In an international comparison, a new study places Switzerland behind the EU in terms of sustainable finance. Authorities, industry experts and investors, on the other hand, put Switzerland in a leading position. Alannah Beer gives an overview on finews.first.

In early October, ISS ESG research looked at global regulations in sustainable finance. The results they published seem alarming at first glance: in 2022, the scope and speed of regulations in the area of sustainable finance increased worldwide; the EU remains the leader in the “Regulation depth and breath index”. Switzerland, however, scores rather poorly in an international comparison according to the index, which measures the number and breadth of regulatory topics.

The facts of the matter are that as a member state of the United Nations (UN), Switzerland
agreed in 2015 that it would achieve the UN Sustainable Development Goals by 2030. In 2017, Switzerland ratified the Paris Climate Agreement and in 2019, it set itself the objective of reaching zero net greenhouse gas emissions by 2050. This aim was specified further for the financial sector by the Federal Council in 2020; it stated that the position of the Swiss financial center as a leading location for sustainable financial services should be strengthened.

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This is also reflected at the regulatory level: this year, the consultation process was initiated for the ordinance on climate reporting by large companies. The ordinance sets out legal provisions on climate reporting for large Swiss companies, which also include banks. Also this year, the Confederation issued the first green federal bond and launched the Swiss Climate Scores. These represent best practice approaches to ensure the transparency of financial investments and to map their compatibility with international climate goals using six different indicators. This should generate a comparable and meaningful information base.

Why – despite all these efforts at the highest level – is Switzerland now listed in one of the lower places in the index? To put it simply, the Swiss approach is different. The Federal Council’s policy fundamentally relies on market-based solutions and the subsidiarity of state action. As a result, the vast majority of initiatives taken in the area of sustainable finance are not even covered by the index.

«All these initiatives are taking place outside of government regulation»

More specifically, this means that the industry is supporting the Federal Council’s goals with a number of its own initiatives. These include the self-regulation of the SBA (Swiss Bankers Association), which define binding sustainability-related requirements for members with regard to investment advice, asset management and mortgage advice. The self-regulation of the Asset Management Association Switzerland (AMAS) on transparency and disclosure for collective assets with sustainability relevance is another part of the package put together by the financial center.
The umbrella organizations of the financial sector also advise their members to join the respective net-zero alliances relevant to their business model. As a member of a net-zero alliance, signatories publicly commit to formulating targets for achieving net zero and to reporting on them regularly. A study published in August by PwC in association with the Swiss Insurance Association (SIA), AMAS and Swiss Sustainable Finance (SSF) shows that there is already good coverage of the Swiss financial center. All these initiatives are taking place outside of government regulation – and therefore do not fall within the ISS ESG index.

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Nevertheless, the advantages of the Swiss approach are obvious: since the industry initiatives have been developed in association with financial market players, they are of high practical relevance. This not only ensures acceptance in the industry but also, in contrast to laws, allows efficient and target-oriented adaptivity. In addition, initiatives can take effect much more quickly.

The SBA’s self-regulations are a very good example of this. The guidelines were developed within the space of around six months, have already been adopted by the Board of Directors and will come into force as early as 1 January 2023. Consequently, the Swiss approach is able to achieve exactly what the climate emergency demands: efficient, fast and flexible changes.

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