzerland for 2050.[5]

The loss of global biodiversity is closely linked to climate change. The extinction of species and changes in ecosystems are being accelerated by climate change, and in turn exacerbate it. Given this negative spiral, transitioning to a global net zero economy goes hand in hand with transitioning to an economy that is compatible with international biodiversity goals. Even seen in isolation, the loss of global biodiversity is significant for the world economy: more than half of global economic output is strongly or moderately dependent on nature.[6] Addressing these two goals can sometimes result in conflicts of interest in individual areas.

Role of the financial centre

The main lever for transitioning to a sustainable economy is the real economy, whose production and consumption of goods and services has a direct influence on various areas of sustainability. Financial services have a clear supporting role to play here. The Paris Agreement obliges countries to make their financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. In the area of biodiversity, similar goals for financial flows are also envisaged at the international level.[7]

[1] Federal Council report Sustainability in Switzerland's financial sector – Situation analysis and positioning with a focus on environmental aspects, June 2020

[2] Federal Council report Leading worldwide, rooted in Switzerland: Policy for a future-proof Swiss financial centre, December 2020

[3] Federal Council report How can Switzerland make financial flows climate-compatible?, November 2021

[4] See the goal "position as a global leader for sustainable finance" in Federal Council goals for 2022

[5] Federal Council press release Federal Council aims for a climate-neutral Switzerland by 2050, August 2019

[6] Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy, WEF, 2020

[7] In October 2021, the Kunming Declaration by the UN Biodiversity Conference demanded that financial flows

The Federal Council sees sustainable finance as a great opportunity for the Swiss financial centre and as a relevant competitive factor in the move towards sustainable growth and the transition of the global economy. Switzerland is the leading centre for cross-border wealth management.[8] It also has a strong insurance industry that insures international risks and, together with pension funds and other large investors, can actively exercise its interest as a shareholder.

be aligned in support of the conservation and sustainable use of biodiversity.

[8] Banking Barometer 2022 – Economic trends in the Swiss banking industry, Swiss Bankers Association, August 2022

Strategic basis

Goals

Climate change and the loss of global biodiversity both result in high risks, but also lead to opportunities for the global economy. The global economy adjusts at the level of prices, products and output. By supporting these global adjustments, and thereby meeting the growing demand from the real economy, investors and insured persons, the Swiss financial centre can increase its competitiveness and global reach. This, in turn, gives rise to new jobs, value creation and innovation. At the same time, energy security can be strengthened by investing in innovative and sustainable energy solutions. In doing so, Switzerland is in direct competition with other financial centres.

The Swiss financial centre can play a significant and crucial role in the transition of the economy as a whole. It can exploit opportunities and address risks. The more effective, measurable and credible the contribution by the Swiss financial centre to sustainability, the more attractive it will be to clients with sustainability needs, whether they be individuals, SMEs or large corporates. The long-term development trajectory is to align economic growth with sustainability goals.[9]

Principles

The principles behind the Federal Council's policy were already defined in the report "Sustainability in Switzerland's financial sector" of 26 June 2020. They include, in particular, the creation of an effective basis for decision-making by investors based on transparency and correct information, the primacy of market-based solutions and the subsidiarity of state action.

Effective and efficient

As a result of global interlinkages, multilateral principles-based standards are preferable to national or regional standards. In addition, the general framework conditions, such as market access, should be continuously improved.

Addressing market failures

A need for regulation is justified in the case of market failure. As regards the goal of competitiveness, a further reason for state regulation, in addition to market failure, is to improve market access. An increase in legal certainty can also be achieved through state regulation or state-directed self-regulation.

Credibility and trust

To be internationally competitive, it is crucial for the Swiss financial centre to stand out as highly credible, also in the area of sustainable finance. This also includes the prevention of greenwashing. This applies to communication and transparency at the institutional level, for example financial institutions' net zero commitments, as well as with respect to advisory services and at the product level. In particular, it should be ensured that statements on the alignment and contribution of investment products to climate and other sustainability goals are correct and comprehensible, and supported by the current state of scientific knowledge. It is also important that investment products avoid giving the false impression that they are aligned with or make a contribution to sustainability goals if only financial sustainability risks are reduced.

Shaping international developments and striving for a leadership role

International standards are of crucial significance for the Swiss financial centre. Authorities, associations and financial institutions should therefore step up efforts to promote common positions in relevant international bodies, in order to actively contribute to shaping international standards. Aside from Switzerland, various other international financial centres have set themselves the goal of becoming a leading location for sustainable finance. In order to prevail against the competition, Switzerland needs to be proactive and take on a leading role in individual areas. It should do so in areas where it has a unique selling point and where the potential effect on competitiveness and the contribution to sustainability are greatest.

[9] This insight is in line with the protogermanic root shared by the verbs to grow and to green (as "grow" probably referred to the growth of plants).

Box 1

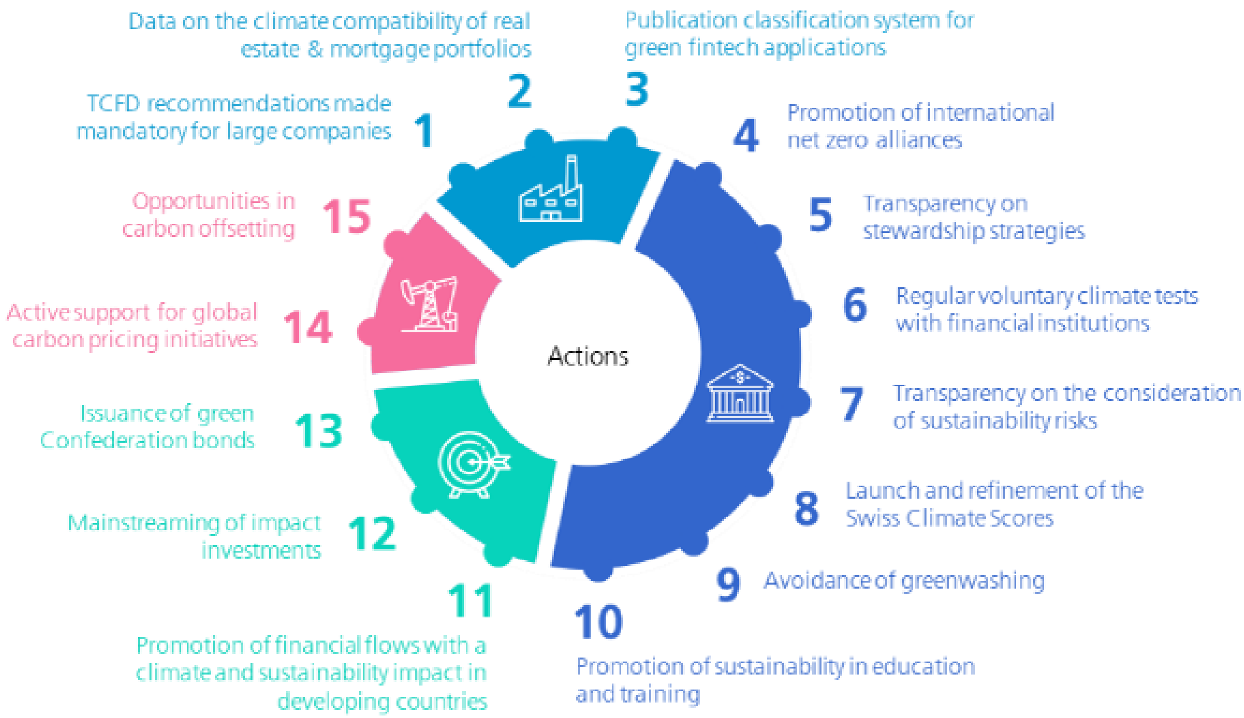
Switzerland as a base for sustainable finance organisations

Switzerland, especially international Geneva, hosts a multitude of key players and organisations in the areas of climate, finance and sustainability. Examples include the Intergovernmental Panel on Climate Change (IPCC), the United Nations Environment Programme Finance Initiative (UNEP FI), the World Wide Fund for Nature (WWF), the International Union for Conservation of Nature (IUCN), the World Business Council for Sustainable Development (WBCSD), the International Labour Organization (ILO), the World Meteorological Organization, an office of the World Bank, the Bank for International Settlements (BIS) and the Financial Stability Board (FSB).

Switzerland positioned itself early on as an international centre of competence for environmental protection, and accordingly created attractive conditions for international organisations to establish themselves here. With the Geneva Environment Network (GEN) that comprises over 100 organisations in the field of the environment and sustainability, and the International Environment House that has hosted various environmental and development organisations since 1999, Geneva has established itself as a climate governance location. For example, a number of new organisations and initiatives in the area of sustainable finance have chosen Geneva as the location for their headquarters, such as the Green Digital Finance Alliance (GDFA) founded in 2017, the UNDP International Network of Financial Centres for Sustainability (FC4S) set up in 2018, and the NatureFinance initiative established in 2019.

In order to better connect the financial world with the sustainability sector and the Geneva-based international organisations, the region of Geneva and representatives of the Swiss financial centre, supported by the Confederation, set up the Building Bridges Summit.[10] Since 2019, regular events on the topic of sustainable finance have taken place and have allowed policy makers, start-up founders, financial industry representatives and non-governmental organisations (NGOs) to present their sustainability initiatives and enter into collaborations.

[10] Building Bridges Summit



Graph 1: Actions for a leading sustainable financial centre, 2022–2025

Area for action 1: Sustainability data from all sectors of the economy

In order for the financial centre to optimally support the achievement of sustainability goals and take sustainability risks appropriately into account, it is reliant on sustainability data from all sectors of the economy. The more comparable, accurate and meaningful this data is, the better it can be integrated into advice, financial institutions' balance sheets and the financial system as a whole, and the lower the transaction costs will be for international and national investors. Ideally, this will also help broaden the investor base and lower capital costs for the companies that provide high-quality sustainability data, thus optimally satisfying investor demand. Data providers such as stock exchanges that collect and refine the data and provide it in a structured format to financial market participants, play an important role here. The proliferation of machine-readable disclosures supports these developments.[11]

At the beginning of 2022, the Federal Council put into force new provisions in the Code of Obligations on disclosures relating to environment and workplace issues, human rights and the fight against corruption.[12] In future, large companies from all sectors of the economy must disclose material risks, measures and their effectiveness, or must provide the reasons for not doing so.

Ordinance on Climate Disclosures

On 23 November 2022, in implementation of the counter-proposal to the responsible business initiative, the Federal Council adopted an ordinance on transparency regarding climate issues in line with the TCFD recommendations. These recommendations are internationally recognised by companies in the real economy and the financial sector, and by regulators. Disclosures should, firstly, cover the financial risk for a company as a result of climate change. Secondly, disclosures should show how the

[11] For example, the XBRL format has gained international acceptance.

[12] Federal Council press release Provisions for better protection of people and the environment in force from 1 January, December 2021

company's business activities contribute to greenhouse gas emissions (so-called double materiality). The latter involves, in particular, the publication of carbon emissions targets and transition plans that are comparable with the Swiss climate goals. Setting minimum requirements should ensure that disclosures are meaningful, comparable and, where possible, forward-looking and scenario-based. The disclosure obligations in accordance with the indirect counter-proposal to the responsible business initiative are based on the EU Directive on the disclosure of non-financial information, which is currently being refined.

By making the TCFD recommendations mandatory for large companies from all sectors of the economy, Switzerland becomes one of the leading nations in terms of climate transparency. Besides Switzerland, the United Kingdom, the United States and the EU in particular are planning to make the TCFD recommendations mandatory for large companies from all sectors of the economy. Some of them have already implemented such requirements.

As a complement to the national implementation of the TCFD recommendations, international standards on sustainability disclosures based on the recommendations are being drawn up. This task has been taken on by the newly formed International Sustainability Standards Board (ISSB) under the auspices of the International Financial Reporting Standards (IFRS) Foundation.[13] In order to ensure coherence with national disclosure obligations, the federal government is following the ISSB's work closely.

Climate disclosures in line with the TCFD recommendations have also been implemented by an increasing number of central banks. The Bank of England was the first to start issuing an annual report based on the TCFD recommendations on its approach to climate-related risk management for all its operations in 2020.[14] The European Central Bank and the nineteen national central banks of the Eurosystem plan to start disclosing climate risks in line with the TCFD recommendations by the end of 2023.[15]

Measure 1 (in progress)

TCFD recommendations made mandatory for large companies

On 23 November 2022, the Federal Council decided to put the Ordinance on Climate Disclosures into force for large companies from all sectors of the economy with effect from the beginning of 2024. The Ordinance is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Federal Council continues to monitor international developments closely, so that coherence can also be ensured as necessary over the medium term.

Disclosures on the loss of biodiversity

The private sector-led international Taskforce on Nature-related Financial Disclosures (TNFD)[16] is currently working together with NGOs to develop a framework for disclosures on biodiversity risks and impacts that closely mirrors the TCFD recommendations.

The Federal Council has been following these efforts closely and welcomes the creation of internationally comparable, meaningful transparency on biodiversity risks and impacts in the financial market. Switzerland is advocating for the TNFD's work – like the TCFD recommendations – to form the basis for future ISSB disclosure standards with regard to biodiversity. It has supported the TNFD since its creation and is represented on its Stewardship Council along with Australia, France, the Netherlands and the United Kingdom.[17]

Swiss companies from the real economy and financial sector are actively involved in the Taskforce. In addition, the Swiss economy, led by Swiss Sustainable Finance (SSF) and the Global Compact Network for Switzerland and Liechtenstein, was the first in the world to set up a national consultation group tasked with implementing the TNFD recommendations in the Swiss economy.

Switzerland is also doing pioneering work in other areas relating to the assessment of

[13] In March 2022, the ISSB issued a first draft of its climate reporting standard for consultation. See Exposure Draft – IFRS S2 Climate-related Disclosures, IFRS, March 2022

[14] The Bank of England's climate-related financial disclosure 2021, Bank of England, June 2021

[15] European Central Bank press release Eurosystem agrees on common stance for climate change-related sustainable investments in non-monetary policy portfolios, February 2021

[16] See Taskforce on Nature-related Financial Disclosures

[17] In June 2022 the TNFD published the second iteration of its recommendations

biodiversity risks and impacts. Together with Swiss big banks and insurers, UNEP and international NGOs, the State Secretariat for Economic Affairs (SECO) and the Federal Office for the Environment (FOEN) are developing the freely accessible ENCORE tool ("Exploring Natural Capital Opportunities, Risks and Exposure") for financial institutions. The tool helps financial institutions to better understand the economic impact of environmental changes. It also provides an insight into how companies in all sectors are dependent on nature and how their actions affect it. This allows financial institutions to quantify nature-related dependencies and effects as business risks and to steer the allocation of funds accordingly. Moreover, the ENCORE tool helps to show financial institutions how their investment decisions can have a positive impact on the environment and society. The targets defined by the UN Biodiversity Convention and aimed at maintaining biodiversity serve as a guide in this respect.

International Geneva has a growing role as a pioneer in terms of the increasingly important link between biodiversity and the financial sector. Switzerland can and should exploit this strength further in close collaboration with the financial sector and international organisations.

Data on the climate compatibility of Switzerland's building stock

With the National Register of Buildings and Dwellings (RBD), Switzerland already has a nationally standardised database on the carbon emissions, climate compatibility and energy efficiency of buildings. This database should be expanded and updated on an ongoing basis. In this way, it could become an important basis for assessing climate-related transition risks in real estate and mortgage portfolios. It is thus especially important and urgent for the Swiss building stock to be classified according to the nationally standardised building energy certificate of the cantons (GEAK)[18], and for this classification to be published.

The federal government supports the digital availability of data on Swiss real estate. From end-2022, it should be possible for carbon emissions according to the GEAK classification and other climate-related data for all Swiss buildings to be viewed on a map and downloaded via map.geo.admin.ch.

Financial institutions can make an effective contribution to combating climate change by creating incentives and raising awareness among their clients. For example, in the mortgage business, targeted client advice and effective incentives can increase the speed of refurbishments and in turn raise energy efficiency, thereby accelerating the changeover to sustainable energy sources. In June 2022, the Swiss Bankers Association (SBA) introduced mandatory self-regulation for its members. This obliges mortgage providers to discuss the importance of energy-efficient renovation in their advice to clients on real estate financing.[19]

Measure 2 (in progress)

Data to assess the climate compatibility of Swiss real estate and mortgage portfolios

The Federal Department of the Environment, Transport, Energy and Communications (DETEC), in close collaboration with the Federal Department of Home Affairs (FDHA), is improving the range of high-quality, meaningful and standardised data that is available on the climate compatibility of the Swiss building stock.

The role of green fintech solutions

The term "green fintechs" refers to technology-based innovations that are used for all kinds of financial processes and products and which at the same time support sustainability goals or reduce sustainability risks. They play a key role in the collection and processing of sustainability data by providing them faster, more cost-efficiently and in a more easily comparable form. The Swiss financial centre recognised the potential of digital technologies in sustainable finance early on, and is positioning itself as a global leader in this field. Accordingly, it is important to ensure that the right framework conditions are in place for Switzerland to remain a leading location for green fintechs.

In this context, the State Secretariat for International Finance (SIF) set up a network comprising key players in the green fintech industry, especially green fintech companies,

[18] Building energy certificate of the cantons (GEAK)

[19] SBA introduces self-regulation in the area of Sustainable Finance, Swiss Bankers Association press release, June 2022

incubators, venture capital firms and universities. In 2021, as part of an action plan, the Green Fintech Network drew up possible ideas for companies wishing to increase their activities in the area of green fintech, but also for further work by the federal government.[20] In addition, in 2022, in a joint effort with GDFA and with the support of SIF, the Network published a report on the classification of green fintechs.[21]

An institutionalisation of the Green Fintech Network, led by the key players in the green fintech industry and involving the financial sector, could further strengthen the Network's activities and take account of the Confederation's subsidiary role. The federal government is actively raising the topic in international bodies on sustainable finance.

Measure 3 (in progress)

Publication of a classification system for green fintech applications

In 2022, in a joint effort with the Geneva-based Green Digital Finance Alliance (GDFA) and with the support of SIF, the Green Fintech Network published a classification system for green fintech applications and their need for sustainability data.

Other initiatives

As part of the Value Balancing Alliance, various Swiss companies are advocating the standardisation in calculation methods, integration in accounting and transparency on business decisions. The goal is to increase the comparability of non-financial disclosures in all areas of sustainability.[22]

Establishing transparency on the sustainability of supply chains is also complex, especially for large companies. Statistical approaches that reveal the exposure to global interlinkages and thus to sustainability risks could be helpful. Ideally, their implementation should be coordinated across Switzerland, to create comparability and reduce the administrative burden for companies.

Area for action 2: Transparency in the financial sector

Transparency at financial institution level

Net zero commitments and international net zero alliances

By making comparable disclosures about the extent to which they support the transition to net zero, Swiss financial institutions can better meet the growing investor demand for information in that area. Moreover, such an approach increases the Swiss financial centre's credibility as a global sustainable finance location.

As part of net zero alliances under the auspices of the Glasgow Financial Alliance for Net Zero (GFANZ), a growing number of Swiss financial institutions have voluntarily committed to net zero targets. The relevant Swiss industry associations have an important role to play in active promotion among their members. The Federal Council expressly welcomes the fact that the Swiss Insurance Association (SIA), Asset Management Switzerland (AMAS), the SBA and SSF are supporters of the relevant net zero alliances.

Box 2

Glasgow Financial Alliance for Net Zero (GFANZ)[23]

As part of GFANZ net zero alliances, financial institutions are voluntarily committing to the net zero target. Such alliances came about prior to COP26 in Glasgow and cover all main areas of the financial sector. The most important ones are:

- Net Zero Asset Owner Alliance (NZAOA) thatis particularly relevant for insurers and pension funds;
- Net Zero Asset Managers initiative (NZAM);
- Net Zero Banking Alliance (NZBA);
- Net Zero Insurance Alliance (NZIA).

[20] Green Fintech Network presents action plan, SIF press release, April 2021

[21] The world's first green fintech classification, GDFA press release, May 2022

[22] The methodology of the Value Balancing Alliance employs a monetary metric to "tangibly discern the impact of business models, place it in the local context of the activity, understand the significance and weighting of individual sustainability aspects and, ultimately, better integrate them into corporate management".

[23] For more information, see GFANZ.

To be admitted by one of these alliances, a group of experts assesses the institutions' commitments. The alliances' requirements differ but they all have at least the following characteristics:

- the 2050 net zero target is set using science-based methods;
- the 2030 intermediate targets cover around 50% of the required carbon reduction;
- definition and publication of a net zero transition strategy;
- regular reporting on progress achieved;
- no excessive use of carbon offset programmes.

The alliances provide the participating financial institutions with a platform to exchange knowledge, especially as regards industry best practices, and they can support institutions in setting and achieving concrete goals. They also promote the use of forward-looking indicators to measure alignment with the net zero target, thereby supporting Switzerland's efforts to create transparency in this regard.

In order to ensure the credibility of financial institutions that have voluntarily joined an alliance, the intermediate targets can and should be validated by independent sources. Such verification is offered for instance by the Science-Based Targets Initiative (SBTi; see box 3).

The Federal Council views it as essential to establish transparency about the voluntary commitments by Swiss financial institutions. This entails two things: firstly, information on the proportion of financial centre players that have joined international net zero alliances and, in the context of these alliances, the proportion of assets or business activities that are actually subject to a net zero target by 2050. Secondly, comparable information is needed on voluntary commitments, i.e. targets, intermediate targets and measures adopted by the individual institutions, and on the progress in meeting these voluntary commitments.

On 17 November 2021, the Federal Council recommended that Swiss financial institutions join international net zero alliances, and instructed the Federal Department of Finance (FDF) to work closely with the DETEC to conclude industry agreements to that effect.[24] The objective of the envisaged voluntary industry agreements would have been to promote membership in international net zero alliances and establish comparable transparency on voluntary commitments. However, the industry associations involved rejected such industry agreements. They considered that the key concerns described above could be better achieved by pursuing current and planned activities outside the scope of industry agreements. They published a study in this regard on 24 August 2022.[25]

The Federal Council explicitly welcomes the industry's efforts. They lay the foundation for transparent information on the state of progress on net zero targets in the Swiss financial industry. However, in their current form they do not sufficiently implement all the above key aspects that the envisaged voluntary industry agreements intended to address. The Federal Council continues to strive for industry agreements that, in particular, expand the transparency already established by the industry associations with regard to the above key concerns. To this end, the federal government is monitoring relevant international developments upon which these industry agreements could be based, especially GFANZ and the Climate Data Steering Committee (CDSC).

In addition, on 3 June 2022, the Federal Council welcomed the indirect counter-proposal to the Glacier Initiative. Among other things, it envisages that the Federal Council can conclude agreements with the financial industry on the climate compatibility of financial flows.[26]

The federal government also wants to lead by example in this area. For instance, in the context of the Exemplary Energy and Climate initiative, public pension funds and other institutional investors affiliated with the Confederation that wish to take the lead on climate matters are committing to ambitious climate goals. They are setting themselves measurable and comparable intermediate targets, actively communicating and setting an example by implementing measures that can be also adopted by other companies.

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[24] Federal Council press release Federal Council strives to be international leader in sustainable finance with climate transparency, November 2021

[25] Setting sail for a carbon-neutral future: Net Zero Insights 2022, August 2022

[26] Federal Council press release Climate protection: Federal Council welcomes indirect counter-proposal to Glacier Initiative, June 2022

At the international level, the CDSC, an informal group of finance ministries, international organisations and data providers in which Switzerland is represented by SIF, announced on 21 September 2022 that it was working on setting up a public database. The Net Zero Data Public Utility (NZDPU) is intended to create transparency on the greenhouse gas emissions of companies from the real economy and financial sector.[27]

Box 3
Science-Based Targets Initiative (SBTi)

The SBTi is a joint initiative of the Carbon Disclosure Project (CDP), the UN Global Compact, the World Resources Institute (WRI) and the WWF. Its aim is to support companies in defining science-based emissions reduction targets. It also offers to check and validate companies' emissions reduction targets. The SBTi has become the best-known organisation for the definition of science-based transition plans, and its methods and recommendations are now seen as the de facto standard for good target formulation. The SBTi is drawing up detailed sector-specific guidelines, including for the financial sector.

In February 2022, Economiesuisse and WWF Switzerland launched a project to promote the SBTi.[28]

Measure 4 (in progress)
Promotion of international net zero alliances

On 17 November 2021, the Federal Council decided to recommend that financial institutions join international net zero alliances and work towards concluding industry agreements to that effect. It had already decided on 26 June 2019 to use industry agreements to encourage financial institutions to participate in representative numbers in comparable federal climate tests (see 4.1.2).

The FDF will inform the Federal Council of the progress of its work on industry agreements by end-2023.

The FDF supports the activities of the Glasgow Financial Alliance for Net Zero (GFANZ) and is working to increase its credibility, especially by participating in the Climate Data Steering Committee, in order to promote transparency on financial institutions' voluntary commitments.

Transparency on dialogue with invested companies (investor stewardship)

By actively exercising investor voting rights and engaging in dialogue with companies in the investment portfolio, institutional investors such as insurers, pension funds and asset managers can make an important contribution to sustainability goals. For example, they can advocate for companies to have science-based and externally verified plans for transitioning to net zero by 2050. Or they can use a clearly defined escalation process to bring about changes in the management structures of companies, or exclude companies that are unwilling to make adjustments. This provides considerable leverage for insurers and pension funds in particular: they have highly diversified investment portfolios and a long investment horizon, which allows them to support the transition to a climate neutral economy aligned with international biodiversity goals, and thereby also reduce financial risks.

Engaging with companies in the portfolio is most likely to succeed if coordinated with other investors and done according to international best practice. The Principles for Responsible Investment (PRI) network's coordination platform, Climate Action 100+ (CA100+) and the Institutional Investors Group on Climate Change (IIGCC) are good international examples of coordinated engagement initiatives. Besides national organisations and providers, they are also supported by numerous Swiss pension funds, insurers and asset managers.[29]

Financial institutions that voluntarily sign up to sustainability goals such as net zero by 2050 need to be transparent towards insured persons and clients. To avoid greenwashing, financial institutions should show the extent to which their engagement strategy credibly pursues the defined sustainability goals. This is especially important for investments in companies whose business activities are not yet aligned with such goals.

[27] See Net zero Data Public Utility (nzdpu.com)
[28] See Engagement SBTi (sustainableswitzerland.ch)
[29] See https://www.unpri.org/, https://www.climateaction100.org/ and https://www.iigcc.org/ (particularly the Net Zero Stewardship Toolkit)

Measure 5
Transparency on stewardship strategies

On 16 December 2022, the Federal Council decided to recommend that financial institutions and pension funds ensure that their websites provide transparency on the extent to which their engagement strategy and the exercise of their shareholder voting rights are compatible with the sustainability goals voluntarily supported by them, specifically the goal of net zero by 2050.

Climate tests for the financial market

Following the climate tests in 2017 and 2020, the FOEN and SIF carried out a third test in 2022. All Swiss banks, asset managers, pension funds and insurers could participate voluntarily, anonymously and free of charge. The participants had their portfolios tested using the PACTA (Paris Agreement Capital Transition Assessment) open source method.

Although participation was down compared to 2020, especially with respect to pension funds, the third test round in 2022 also provided a representative picture. The test shows how firmly the awareness of climate issues is rooted in the Swiss financial sector. However, there is room for improvement, to make sure that overarching strategies are more effectively translated into concrete emissions reductions in the real economy.[30]

Regular climate tests by financial institutions allow the Swiss authorities to conduct overarching monitoring in order to assess the alignment of the Swiss financial sector with the net zero target and give progress reports to political circles and the general public. Moreover, the tests support other Federal Council measures. The participants are provided with free comparable evaluations such as assessments of the climate compatibility of real estate and mortgage portfolios, transparency on stewardship strategies and most Swiss Climate Scores indicators. In this way, financial institutions can cut the cost of implementing the corresponding Federal Council recommendations.

The climate tests are internationally coordinated and promoted by the Swiss-Dutch Initiative that-was launched in 2019 on the fringes of the UN Climate Conference.[31] Switzerland was the first country in the world to carry out such coordinated climate tests. Others such as Austria, France, Japan, Mexico, the Netherlands, Norway, Sweden and the US states of California and New York now conduct similar climate tests.

Measure 6 (in progress)
Regular voluntary climate tests with financial institutions

The FOEN and the FDF regularly conduct voluntary, comparable climate tests with financial institutions, with the aim of analysing the alignment of the Swiss financial sector with the global temperature goal of the Paris Agreement and recording progress (next exercise: 2024). The FOEN is striving to improve these climate tests on an ongoing basis and make it easier for financial institutions to implement further Federal Council recommendations.

Transparency on resilience to financial climate and biodiversity risks

Climate change represents both a direct and an indirect risk to the stability of financial institutions and the Swiss financial system. Firstly, sudden shifts in expectations about future policy measures and sudden changes in policy measures themselves (transition risks), or extensive losses through physical risks, can trigger sudden changes in asset values. This can lead to losses at financial institutions, for example through writedowns on loans to particularly exposed companies or trading losses due to equity and bond market corrections. Secondly, climate change can affect financial stability indirectly by influencing macroeconomic variables such as income, interest rates, output or employment: climate-related recessions, triggered for example by natural hazards in countries that are major importers, can reduce incomes for households and companies in Switzerland, thereby increasing affordability risks. However, continuous and predictable adjustments to macroeconomic variables (structural shifts) do not per se represent a threat to financial stability.

Evidence is mounting that the loss of biodiversity is also a relevant risk for financial stability. According to the Network for Greening the Financial System (NGFS), nature-related risks,

[30] See https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/climate-and-financial-markets.html

[31] FOEN press release Switzerland and the Netherlands present initiative for climate-friendly investments, September 2019

including those linked to the loss of biodiversity, can have a significant macroeconomic impact, and the failure to take them into account, mitigate them and adjust to them is a source of risk for individual financial institutions and for financial stability. Owing to their macroeconomic, macroprudential and microprudential materiality, they are relevant for central banks and supervisory authorities.[32] Yet the interdependencies of biodiversity and finance are complex and require further basic research in order to measure financial biodiversity risks in particular.

FINMA and SNB activities on financial climate and biodiversity risks
As a general rule and in accordance with their mandate, FINMA and the SNB examine all potential risks for financial institutions and the financial system. As regards environmental risks, it is currently climate-related financial risks that are centre-stage.

FINMA is integrating climate-related financial risks into its supervisory activities in a strategic, proportional and risk-based manner. To this end, it is currently drawing up concepts on the supervision of climate risk management at banks and insurers. These concepts have been gradually and proportionately implemented since 2022. In addition, FINMA holds an ongoing dialogue with the largest supervised entities on the ways in which they manage their climate-related risks and how they identify and quantify the key climate-related financial risks in the Swiss financial sector. Based on its supervisory experience and its principles-based approach, FINMA will expand its expectations as regards the management of climate-related financial risks at supervised entities where necessary.

To quantify climate risks, FINMA and the SNB carried out a joint pilot project to measure climate-related transition risks at the big banks. The analyses conducted as part of the pilot project provided an initial assessment of transition risks. However, further work by FINMA and the SNB is needed and planned in order to arrive at a more robust evaluation of the materiality of transition risks. Moreover, the scope of the analysis needs to be broadened to take account of previously omitted areas (e.g. the mortgage business) and physical risks. Accordingly, FINMA and the SNB will develop and improve their current methods for assessing climate risks in close cooperation with the banks.[33] In addition, FINMA is also looking at the quantification of climate risks on the part of insurers.

In 2021, FINMA fleshed out its own climate risk disclosure requirements for big banks and insurers based on the TCFD recommendations.[34] In line with its strategic goals, by 2024 it will also focus more on potential, newly occurring or increasing sustainability risks, for example risks linked to the loss of biodiversity.

Preferential regulatory treatment – e.g. in the form of reduced capital adequacy requirements – for "green" finance and/or insurance activities is not appropriate. Regulatory reductions that weaken the resilience of the Swiss financial system would be counterproductive in an environment of rising systemic risk due to climate change, and should therefore be avoided. The associated risks are crucial to the risk-weighted capital and solvency requirements for financial institutions' financial investments and loans. Only if it can be assumed that climate risks are currently insufficiently captured by the existing risk categories of the regulatory capital and solvency requirements can their explicit adjustment for climate risks result in value added in terms of the stability of institutions, and hence for their creditors. Designing capital requirements purely on the basis of promotion or prevention considerations (i.e. without reference to risk) goes against the fundamental risk-based concept of capital and solvency requirements.

The risks of climate change for financial institutions and the financial system are a priority topic at the major international standard-setting bodies for financial markets. FINMA and the SNB welcome the formulation of internationally harmonised solutions and are actively participating in this work. As members of the NGFS, FINMA and the SNB are also taking part in the exchange between supervisory authorities and central banks on potential financial risks in connection with climate change and the loss of biodiversity.

[32] Statement on Nature-Related Financial Risks, NGFS, March 2022

[33] For further information, see FINMA Annual report 2021 and SNB Financial Stability Report 2022

[34] See Disclosure of climate-related financial risks: partial revision of FINMA Circulars 2016/1 "Disclosure – banks" and 2016/2 "Disclosure – insurers", FINMA, May 2021

Taking financial sustainability risks into account in asset management

In accordance with the existing legal duties of loyalty and due diligence, all material financial risks, and hence material financial climate and biodiversity risks too, are to be taken into account in the management of third-party assets.[35] This also applies to institutional investors' fiduciary duties to their insured persons and clients.

Consequently, one might expect the proportion of actively managed funds and mandates that factor in sustainability risks to rise sharply over time. In fact, the past few years have seen strong growth in the number of funds and mandates that take account of sustainability criteria (which includes sustainability risks). Over the past five years, average annual growth was 65%.[36]

Measure 7 (in progress)

Transparency on the consideration of sustainability risks

On 11 November 2020, the Federal Council decided to recommend that financial institutions publish methods and strategies which show how they take account of climate and environmental risks when managing their clients' assets, in accordance with the existing legal duties of loyalty and due diligence.[37]

Transparency at investment product level

Importance of forward-looking transparency

Creating transparency by providing comparable and meaningful information is a key prerequisite for well-functioning markets and for sustainability in the financial sector. It contributes to efficient, stable and resilient markets, and helps all financial market players to make informed decisions. A successful transition to net zero greenhouse gas emissions and the achievement of the targets to promote biodiversity will be facilitated by innovative companies that effectively adapt their business models and investment plans in a timely manner. Therefore, financial market actors should be in a position to identify frontrunners and laggards in all sectors in order to make informed investment, financing and insurance decisions. Opportunities and any financial risks can be better identified in this way. Such decisions are forward-looking by nature. For example, financial market actors should not only assess the current status of companies' carbon emissions; they should also be able to critically assess investment and transition plans associated with corporate commitments to achieve net zero emissions. In order to do so, they depend on credible and transparently communicated corporate carbon emissions data and targets.

A state-imposed classification of economic activities, also called a taxonomy, distinguishes between "sustainable" and "non-sustainable". However, it omits the critical distinction between trailblazers and laggards on both sides of this boundary and runs the risk of politicising it and thus decoupling it from scientific findings. Moreover, taxonomies do not provide an answer to the key question of whether the economy is on track for the transition to net zero by 2050. That requires transparency that looks ahead to the global temperature target of the Paris Agreement, for example, and that takes account of credible net zero transition plans by companies in all sectors of the economy. Ultimately, market mechanisms are more efficient in dynamically identifying technologies and solutions that effectively contribute to sustainability goals.

In the G20 Sustainable Finance Working Group, which plays an overarching, coordinating role among the international fora dealing with sustainable finance, forward-looking, net zero-oriented methods[38] are on a par with taxonomies in the area of climate.[39] According to the G20, the freedom to choose a given approach should be consciously preserved internationally; comparability is desirable, but harmonisation is not sought. Switzerland advocates such forward-looking transparency both in the G20 and within the International Platform on Sustainable Finance

[35] See legal opinion "Taking account of climate risks and impacts on the financial market", Prof Mirjam Eggen and Dr Cornelia Stengel, on behalf of the FOEN, 2019

[36] Swiss Sustainable Investment Market Study 2022, SSF, June 2022

[37] Federal Council press release Federal Council fleshes out proposals for sustainable Swiss financial centre, December 2020

[38] For examples of these methods, see Measuring Portfolio Alignment – Technical Considerations, TCFD PAT, October 2021

[39] See Sustainable Finance Roadmap, G20, October 2021

(IPSF), where it co-chairs a working group on transition finance with the EU and Japan.

Climate transparency based on the Swiss Climate Scores

By providing investors in Switzerland with credible information on their investments' alignment with climate goals, they can make efficient investment decisions. In this way, they benefit from any opportunities that may arise from the transition to net zero and minimise transition risks. On 17 November 2021, the Federal Council recommended that financial market actors use comparable and meaningful climate alignment indicators to help create climate transparency for all financial products and investment portfolios.[40]

It is crucial in terms of credibility for such transparency to refer to the international climate goals of the Paris Agreement, especially the goal to limit average global warming to below 1.5°C, and to be science-based. This is the only way to ensure transparency that leads to appropriate market incentives.

In collaboration with financial market players, NGOs and academia, the Federal Council has developed a selection of indicators, called Swiss Climate Scores, to align investment portfolios with climate goals.[41] The Swiss Climate Scores contain indicators that not only reflect the current situation of global companies in investment products or portfolios (status quo), but also show where these companies are currently positioned in relation to international climate goals (1.5°C, net zero). If these are used broadly and comprehensively, they provide investors in Switzerland with comparable and meaningful information on their investment products' alignment with climate goals. On 29 June 2022, the Federal Council recommended that all Swiss financial institutions apply the Swiss Climate Scores to investment products and client portfolios where appropriate.[42]

The Swiss Climate Scores indicators are based on international work and principles. However, the combination of indicators to support the transition is unique. In this way, Switzerland can play a leading role without generating duplication for companies or financial market players by developing its own indicators. The Federal Council welcomes the fact that the industry associations AMAS and SSF are developing a template supporting the practical implementation of the Swiss Climate Scores. These are an important factor in ensuring that the Swiss Climate Scores are implemented uniformly while at the same time reducing the implementation effort. An initial version of this template was published on 5 October 2022.[43]

In the medium term, the Federal Council should also prepare similar recommendations with regard to transparency on the alignment of investment products and portfolios with international goals to promote biodiversity. However, it is necessary to await the international work on possible methods and disclosures before doing so.

Measure 8 (in progress)

Launch and refinement of the Swiss Climate Scores

On 29 June 2022, the Federal Council decided to recommend that all Swiss financial institutions create comparable and meaningful transparency with regard to climate compatibility for all financial investments and client portfolios and, where appropriate, apply the selection of indicators embedded in the Swiss Climate Scores.

The FDF is working in international bodies to ensure that the Swiss Climate Scores indicators continue to enjoy a high level of compatibility and provide an ideal basis for transparency concerning the alignment with climate goals.

The FDF, in close cooperation with the DETEC, will review the comparability and incentive effect of the Swiss Climate Scores by the end of 2023 at the latest, and refine them as necessary. An extension to other asset classes (e.g. real estate) is also being examined.

Avoidance of greenwashing

To be internationally competitive, it is crucial for the Swiss financial centre to stand out as highly credible in the area of sustainable finance. So-called greenwashing, which occurs when investors are misled or deceived about the sustainable characteristics of investment products

[40] Federal Council press release Federal Council strives to be international leader in sustainable finance with climate transparency, November 2021

[41] See Swiss Climate Scores, SIF

[42] Federal Council press release Federal Council launches Swiss Climate Scores for climate transparency in financial investments, June 2022

[43] Swiss Climate Scores – Swiss Sustainable Finance

and advisory processes, for example, has to be avoided.

To this end, a clear distinction should be made between sustainability risks and impacts in communication with investors. It is necessary to state in an understandable way the extent to which an investment product minimises sustainability risks, is aligned with sustainability goals and/or effectively makes a contribution to sustainability goals.

If an investment product incorporates sustainability indicators to minimise financial risks or improve financial performance (e.g. by excluding companies whose profitability is particularly exposed to climate change), investors should be informed that the aim is to improve the risk/return characteristics, not to promote sustainability goals. Simply listing the minimisation of sustainability risks under the "sustainable investments" label would be problematic, as this approach has no direct link to sustainability goals and thus investors are potentially misled or deceived. If an investment product is aligned with sustainability goals (e.g. invested companies follow a credible path to reduce greenhouse gas emissions), the approach used to ensure alignment with sustainability goals should be clearly presented by means of appropriate reporting. If an investment product is intended to contribute effectively to sustainability goals (e.g. invested companies produce climate solutions and grow more as a result of the investments, or the asset manager seeks to put companies on a credible path to reduce greenhouse gas emissions by exercising shareholder rights), these sustainability goals should also be clearly disclosed and progress made in achieving them should be reported. This applies to the entire financial market, so that the same transparency (level playing field) can be created for all financial services and products and the credibility of the Swiss financial centre as a whole can be ensured.

The boundaries between these three investment intentions (minimisation of sustainability risks, alignment with sustainability goals, effective contribution to sustainability goals) may overlap, and these overlaps further increase the need for clarity for investors.[44] Further complexity arises from the large number of sustainability goals and their diversity. If, for example, an investment geared towards climate goals is labelled as sustainable even though it is not compatible with other sustainability goals, investors are potentially misled or deceived. In view of this, financial institutions should clearly communicate which sustainability goals the respective investment product refers to in the case of "sustainable investments". In addition, they should either limit themselves to statements on specific sustainability goals or include other sustainability goals by means of a specific or general assessment.

As part of its supervisory function, FINMA seeks, among other things, to protect investors from improper business conduct and to ensure that they are not deceived regarding the alleged sustainability characteristics of products and financial services. In the supervisory communication it published in November 2021, FINMA broadly describes its expectations with regard to preventing greenwashing in the management of sustainability-related collective investment schemes at fund and institution level. In addition, it draws the attention of financial service providers offering financial products that make reference to sustainability to the potential greenwashing risks in the advisory process.[45]

Initiatives and measures to prevent greenwashing in the financial markets are increasingly being taken abroad. Since March 2021, financial market participants and financial advisers in the EU have to provide evidence on their website, in prospectuses and in pre-contractual information of whether and how they take sustainability risks into account when providing investment or insurance advice, for example. Since June 2022, it is mandatory to disclose whether and how adverse sustainability impacts are taken into account at company and product level.[46] According to the same regulation, special disclosures are required for financial products that promote environmental or social characteristics or pursue sustainable investment. Corresponding efforts are also emerging in the United States. After the Securities Exchange Commission (SEC) put measures to prevent greenwashing on its list of priorities,

[44] If asset managers minimise investment products' sustainability risks, they can also improve their alignment with sustainability goals in certain cases (e.g. if companies with high climate-related transition risks are excluded, as these risks exist only if companies have a negative impact on the climate).

[45] FINMA Guidance 05/2021 – Preventing and combating greenwashing, FINMA, November 2021

[46] Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, European Parliament and Council, November 2019

corresponding regulatory proposals were published in May 2022.[47]

In Switzerland, important steps have also been taken to enhance sustainability-related transparency for investors and thus to take action against greenwashing in the financial sector. In June 2022, the SBA published binding minimum requirements for its members regarding the integration of sustainability criteria into investment advice and portfolio management.[48] In December 2021, AMAS and SSF set out in recommendations how greenwashing can be avoided by adhering to minimum criteria and clear transparency on various sustainable investment approaches.[49] Moreover, in September 2022, AMAS published a principle-based self-regulation on transparency and disclosure for collective assets referring to sustainability, with a focus on sustainability approaches.[50]

Measure 9

Avoidance of greenwashing

The Federal Council published its position on preventing greenwashing on 16 December 2022. According to this, financial products or financial services that are advertised as sustainable should at least be aligned with a stated sustainability goal or make an effective contribution to sustainability goals. Simply incorporating sustainability criteria to minimise risk or optimise financial performance should not be described as "sustainable". At the same time, the Federal Council instructed the FDF, in cooperation with the DETEC, EAER and FINMA, to work with the industry and civil society to identify how to optimally implement the Federal Council's position in a conducive manner.

Sustainability expertise in the financial market

The availability of specialists and managers with the necessary sustainability training and expertise is a key prerequisite for creating transparency and successfully establishing a leading role for Switzerland in the area of sustainable finance.

The growing demand for sustainable financial products means that new innovative business areas are emerging, and these in turn require corresponding qualifications at all specialist and management levels of financial institutions.

The broad and multidimensional nature of sustainability requires a variety of specialists. There is growing demand for profiles such as climate risk managers at banks, environmental specialists in asset management to better assess the effective impact of financial products, or actuaries who can quantify climate and biodiversity risks for insurance companies and pension funds. At the same time, sustainability permeates all business areas and therefore requires corresponding training and continuing professional development even for traditional professional profiles in the financial market. The supply of a well-trained and experienced workforce is also pivotal when companies are searching for a location.

Sustainable development is relevant in all areas. For example, the Federal Council identified sustainable development as one of three important transversal themes and anchored it in the dispatch on the promotion of education, research and innovation for 2021 to 2024.[51] The joint FOEN/SSF report entitled "Sustainability in financial education and training in Switzerland" of June 2020 contains an analysis and recommendations for more sustainability in financial training and continuing professional development in Switzerland.[52] On that basis, SSF has implemented various measures to increase the quality and quantity of sustainable finance training, including, for example, the definition of teaching content for different professional profiles and a broadly accessible overview of sustainable finance courses. Specific or multidisciplinary courses on sustainable finance at universities and other higher education institutions, as well as research centres, help to counteract a shortage of specialists in this field. In this respect, last year's joint foundation of the Swiss Lab for Sustainable Finance by professors from nine leading Swiss universities and higher

[47] Proposed rule: Investment Company Names, 17 CFR Parts 230, 232, 239, 270 and 274, Securities and Exchange Commission, 2022

[48] Guidelines for financial service providers on the integration of ESG-preferences and ESG risks into investment advice and portfolio management, SBA, June 2022

[49] How to Avoid the Greenwashing Trap: Recommendations on transparency and minimum requirements for sustainable investment approaches and products, AMAS and SSF, December 2021

[50] Self-regulation on transparency and disclosure for collective assets referring to sustainability, AMAS, September 2022

[51] ERI dispatch 2021-2024, SERI

[52] Sustainability in financial education and training in Switzerland, FOEN and SSF, June 2020

education institutions, as well as the International Red Cross and the International Finance Corporation (IFC), among others, is to be welcomed.[53]

Formal vocational and professional education and training (VPET) qualifications and internal or sector-specific training and continuing professional development programmes likewise have an important role to play, particularly due to the rapid pace of developments in the area of sustainability. In the case of revisions and new upper secondary-level vocational and professional qualifications, the federal government supports the examination bodies in defining the sustainability aspects that are most relevant and anchoring them in vocational and professional education and training ordinances. The revised basic commercial training in the banking training and examination sector, which will be introduced in summer 2023 and focuses on sustainability aspects, is a good example.[54]

Measure 10 (in progress)
Promotion of sustainability in education and training

Within the scope of its responsibilities and ongoing activities, the federal government is committed to promoting sustainable development in the training of financial market specialists.

Area for action 3: Impact investments and green bonds

Mainstreaming of impact investments

Impact investments are investments that are intended to achieve a measurable, positive social and/or environmental impact, in addition to a financial return.[55] Switzerland is the world leader in private impact investment in developing countries, with a market share of 35%.[56] However, at CHF 101 billion (as of 2021), impact investment accounts for only a small slice of the total Swiss sustainable finance market.[57]

Until now, impact investments have primarily been aimed at foundations, family offices and institutional investors, with the latter in particular being from abroad. A broader use of impact investments for return-oriented investors is desirable. Firstly, this would allow private capital to be channelled on a large scale, and at the required speed, to projects that make a measurable and credible contribution to sustainability goals. Secondly, this would bring economic opportunities for Swiss asset management institutions.

In order for impact investments to gain a foothold not only for foundations but also in return-oriented asset management, they must be designed in such a way that they are appropriate and suitable for investment clients, especially in terms of risk and liquidity in the secondary market.

However, since impact investments are often direct investments, it is unlikely for these products to ever achieve a liquidity comparable to that of conventional investment products. One possibility would therefore be to amend financial market legislation, including by introducing a new collective investment category, in order to open up controlled access to this previously difficult to access form of investment to a broader circle of investors, as part of their diversified investment portfolios.

In the context of Swiss development cooperation, a blended finance approach could also be useful, in which the Confederation assumes part of the investment risk and thus makes the risk-return profile of investments more attractive, or may generate a demonstrative effect. The Confederation can support these instruments and the related dialogue either itself, via private partners or via multilateral development banks. In doing so, key principles such as additionality, commercial viability and the prevention of distortive competitive practices should be strictly applied.

[53] The Swiss Lab for Sustainable Finance, Geneva Graduate Institute

[54] SBA press release Banks preparing for new banking apprenticeship – home straight for basic commercial training reform, June 2022

[55] See SSF Glossary

[56] Private Asset Impact Fund Report 2021, Tameo Impact Fund Solutions, November 2021

[57] Swiss Sustainable Investment Market Study 2022, SSF, June 2022

Measure 11 (in progress)

Promotion of financial flows with a climate and sustainability impact in developing countries

The Federal Department of Economic Affairs, Education and Research (EAER) announced the Sustainable Development Goals (SDG) Impact Finance Initiative in 2021, which aims to raise CHF 100 million from public and philanthropic stakeholders by 2030. These funds seek to then mobilise up to CHF 1 billion in private capital to finance the SDGs in developing countries.[58]

The Federal Council's strategic objectives for the Swiss Investment Fund for Emerging Markets (SIFEM) for 2021 to 2024 stipulate that SIFEM will actively contribute to the implementation of the goals of the Paris Agreement. All investments are compatible with these goals and the countries' own national climate targets. At least 25% of new investments are fully committed to climate protection.[59]

Switzerland should also continue to use its seat in the International Monetary Fund (IMF), multilateral development banks and other institutions, such as international climate funds, to ensure that multilateral financing contributions are used effectively with regard to the climate and sustainability, andcan exert a catalytic role to the extent possible. At the IMF, Switzerland advocates that the funds of the Resilience and Sustainability Trust be used primarily to support policies that address climate change.

Measure 12

Review of amendments to financial market legislation to promote the expansion of impact investments

Together with the industry, the FDF, in collaboration with FINMA, the DETEC and the EAER, is examining how the expansion of impact investments can be supported by amending financial market legislation, including the introduction of a new collective investment category, and what the risks and opportunities are.

Green bonds

Green government bonds enable an issuer to raise money on the capital market. The funds raised in this way may only be allocated to expenditure that has already been made or approved and that has a positive impact on the environment. This includes promotion of public transport, the preservation of biodiversity and the construction of eco-friendly buildings, for example. With the issuance of green Confederation bonds, the Federal Council wants to create transparency regarding its 'green' expenditure and, at the same time, play a part in ensuring that the Swiss financial centre occupies a leading international position in sustainable financial services. Thus, the issuance of green Confederation bonds is intended to strengthen the application of international standards in Switzerland. In this way, the Confederation wants to help encourage private sector players to issue green bonds. At the same time, green Confederation bonds alone have no direct environmental impact: this is because federal spending is subject to the budgetary sovereignty of Parliament and is therefore not influenced by the issuance of green bonds. In order to take concrete measures with regard to climate and environmental protection, policy decisions must be taken.

Switzerland is also already working within the World Bank to promote the issuance of green bonds in emerging market and developing countries. Other sustainable bonds, such as sustainability-linked bonds, are also being supported. These are future-oriented and performance-linked bonds in which the issuer commits to achieving predefined sustainability goals within a certain timeframe. In this way, Switzerland is also making an important contribution to the transition towards a greener economy in these countries.

[58] New public-private partnership to promote innovative development finance, SECO press release, December 2021

[59] SIFEM AG: Strategic objectives renewed, Federal Council press release, November 2020 (in French and German)

Measure 13 (in progress)
Issuance of green Confederation bonds

On 17 August 2022, the Federal Council adopted a framework for issuing green Confederation bonds.[60] On this basis, the FFA issued the first green Confederation bond on 12 October 2022.[61] The federal government will regularly issue green Confederation bonds in the future or reopen green bonds.

Area for action 4: Pricing pollution

Global carbon pricing

In the case of both climate change and biodiversity loss, there is a clear market failure in the global real economy: for the most part, external costs are not borne by the polluters, but by the population as a whole. This market failure is exacerbated by the fact that the negative impacts are not immediately visible and occur, in some cases, after a long delay or in other parts of the world. In particular with regard to climate change, local emissions have a global impact, which is why national and regional solutions are insufficiently effective.

Financial markets adapt to changing real economic conditions. If global activities with high carbon emissions and a negative effect on biodiversity can be made less profitable, the markets will react accordingly, resulting in market-based steering. In this context, it is also important to reduce global subsidies that are harmful to the climate and biodiversity. A key step in bringing financial flows into line with low-emission and climate-resilient development is the establishment of a sufficiently high global carbon price. In international bodies such as the G20, the IMF and the Organisation for Economic Co-operation and Development (OECD), Switzerland is committed to working towards global carbon pricing and creating an internationally comparable database for implicit and explicit carbon pricing, as well as to reducing global subsidies for fossil energy sources.

As part of its international cooperation, Switzerland has for many years supported initiatives that help developing countries to establish national carbon pricing mechanisms (CO_2 tax and emissions trading systems). Such national carbon pricing mechanisms are not in direct competition with a global mechanism, because global pricing is unlikely to be able to reflect all the price differences that arise in the different countries.

Box 4
OECD Inclusive Forum on Carbon Mitigation Approaches

Based on its previous work and expertise, the OECD intends to launch a dialogue on national measures introduced to reduce carbon emissions (including carbon pricing).

To this end, the OECD established the Inclusive Forum on Carbon Mitigation Approaches (IFCMA) in June 2022. In addition to the 38 OECD member states, over 110 other countries and jurisdictions were invited to join.

Switzerland contributed to the successful establishment of the IFCMA and intends to play a leading role in its work due to its strong interest in global carbon pricing comparisons.

Measure 14 (in progress)
Active support for global carbon pricing initiatives

The FDF and DETEC actively support multilateral work that promotes the establishment of equitable global carbon pricing, in particular the newly founded OECD Inclusive Forum for Carbon Mitigation Approaches.

Carbon offsetting

Carbon offsetting is the purchase of carbon credits from climate protection projects to compensate for one's own carbon emissions. Offsetting can make the transition to net zero more cost-effective by enabling countries or companies to compensate for their remaining emissions, i.e. those that cannot be reduced any further, through emission avoidance or reduction projects.

Due to the growing number of net zero commitments by companies and countries, the demand for carbon offsetting is expected to also increase strongly among financial institutions.

[60] 'Confederation preparing to issue first green Confederation bond', Federal Council press release, August 2022

[61] 'Issue result for inaugural green Confederation bond', FFA press release, October 2022

Offsetting projects that fulfil certain quality criteria and enable negative emissions are particularly conducive to achieving the global net zero goal by 2050. Various financial centres are already positioning themselves as carbon offsetting hubs: Singapore, Abu Dhabi and London, for example, have already announced plans to set up platforms for trading carbon credits, and some have already done so.[62] However, the more countries commit to net zero emissions, the less potential there will be for offsetting as countries will want to claim the potential reductions for themselves. At the same time, it also means that the cost of offsetting will increase.

In October 2020, Switzerland assumed a global pioneering role by concluding the first bilateral cooperation agreement with Peru that enables the transfer of emission reductions in accordance with Article 6.2 of the Paris Agreement. This prevents double claiming, i.e. when the reductions achieved are credited to both the offset purchaser and the project host country. Since then, cooperation agreements have been signed with other partner countries, which also provide a framework for trading mitigation outcomes without double claiming in the voluntary market.[63]

The voluntary carbon offset market remains fragmented, in particular due to the diversity of providers and the different characteristics of available projects. Thus, carbon credits in the voluntary market present significant differences in terms of quality and price. Efforts are underway to define certain quality standards and minimum requirements internationally, in particular to increase the integrity of the market and pave the way for greater tradability. More transparency and clarity on the essential characteristics and quality features of offsets could help market players to better assess the added value of an offset. This includes inparticular whether a project would have taken place even without carbon credits, whether it is able to permanently reduce greenhouse gases, whether it is subject to robust verification, whether there is no double counting, whether it respects human rights, whether it does not harm the environment and whether it ensures sustainable development. The additional positive impacts of certain offset projects on nature and biodiversity should also be given adequate consideration.

Measure 15

Identification of opportunities in carbon offsetting

In close cooperation with the DETEC, the FDF is examining whether and what role the state can play to exploit opportunities in carbon offsetting for the Swiss financial market. In doing so, the competitiveness of the financial centre and the credibility of the offsetting efforts should play a central role.

[62] See the Climate Impact X platform in Singapore, for example

[63] See Bilateral agreements on emission reductions and carbon storage abroad, FOEN

Annex: Overview of areas for action and measures

Areas of action	Measures
Sustainability data from all sectors of the economy	**Measure 1 (in progress): TCFD recommendations made mandatory for large companies** On 23 November 2022, the Federal Council decided to put the Ordinance on Climate Disclosures into force for large companies from all sectors of the economy with effect from the beginning of 2024. The Ordinance is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Federal Council continues to monitor international developments closely, so that coherence can also be ensured as necessary over the medium term.
	Measure 2 (in progress): Data to assess the climate compatibility of Swiss real estate and mortgage portfolios The Federal Department of the Environment, Transport, Energy and Communications (DETEC), in close collaboration with the Federal Department of Home Affairs (FDHA), is improving the range of high-quality, meaningful and standardised data that is available on the climate compatibility of the Swiss building stock.
	Measure 3 (in progress): Publication of a classification system for green fintech applications In 2022, in a joint effort with the Geneva-based Green Digital Finance Alliance (GDFA) and with the support of SIF, the Green Fintech Network published a classification system for green fintech applications and their need for sustainability data.
Transparency in the financial sector	**Measure 4 (in progress): Promotion of international net zero alliances** On 17 November 2021, the Federal Council decided to recommend that financial institutions join international net zero alliances and work towards concluding industry agreements to that effect. It had already decided on 26 June 2019 to use industry agreements to encourage financial institutions to participate in representative numbers in comparable federal climate tests. The Federal Department of Finance (FDF) will inform the Federal Council of the progress of its work on industry agreements by end-2023. The FDF supports the activities of the Glasgow Financial Alliance for Net Zero (GFANZ) and is working to increase its credibility, especially by participating in the Climate Data Steering Committee, in order to promote transparency on financial institutions' voluntary commitments.

	Measure 5: Transparency on stewardship strategies On 16 December 2022, the Federal Council decided to recommend that financial institutions and pension funds ensure that their websites provide transparency on the extent to which their engagement strategy and the exercise of their shareholder voting rights are compatible with the sustainability goals voluntarily supported by them, specifically the goal of net zero by 2050.
	Measure 6 (in progress): Regular voluntary climate tests with financial institutions The FOEN and the FDF regularly conduct voluntary, comparable climate tests with financial institutions, with the aim of analysing the alignment of the Swiss financial sector with the global temperature goal of the Paris Agreement and recording progress (next exercise: 2024). The FOEN is striving to improve these climate tests on an ongoing basis and make it easier for financial institutions to implement further Federal Council recommendations.
	Measure 7 (in progress): Transparency on the consideration of sustainability risks On 11 November 2020, the Federal Council decided to recommend that financial institutions publish methods and strategies which show how they take account of climate and environmental risks when managing their clients' assets, in accordance with the existing legal duties of loyalty and due diligence.
	Measure 8 (in progress): Launch and refinement of the Swiss Climate Scores On 29 June 2022, the Federal Council decided to recommend that all Swiss financial institutions create comparable and meaningful transparency with regard to climate compatibility for all financial investments and client portfolios and, where appropriate, apply the selection of indicators embedded in the Swiss Climate Scores. The FDF is working in international bodies to ensure that the Swiss Climate Scores indicators continue to enjoy a high level of compatibility and provide an ideal basis for transparency concerning the alignment with climate goals. The FDF, in close cooperation with the DETEC, will review the comparability and incentive effect of the Swiss Climate Scores by the end of 2023 at the latest, and refine them as necessary. An extension to other asset classes (e.g. real estate) is also being examined.

	Measure 9: Avoidance of greenwashing The Federal Council published its position on preventing greenwashing on 16 December 2022. According to this, financial products or financial services that are advertised as sustainable should at least be compatible with a stated sustainability goal or make an effective contribution to sustainability goals. Simply incorporating sustainability criteria to minimise risk or optimise financial performance should not be described as "sustainable". At the same time, the Federal Council instructed the FDF, in cooperation with the DETEC, EAER and FINMA, to work with the industry and civil society to identify how to optimally implement the Federal Council's position in a conducive manner.
	Measure 10 (in progress): Promotion of sustainability in education and training Within the scope of its responsibilities and ongoing activities, the federal government is committed to promoting sustainable development in the training of financial market specialists.
Impact investments and green bonds	**Measure 11 (in progress): Promotion of financial flows with a climate and sustainability impact in developing countries** The Federal Department of Economic Affairs, Education and Research (EAER) announced the Sustainable Development Goals (SDG) Impact Finance Initiative in 2021, which aims to raise CHF 100 million from public and philanthropic stakeholders by 2030. These funds seek to then mobilise up to CHF 1 billion in private capital to finance the SDGs in developing countries. The Federal Council's strategic objectives for the Swiss Investment Fund for Emerging Markets (SIFEM) for 2021 to 2024 stipulate that SIFEM will actively contribute to the implementation of the goals of the Paris Agreement. All investments are compatible with these goals and the countries' own national climate targets. At least 25% of new investments are fully committed to climate protection. Switzerland should also continue to use its seat in the International Monetary Fund (IMF), multilateral development banks and other institutions, such as international climate funds, to ensure that multilateral financing contributions are used effectively with regard to the climate and sustainability and can exert a catalytic role to the extent possible. At the IMF, Switzerland advocates that the funds of the Resilience and Sustainability Trust be used primarily to support policies that address climate change.
	Measure 12: Review of amendments to financial market legislation to promote the expansion of impact investments Together with the industry, the FDF, in collaboration with FINMA, the DETEC and the EAER, is examining how the expansion of impact investments can be supported by amending financial market legislation, including the introduction of a new collective investment category, and what the risks and opportunities are.

	Measure 13 (in progress): Issuance of green Confederation bonds On 17 August 2022, the Federal Council adopted a framework for issuing green Confederation bonds. On this basis, the FFA issued the first green Confederation bond on 12 October 2022. The federal government will regularly issue green Confederation bonds in the future or reopen green bonds.
Pricing of pollution	**Measure 14 (in progress): Active support for global carbon pricing initiatives** The FDF and DETEC actively support multilateral work that promotes the establishment of an equitable global carbon pricing, in particular the newly founded OECD Inclusive Forum for Carbon Mitigation Approaches..
	Measure 15: Identification of opportunities in carbon offsetting In close cooperation with the DETEC, the FDF is examining whether and what role the state can play to exploit opportunities in carbon offsetting for the Swiss financial market. In doing so, the competitiveness of the financial centre and the credibility of the offsetting efforts should play a central role.