Swiss Sustainable Finance

Focus

EU ACTION PLAN ON SUSTAINABLE FINANCE

EFFECTS ON SWISS FINANCIAL INSTITUTIONS

1 INTRODUCTION

The European Union (EU) has pursued the development and implementation of a series of regulatory measures in the area of sustainable finance since 2016. Most of these measures were triggered by the *EU Commission Action Plan: Financing Sustainable Growth,* commonly referred to as the *EU Action Plan on Sustainable Finance,* which has put into motion a series of processes aimed at introducing voluntary market standards as well as mandatory legal obligations. Overall, the measures introduced by the *EU Action Plan* represent the most complex and overarching set of initiatives adopted in the field of sustainable finance by a regulatory entity to date. Some of the first legislative measures announced by the *EU Action Plan on Sustainable Finance* were published in the second week of December 2019 – these include the regulations on *Sustainability-related Disclosures in the Financial Services Sector* as well as the *EU Climate Transition* and *EU Paris-Aligned Benchmarks.*

Considering the worldwide importance of European financial centres such as Frankfurt and Paris, sustainable finance measures adopted by the EU will not only affect EU-based institutions, but also those incorporated outside the EU serving or seeking to serve European clients. SSF therefore aims to help Swiss financial institutions navigate the major regulations adopted or announced by the EU in the context of its *Action Plan on Sustainable Finance.*

This publication contains three main content sections. Section 2 provides an overview of five of the key EU sustainable finance initiatives relevant to Swiss financial institutions by presenting their background, vocabulary, a description and their current status. Section 3 provides a brief comment on how Swiss financial institutions may be affected by EU legislative measures, and it puts forward some suggestions on a possible course of action for Swiss institutions seeking to tackle the sustainable finance developments generated by the EU. Finally, section 4 provides an overview of the major Swiss policy-related developments in the area of sustainable finance.

2 EU SUSTAINABLE FINANCE INITIATIVES

2.1 BACKGROUND

Even with the clarity that hindsight can provide, it is difficult to pinpoint a specific time that correlates to the EU's intensified approach to sustainable finance. Yet 2015 marks the beginning of more constant and coordinated sustainable finance actions adopted by the EU. In September of that year, the EU Commission highlighted the need to help investors analyse and price long-term risks and opportunities arising from the transition to a more sustainable and climate-friendly economy under its *Capital Market Union (CMU) Action Plan.*[1]

As a result of consultations associated with the CMU Action Plan, the EU Commission created the EU High-Level Expert Group on Sustainable Finance (HLEG) in December 2016. HLEG was composed of 20 policy leaders from civil society, the finance sector and academia. In January 2018, HLEG issued its final report, which suggested seven sustainable finance priorities[2] to the EU Commission. In March 2018, with the publication of its *Action Plan on Sustainable Finance,* the EU Commission asserted its goal to reorient capital flows towards sustainable investment, mitigate the impact that climate change as well as social and environmental issues can have on the financial system, and to increase transparency and long-term finance. *The EU Action Plan on Sustainable Finance* consists of 10 key action points that were used to formulate 22 objectives, which in turn have informed the 28 regulatory initiatives announced by the EU Commission (for a complete overview see the Appendix).

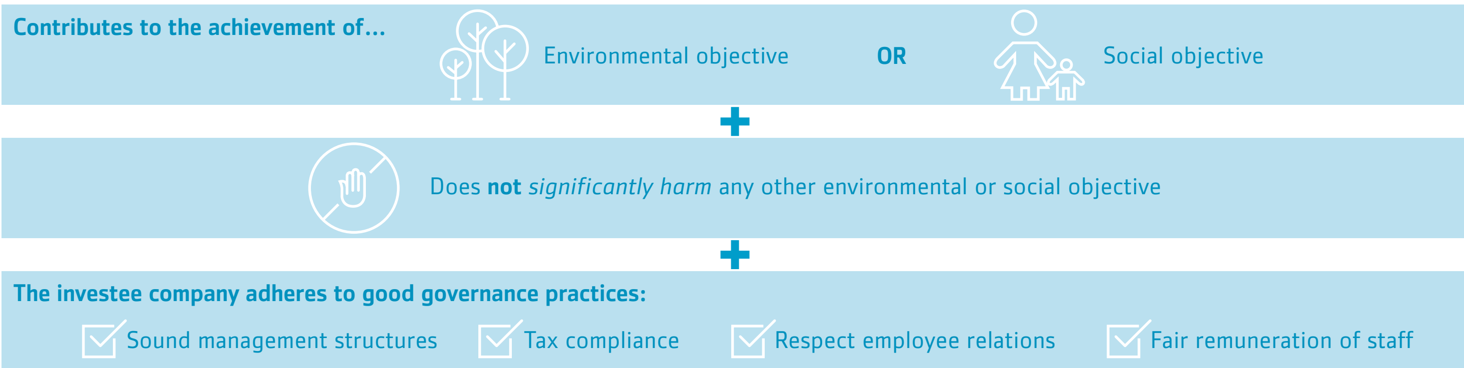
2.2 COMMON LANGUAGE FOR SUSTAINABLE FINANCE

In order to reorient capital flows towards sustainable solutions, two major prerequisites have been identified: firstly, avoiding market fragmentation, and secondly, protecting investors and consumers from greenwashing[3] and bluewashing.[4] According to the HLEG and the EU Commission, one key element is to provide financial market participants, including consumers, with a common sustainable finance language. Consequently, when introducing voluntary market standards and mandatory legal obligations, the EU has always sought to clearly define the scope and extent of common sustainable finance expressions. We would therefore like to highlight three definitions adopted by the EU that may differ from what is currently understood by some market players.

Sustainable Investment is often broadly defined as "any investment approach integrating environmental, social and governance factors (ESG) into the selection and management of investments."[5] Under the umbrella term of sustainable investment, investors can embrace different strategies when seeking to integrate ESG considerations, such as exclusion, ESG integration, impact investment, and active ownership approaches.

Yet in the context of the EU initiatives, sustainable investment means an economic activity contributing to the achievement of a particular environmental[6] or social objective[7] on the condition that the investment does not significantly harm any other environmental or social objective. In addition, the investee company/asset is expected to "follow good governance practices, in particular, with respect to sound management structures, employee relations, remuneration of staff and tax compliance."[8] (figure 1)

FIGURE 1:
Sustainable Investment (as defined by the EU)



Source: ECOFACT and Swiss Sustainable Finance

1 EU Commission, Action Plan on Building a Capital Markets Union, COM(2015) 468 final

2 EU HLEG, *Financing a Sustainable European Economy – Final Report*

3 Collins Dictionary defines *greenwash* as "a superficial or insincere display of concern for the environment that is shown by an organization."

4 Collins Dictionary defines *bluewash* as "to tout a business or organization's commitment to social responsibilities and to use this perception for public relations and economic gain."

5 Swiss Sustainable Finance, online Glossary (Available at: https://www.sustainablefinance.ch/en/glossary-_content---1--3077.html)

6 Environmental objectives are expected to be measured, "for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emission, or on the impact on biodiversity and the circular economy." Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance), OJ L 317, 9.12.2019, p.1–16, Article 2(17)

7 Social objectives are those that contribute "to tackling inequality, that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically and socially disadvantaged communities." Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance), OJ L 317, 9.12.2019, p.1–16, Article 2(17)

8 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance), OJ L 317, 9.12.2019, p.1–16, Article 2(17)

Sustainability factors, according to the EU, refer to "environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters."[9] This definition differs from how the term is currently used by many market players in the following ways: firstly, its scope may be seen by some players as being wider than what financial institutions have traditionally considered as sustainability issues, i.e. focusing exclusively on certain environmental and social issues. Secondly, this definition is aligned with the term "responsible business conduct" (RBC) championed by the Organisation for Economic Co-operation and Development (OECD), which has issued several sector-specific RBC due diligence guidelines that are being embraced by regulators as relevant standards.[10]

Sustainability risk is primarily understood by financial institutions as the environmental and social risk related to the assets they manage on behalf of their clients that might become a source of credit, compliance and reputational risk for the financial institution. The definition adopted by the EU embraces a similar perspective, since it defines sustainability risk as an "environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment."[11] However, the EU has introduced an additional risk category called **principal adverse impact**, i.e. "the impact of an investment decision or advice that results in negative effects on sustainability factors."[12] This concept is one of the cornerstones of EU sustainable finance initiatives and is closely aligned with the concept of risk under the OECD approach[13] as well as the one embraced by the United Nations (UN).[14] It is expected that European Supervisory Authorities (ESAs) will further specify the meaning of principal adverse impacts when issuing technical regulatory standards. By expecting financial institutions to consider the principal adverse impacts of investment decisions on sustainability factors, the EU anticipates that financial institutions will undergo a paradigm shift in how they approach risk analysis. In the first instance, the EU is asking investors to assess adverse effects on people and the environment as a first step, even before considering risks linked to the value of investment.

2.3 SELECTED EU SUSTAINABLE FINANCE INITIATIVES

As mentioned, the EU's *Action Plan on Sustainable Finance* has led to 28 initiatives involving the adoption of voluntary market standards as well as mandatory legal obligations. This section provides an overview of the five initiatives most relevant for Swiss financial institutions. Although these initiatives are independent from each other, they are interconnected in that they all address either the entity/group, or the financial products and services offered by the entity/group. Financial institutions will thus be expected to align their processes both at entity level and for their products and services.

— **EU Sustainability Taxonomy:** The *Taxonomy* seeks to create a unified classification system to define whether "an economic activity is environmentally sustainable for the purposes of establishing the degree of environmental sustainability of an investment."[15] For an activity to be considered environmentally sustainable under the *Taxonomy,* it must fulfil the following expectations: (1) substantially contribute to one or more environmental objectives pursued by the *Taxonomy;*[16] (2) avoid significantly harming the environmental objectives pursued by the *Taxonomy;* (3) comply with technical screening criteria to be adopted by the EU; and (4) comply with minimum social safeguards as prescribed by documents adopted by the OECD and the UN.[17] (figure 2)

9 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance), OJ L 317, 9.12.2019, p.1–16, Article 2(24)

10 See, for example, the adoption of the OECD's *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas,* which is understood by the US Securities and Exchange Commission as an internationally recognized due diligence framework as described in Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act or the OECD's *Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises,* which has been seen as a major guideline to be observed by ESAs when drafting regulatory technical guidance under the EU's *Regulation on Sustainability-Related Disclosures in the Financial Services Sector.*

11 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance), OJ L 317, 9.12.2019, p.1–16, Article 2(22)

12 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance), OJ L 317, 9.12.2019, p.1–16, Recital 20

13 See, for example, the definition of risk adopted by the *OECD Due Diligence for Responsible Corporate Lending and Securities Underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises,* which defines risk as referring to "adverse impacts on people, the environment and society that enterprises and banks may cause, contribute to, or to which they are directly linked ('RBC risks')." In other words, it is an outward-facing approach to risk. Considering RBC risk independently of its financial or commercial impact may represent a paradigm shift for some banks, although in many instances, there will be a strong correlation between the potential financial risk and RBC risk associated with a client and/or transaction. Nonetheless, many RBC issues persist precisely because they are not seen to be financially material or because their financial impact is realised over longer time scales.

14 See, for example, the definition of risk adopted by the *UN Principles on Business and Human Rights,* which considers (human rights) risk as "any risks that its operations may lead to one or more adverse human rights impacts. They therefore relate to its potential human rights impact. In traditional risk assessment, risk factors in both the consequences of an event (its severity) and its probability. In the context of human rights risk, severity is the predominant factor. Probability may be relevant in helping prioritize the order in which potential impacts are addressed in some circumstances (see 'severe human rights impact' below). Importantly, an enterprise's human rights risks are the risks that its operations pose to human rights. This is separate from any risks that involvement in human rights impact may pose to the enterprise, although the two are increasingly related."

15 *Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment* (version of 23 September 2019) Article 1

16 These are: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy including waste prevention and recycling; pollution prevention and control; and protection and restoration of biodiversity and ecosystems.

17 According to Article 13 of the *Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment* (version of 23 September 2019), the relevant documents in this context are: "the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work and the International Bill of Human Rights."

FIGURE 2:
EU Sustainability Taxonomy – An environmentally sustainable activity…

contributes to at least one of six environmental objectives:

1 Climate change mitigation
2 Climate change adaptation
3 Sustainable use and protection of water and marine resources
4 Transition to a circular economy, including waste prevention and the uptake of recycling
5 Pollution prevention and control
6 Protection of biodiversity and healthy ecosystems, and restoration of degraded ecosystems

+

Does not cause significant harm to any of the other five environmental objectives

+

meets technical standards related to a specific environmental objective as defined by the EU.

+

complies with minimum safeguards as prescribed by the:

– UN Guiding Principles on Business and Human Rights
– OECD Guidelines for Multinational Enterprises
– International Labour Organization's Core Conventions
– International Bill of Human Rights

Source: ECOFACT and Swiss Sustainable Finance

— **EU Ecolabel for Financial Products:** A voluntary EU-wide labelling scheme for sustainable financial products has been envisaged by the EU Commission to avoid the proliferation of additional or even contradictory labelling schemes within the EU. The EU-wide labelling scheme is expected to address a set of financial products and to build upon the *Taxonomy's* foundations. Work related to establishing an ecolabel is at an early stage.[18] More specific information is expected by mid-2020, when the final report and criteria will be published by the EU Joint Research Centre, which has been mandated to conduct a legislative, market and technical analysis on the topic.

— **EU Green Bond Standard:** In June 2019, the EU Technical Expert Group on Sustainable Finance[19] proposed the creation of a voluntary and non-legislative Green Bond Standard based on best market practices. So far,[20] the EU Commission has not officially issued information about next steps in establishing an EU-wide green bond standard.

— **EU Climate Transition and Paris-Aligned Benchmarks:** The regulation amending the EU Benchmarks Regulation,[21] which establishes the EU Climate Transition Benchmark and EU Paris-Aligned Benchmarks, entered into force on December 10th, 2019. The EU Climate Transition Benchmark seeks to include companies that enable monitoring bodies to verify whether they are following a measurable, science-based "decarbonisation trajectory" supporting the long-term global warming target of the Paris Climate Agreement (no more than 2°C above pre-industrial levels). The Paris-Aligned Benchmarks aim to include companies with carbon emissions aligned with the long-term global warming target of the Paris Climate Agreement.

— **EU Regulation on Sustainability-Related Disclosures in the Financial Services Sector:** The Disclosure Regulation[22] will enter into force on December 29th, 2019. This is the farthest-reaching sustainable finance initiative adopted by the EU to date. In fact, it affects existing mandatory obligations under the 12 most significant EU-wide financial normative frameworks, such as the *Capital Requirements Directive* (CRD), *Insurance Distribution Directive* (IDD), *Institutions for Occupational Retirement Provision Directive II* (IORP II), *Markets in Financial Instruments Directive II* (MiFID II), and *Solvency II.* The *Disclosure Regulation* targets financial product manufacturers, providers and managers as well as financial advisors. The requirements introduced by the *Disclosure Regulation* include the expectation that financial institutions disclose whether they take into account sustainability risks when manufacturing and/or offering financial products/services, regardless of whether they are promoted as being sustainable.[23]

[18] Status: early December 2019.
[19] *TEG Report – Proposal for an EU Green Bond Standard,* June 2019
[20] Status: early December 2019.
[21] Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (Text with EEA relevance), OJ L 317, 9.12.2019, p.17–27
[22] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance), OJ L 317, 9.12.2019, p.1–16
[23] SSF members and network partners have access to an in-depth overview of the EU sustainable finance initiatives, which focuses primarily on the *Disclosure Regulation.* It consists of 19 factsheets outlining specific actions related to the regulation that may be required of Swiss financial market players and financial advisers, with a particular focus on the activities of asset managers and private banks.

The Swiss and European markets are strongly interconnected. According to the Swiss government, 76% of direct foreign investment in Switzerland comes from the EU, while 51% of Swiss direct investment is made in the EU.[24] In addition, in the context of private banking, "more than half the assets managed in Switzerland originate from foreigners and over 40% of these assets are estimated to belong to Europeans."[25] Aside from understanding what may be the expectations of European clients or the next steps taken by European competitors, it is key for Swiss financial institutions to understand whether developments in the EU are applicable to them.

Swiss financial institutions often interact with the EU market in a variety of ways – for example, by establishing a subsidiary in an EU country, having market access as a third-country institution (i.e. non-EU-based institution) or by providing financial products and services to retail and professional clients based in the EU (i.e. active and passive cross-border activities). Considering these scenarios and the EU regulatory frameworks touched by the EU sustainable finance initiatives, these are applicable to Swiss financial institutions as indicated in table 1.

TABLE 1:
Relevance of EU sustainable initiatives to Swiss financial institutions

A Swiss financial institution…	EU rules are…
has an EU subsidiary/branch incorporated in an EU member state	APPLICABLE
actively searches for client relationships in the EU	APPLICABLE
only passively acquires EU clients in the EU	NOT APPLICABLE
manages an EU-based product (e.g. a pan-European personal pension product)	APPLICABLE
markets a non-EU-based product in the EU (e.g. an alternative investment fund)	APPLICABLE

3.1 POTENTIAL COURSE OF ACTION FOR SWISS FINANCIAL INSTITUTIONS

The measures introduced by the *EU Action Plan* are likely to affect most Swiss financial institutions in one way or another. Financial institutions should therefore carefully assess each measure adopted and/or proposed by the EU in order to determine whether it may be applicable to their operations. As the formulation of compliance strategies and decision-making vary between institutions and are informed by unique characterisation of risk appetite and other business-driven factors, each organisation has to go through this process individually. The following six actions may help Swiss financial institutions to start their journey towards a better understanding of how initiatives related to the *EU Action Plan* might affect their organisations.

— **Brief senior management and obtain its support:** It is important that senior management understands what the EU sustainable finance initiatives are, as they may entail changing and perhaps even completely revising existing processes. Furthermore, one of the latest trends in corporate governance is to assign the overall responsibility for sustainability-related topics to the board of directors as well as having a senior manager responsible for sustainable finance and/or climate-related risks.

— **Establish an institution-wide working group:** The impact of EU sustainable finance initiatives is not confined to the mandate of a specific unit, such as sustainability affairs or legal and compliance; nor is it limited to a single legal entity such as an EU-subsidiary. An institution-wide approach is required. It is therefore important to set up a working group that includes representatives from different units as well as different countries of operation. At least the following units should be represented in such a workgroup: sustainability, legal and compliance, product development, marketing/communications and risk management.

— **Conduct a regulatory impact assessment:** It is crucial to understand in detail the extent to which your operations and corporate structure may be exposed to new legal requirements. Consequently, Swiss institutions should conduct a regulatory impact assessment (for a list of potentially relevant regulations, see the Appendix) that considers not only the legal structure of their organisations, but also how their financial products and services have been set up and how they are operationalised (e.g. for funds, where the product is listed), how it is commercialised and how clients are acquired. Ideally, the outcome of this process will provide a clear idea of which actions are required to ensure compliance.

— **Revise existing offerings, processes and publications (disclosures and prospectus):** Several of the sustainable finance initiatives introduced/envisaged by the *EU Action Plan* are nothing more than amendments to existing regulatory frameworks (e.g. MiFID II and IDD). It is therefore essential that Swiss financial institutions have an overview of their existing processes to facilitate the development of a comprehensive strategy to meet new/future expectations. As mentioned above, the key goal of the EU initiatives is to integrate sustainability factors into existing processes rather than creating parallel ones.

[24] DFAE, Direction des affaires européennes DAE, *La Suisse et l'UE en chiffres Statistiques relatives au commerce, à la population et au transport,* June 2019

[25] Swiss Bankers Association, Market access, available at: https://www.swissbanking.org/en/topics/market-access/market-access

— **Create feedback loops:** As several units will be involved in the efforts to address the EU expectations and product-related processes may need to be adapted, it is important that your institution have a clear reporting structure and feedback loops in place. These mechanisms will help to ensure that your institution has a clear overview of who is doing what, when and reporting to whom.

— **Be vigilant:** The planned/introduced initiatives by the *EU Action Plan* are at an early stage. The European Supervisory Authorities (ESAs) will complement the adopted regulations with technical regulatory standards. In addition, other jurisdictions are planning to introduce mandatory and/or voluntary measures in the area of sustainable finance. To date, more than 20 jurisdictions have adopted a sustainable finance action plan in one form or another. These trends are a clear signal that ESG and sustainability criteria will be fully integrated into financial regulation in the future.

4 RELEVANT SWISS DEVELOPMENTS

Swiss financial market players and financial advisers have been pioneers in the area of sustainable finance for at least 35 years.[26] Since 2015, Swiss government officials and politicians have started to move steadily towards the building of a greater understanding of sustainable finance dynamics, such as the Swiss financial sector's carbon risks and the growth potential that sustainable investments can generate for Swiss financial market policy. In addition, more recently, the leading Swiss finance associations (e.g. SwissBanking,[27] Swiss Funds & Asset Management Association, and Swiss Insurance Association) have taken up sustainable finance as a key priority and started to cooperate with SSF on different activities.[28] This section provides a brief overview of the major Swiss policy-related developments in the area of sustainable finance.

In 2015, the Swiss Federal Office for the Environment (FOEN) released a study[29] assessing the exposure of the Swiss financial sector to carbon risks, which was triggered by an interpellation[30] made by a member of the Swiss National Council. The study concluded that investments in carbon-intensive companies hold a potentially significant risk in the medium term, and that most Swiss investors had neither identified nor monitored such risk. In 2016, the FOEN published two additional reports – one identifying concrete measures for creating a Swiss financial system that supports the transition to a green and inclusive economy,[31] and another addressing climate-friendly investment strategies and performance.[32] In the same year, the Swiss Federal Council pointed out that sustainable finance was an opportunity to boost the competitiveness of the Swiss financial centre.[33]

In 2017, together with the State Secretariat for International Finance Matters (SIF), the FOEN offered screening of Swiss pension funds' and insurance companies' portfolios in order to assess their compatibility with global warming of less than 2°C. The results showed that investments conducted by participating financial institutions were not aligned with global warming targets under the Paris Agreement on Climate Change, but actually to a global warming of 4 to 6°C.[34] During a parliamentary debate in September 2019, Swiss Federal Councillor Simonetta Sommaruga emphasised that Swiss investors "must have an investment behaviour in the financial sector that ultimately does not torpedo our measures [to achieve] the Paris Agreement."[35] In 2020, the FOEN and SIF will repeat the screening of Swiss financial institutions in terms of their compatibility with global warming of less than 2°C. This will be based on the PACTA (Paris Agreement Capital Transition Assessment) tool.[36] This upcoming exercise will also encompass Swiss asset managers and banks.

In June 2019, the Swiss Federal Council set up an internal working group on sustainable finance headed by the SIF in close cooperation with the FOEN and other interested authorities. Among other things, it will clarify Switzerland's participation in international sustainable finance initiatives, as well as examine how developments related to the EU Action Plan are likely to affect the Swiss financial centre. The working group is expected to issue a report by spring 2020 that is likely to include proposals for the Swiss financial market. In December 2019, the Swiss Federal Council instructed the Federal Department of Finance (FDF) to examine, in close collaboration with the FOEN, whether there is a need for regulatory action with regards to transparency and risk analysis. The Federal Council instructed the FDF to look closely at: (1) a systematic obligation to disclose relevant and comparable information for customers, owners and investors; (2) the strengthening of legal certainty in connection with due diligence requirements; and (3) consideration of climate and environmental risks or their impact in all matters relating to the stability of financial markets.[37]

It is also important to mention that Switzerland is a member of two major international sustainable finance initiatives – the Swiss National Bank and the Swiss Financial Market Supervisory Authority (FINMA) are members of the *Network for Greening the Financial System (NGFS).* This group seeks to define and promote best practices for financial market regulators with the aim of "strengthening the global response required to meet the goals of the Paris Agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development."[38] Furthermore, Switzerland is also a member of the *Coalition of Finance Ministers for Climate Action,* which is "a Ministerial-level group supporting the use of fiscal policy, public financial management and mobilization of climate finance to promote domestic and global action on climate change."[39]

26 In this context, we highlight the brochure *Switzerland for Sustainable Finance,* which showcases Switzerland's "successful track record in sustainable finance stretching back 36 years and boasting many ground-breaking developments and innovative services."

27 https://www.swissbanking.org/en/services/insight/insight-3.19/sustainable-investing-2013-a-priority-with-potential-for-the-financial-centre

28 Swiss Sustainable Finance, 2019. Switzerland for Sustainable Finance: Transforming Finance for a Better World.

29 BAFU, *Kohlenstoffrisiken für den Finanzplatz Schweiz*

30 Interpellation 14.3234, Bastien Girod: *What does the Federal Council do against the risks of the carbon bubble?,* March 2014

31 FOEN, *Proposals for a Roadmap towards a Sustainable Financial System in Switzerland, prepared by a workgroup with different sector representatives*

32 FOEN, *Climate-friendly investment strategies and performance*

33 SIF, *Internationale Finanzgremien diskutieren Fragen der Nachhaltigkeit: Bundesrat definiert Rolle der Schweiz;*
Federal Council, *Financial market policy for a competitive Swiss financial centre*

34 https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/climate-and-financial-markets.html

35 Swiss Council of States, Autumn Session 2019, 12th Meeting, September 25, 2019 – Debate on the total revision of the CO_2 Law. Intervention of Federal Councillor Simonetta Sommaruga. Free translation from the original in German: "Wir müssen in diesem Land auch im Finanzbereich ein Investitionsverhalten haben, das unsere Massnahmen für das Pariser Abkommen letztlich nicht wieder torpediert."

36 https://www.transitionmonitor.com/pacta-2020/

37 https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-77424.html

38 https://www.ngfs.net/en/about-us/governance/origin-and-purpose

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APPENDIX – Overview of initiatives announced by the EU Commission Action Plan on Sustainable Finance

Action Points	Action Point Requirement(s) by the EU Commission	Related Initiative(s) Announced	Type of Initiative	Outcome	Status on Dec. 15, 2019
1 Establish an EU classification system for sustainable activities	I. Legislative proposal to ensure the progressive development of an EU taxonomy for climate change, environmental and socially sustainable activities that builds on existing work, where relevant. The aim is to embed the future EU sustainability taxonomy in EU law and provide the basis for using such a classification system in different areas (e.g. standards, labels, green-supporting factors for prudential requirements, sustainability benchmarks). The proposal will include tools allowing such a classification system to be established and regularly updated.	EU Commission legislative proposal on the development of an EU taxonomy for climate change and environmentally and socially sustainable activities	Legislative	EU Regulation on the Establishment of a Framework to Facilitate Sustainable Investment	Ongoing
	II. Set up a technical expert group (TEG) on sustainable finance. It will be asked to publish reports that provide a taxonomy with a particular focus on climate change mitigation activities, climate change adaptation and other environmental activities. These reports will be a building block in the EU Commission's progressive development of the EU sustainability taxonomy, and will be an initial point of reference for investment in climate change-related and environmental activities.	TEG report providing a taxonomy for climate change mitigation activities	Non-legislative	TEG Taxonomy Technical Report	Concluded
		TEG report providing a taxonomy for climate change adaptation and other environmental activities	Non-legislative	TEG Taxonomy Technical Report	Concluded
2 Create standards and labels for green financial products	I. The TEG will be responsible for preparing a report on an EU green bond standard that builds on current best practices.	TEG report on a standard for green bonds	Non-legislative	TEG Report on EU Green Bond Standard	Concluded
	II. The EU Commission will specify the content of the prospectus for green bond issuances to provide potential investors with additional information.	EU Commission delegated act on the content of the prospectus for green bond issuances	Legislative	The delegated act has not yet been published.	Ongoing
	III. The EU Commission will explore the use of the EU Ecolabel framework for certain financial products, to be applied once the EU sustainability taxonomy is adopted.	Assessment of applying the EU Ecolabel to financial products	Non-legislative	Draft Technical Report Draft Preliminary Report	Ongoing
3 Foster investment in sustainable projects	The EU Commission will adopt measures to improve the efficiency and impact of instruments intended to support sustainable investment in the EU and partner countries.	N/A	N/A	N/A	Ongoing
4 Incorporate sustainability when providing financial advice	The EU Commission will amend the MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment. Based on these delegated acts, the EU Commission will invite the European Securities Markets Authority (ESMA) to include provisions on sustainability preferences in its guidelines on the suitability assessment.	EU Commission delegated acts (MiFID and IDD) on the suitability assessment	Legislative	Proposed Delegated Act (MiFID II) Proposed Delegated Act (IDD)	Ongoing
		ESMA to include sustainability preferences as part of its guidelines on the suitability assessment	Non-legislative	ESMA Final Report: Suitability Requirements	Concluded

Action Points	Action Point Requirement(s) by the EU Commission	Related Initiative(s) Announced	Type of Initiative	Outcome	Status on Dec. 15, 2019
5 Develop sustainability benchmarks	The EU Commission intends to adopt delegated acts, within the framework of the Benchmark Regulation, on the transparency of the methodologies and features of benchmarks. This will allow users better to assess the quality of sustainability benchmarks and put forward an initiative for harmonising low-carbon issuers' benchmarks that is based on a sound methodology of calculating their carbon impact. The benchmark is to be put into operation once the climate taxonomy is in place. The TEG will publish a report on the design and methodology of the low-carbon benchmark.	EU Commission delegated acts on the transparency of the methodology of benchmarks and on the features of the benchmarks	Legislative	N/A	To be commenced
		Initiative creating a designated category of benchmarks comprising low-carbon issuers	Legislative and Non-legislative	EU Regulation on EU Climate Transition Benchmarks, EU Parisaligned Benchmarks and sustainabilityrelated disclosures for benchmarks	Concluded
		TEG report on the design and methodology of the low-carbon benchmark	Non-legislative	TEG Report on Benchmarks	Concluded
6 Better integration of sustainability in ratings and market research	I. The EU Commission will explore the merits of amending the Credit Rating Agency Regulation to mandate credit rating agencies to integrate sustainability factors explicitly into their assessments in a proportionate way in order to preserve market access for smaller players.	EU Commission services report on progress made to implement the actions involving credit rating agencies.	Non-legislative	The report has yet to be published.	To be commenced
	II. The EU Commission invites ESMA to assess current practices in the credit rating market by analysing the extent to which environmental, social and governance considerations are taken into account; include environmental and social sustainability information in its guidelines on disclosure for credit rating agencies; and consider additional guidelines or measures, where necessary.	ESMA to assess current practices in the credit rating market; ESMA to include ESG information in its guidelines on disclosure for credit rating agencies	Non-legislative	ESMA advises on credit rating sustainability issues and sets disclosure requirements	Concluded
	III. The EU Commission will carry out a comprehensive study on sustainability ratings and research. It will analyse methodologies and explore aspects such as the market structure of sustainability ratings and market research services, the depth and breadth of sustainability research assessments and scoring, and the independence of those research/scoring providers. The study will also explore possible measures to encourage sustainability ratings and market research.	Study on sustainability ratings and research	Non-legislative	This study has yet to be published.	To be commenced
7 Clarify institutional investors' and asset managers' duties	The EU Commission will table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations. The proposal will aim explicitly to require institutional investors and asset managers to integrate sustainability considerations into their investment decision-making processes, and to increase transparency towards end-investors on how they integrate sustainability factors into their investment decisions, particularly with regard to their exposure to sustainability risks.	The EU Commission legislative proposal will clarify institutional investors' and asset managers' duties on sustainability and increase the transparency of end-investors, including transparency on their strategy and climate-related exposures.	Legislative	Regulation on Sustainability-Related Disclosures in the Financial Services Sector	Concluded
			Legislative	Integration of ESG considerations into risk management is seen as a key component of financial institutions' duty of care (one of the dimensions of fiduciary duty)	Ongoing

Action Points	Action Point Requirement(s) by the EU Commission	Related Initiative(s) Announced	Type of Initiative	Outcome	Status on Dec. 15, 2019
8 Incorporate sustainability in prudential requirements	I. The EU Commission will explore the feasibility of including risks associated with climate and other environmental factors in institutions' risk management policies, as well as the potential calibration of capital requirements of banks as part of the Capital Requirement Regulation and Directive. The aim would be to take into account such factors, where this is justified from a risk perspective, to safeguard the coherence and effectiveness of the prudential framework and financial stability. Any recalibration of capital requirements, based on data and the assessment of the prudential risk of banks' exposure, would need to rely on and be coherent with the future EU taxonomy on sustainable activities (see Action Point 1).	Work towards incorporating climate risks into institutions' risk management policies. This includes the potential calibration of banks' capital requirements in the Capital Requirement Regulation and Directive to take into account climate change-related risks while safeguarding financial stability and ensuring coherence with the EU taxonomy.	Legislative	Regulation 2019/876 amending the Capital Requirements Regulation (CRR) and Directive 2019/878 amending the Capital Requirements Directive (CRD)	Concluded
	II. The EU Commission will invite the European Insurance and Occupational Pensions Authority (EIOPA) to provide an opinion on the impact of prudential rules on sustainable investments for insurance companies, with a particular focus on climate change mitigation. The EU Commission will take this opinion into account in the report to be submitted to the EU Parliament and Council by 1 January 2021 under the Solvency II Directive.	The EU Commission will invite EIOPA to assess the impact of prudential rules on sustainable investment for insurance companies	Non-legislative	EIOPA's Technical Advice Solvency II and IDD	Concluded
9 Strengthen sustainability disclosure and accounting rulemaking	I. The EU Commission will launch a fitness check of the EU legislation on public corporate reporting, including the Non-Financial and Diversity Information (NFI) Directive, in order to assess whether public reporting requirements for listed and non-listed companies are fit for purpose. It will include the evaluation of sustainability reporting requirements and the prospects for electronic reporting.	Publication of conclusions of the fitness check on public corporate reporting. These will inform readers of any future legislative action by the EU Commission.	Non-legislative	The conclusions have yet to be published.	To be commenced
	II. The EU Commission will revise the guidelines on non-financial information. Building on the metrics to be developed by the TEG, the revised guidelines should offer further guidance to companies on how to disclose climate-related information, in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) and the climate-related metrics developed under the new classification system (see Action Point 1). The guidelines will subsequently be amended to include other environmental and social factors.	Revision of the guidelines on non-financial information in association with climate-related information	EU Commission Guidelines on reporting climate-related information	The report has yet to be published.	Concluded
	III. A European Corporate Reporting Lab will be established as part of the European Financial Reporting Advisory Group (EFRAG) to promote innovation and the development of best practices in corporate reporting, such as environmental accounting.	Establishing a European Corporate Reporting Lab as part of EFRAG	Non-legislative	European Corporate Reporting Lab @ EFRAG	Concluded

Action Points	Action Point Requirement(s) by the EU Commission	Related Initiative(s) Announced	Type of Initiative	Outcome	Status on Dec. 15, 2019
9 Strengthen sustainability disclosure and accounting rulemaking (continued)	IV. In terms of disclosure by asset managers and institutional investors, as part of the EU Commission's legislative proposal in Action point 7, they would be requested to disclose how sustainability factors are considered in their strategy and investment decision-making processes, in particular for their exposure to climate change-related risks.	Proposal requiring asset managers and institutional investors to disclose how they consider sustainability factors in their investment decision-making processes (as part of the proposal foreseen under Action Point 7).	Legislative	Regulation on Sustainability-Related Disclosures in the Financial Services Sector	Concluded
	V. The EU Commission will ask EFRAG to assess the impact of new or revised International Financial Reporting Standards (IFRSs) on sustainable investments. The EU Commission will also ask EFRAG to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. Taking into account EFRAG's current work, the EU Commission will report on the impact of IFRS 9 on long-term investments and explore improvements to the standard for the treatment of equity instruments.	Commission to systematically request EFRAG to assess in its endorsement advice, the potential impact of new or revised IFRS standards on sustainable investments.	Non-legislative	EFRAG	Ongoing
	VI. Within the fitness check of EU legislation on public corporate reporting, the EU Commission will evaluate relevant aspects of the International Accounting Standards Regulation. It will in particular explore how the adoption process of IFRS can allow for specific adjustments to standards where they are not conducive to the European public good, e.g. where the standards could pose an obstacle to long-term investment objectives.	EU Commission asks EFRAG to explore sound alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments	Non-legislative	New EFRAG Consultation on Equity Instruments – Research on Measurement	Ongoing
			Non-legislative	The report has yet to be published.	To be commenced
10 Foster sustainable corporate governance and attenuating short-termism in capital markets	I. To promote corporate governance that is more conducive to sustainable investments, the EU Commission will carry out analytical and consultative work with relevant stakeholders to assess the possible need to require corporate boards to develop and disclose a sustainability strategy, which shall include appropriate due diligence throughout the supply chain; measurable sustainability targets; and the possible need to clarify the rules according to which directors are expected to act in a company's long-term interest.	Assessment of possible ways to promote corporate governance that is more conducive to sustainable finance	Non-legislative	Assessment not published	Ongoing
	II. The EU Commission invites the ESAs to collect evidence of undue short-term pressure from capital markets on corporations, and to consider, if necessary, further steps based on such evidence. More specifically, the Commission invites ESMA to collect information on undue short-termism in capital markets, including portfolio turnover and equity holding periods by asset managers; and whether there are any practices in capital markets that generate undue short-term pressure in the real economy.	ESAs to collect evidence of undue short-term pressure from capital markets on corporations and consider further steps based on such evidence	Non-legislative	Call for advice to the European Supervisory Authorities to collect evidence of undue short-term pressure from the financial sector on corporations Responses gathered	Ongoing

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The mission of Swiss Sustainable Finance (SSF) is to strengthen Switzerland's position as a leading voice and actor in sustainable finance, thereby contributing to a sustainable and prosperous economy. The association, founded in 2014, has offices in Zurich, Geneva and Lugano. SSF currently unites around 140 members and network partners from financial service providers, investors, universities and business schools, public-sector entities and other interested organisations. Through research, capacity-building and the development of practical tools and supportive frameworks, SSF fosters the integration of sustainability factors into all financial services. An overview of Swiss Sustainable Finance's current members and partners can be found on its website:
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