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Sustainable finance in Switzerland: from pioneer to a premier international hub

Basic positions and effective approaches

**«Sustainable finance is
a great opportunity for
the Swiss financial centre.»**



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Foreword


Dear readers,

The Swiss financial centre is a pioneer of sustainable finance. We are committed to a form of sustainability that takes account of environmental, social and economic factors. The Swiss financial centre has a long tradition in the area of sustainable finance: the first sustainable financial instruments were launched in Switzerland as early as the 1980s. In the 1990s, the first asset management company to focus solely on sustainable investment was set up in Switzerland. Swiss financial institutions are among the leading global players in the provision and marketing of innovative financial instruments in general, and sustainable finance in particular. At the end of 2018 around 21 percent of all assets professionally managed in Switzerland were rated as sustainable, with a sharply rising trend. Although this puts Switzerland well ahead of the global average of 11 percent, it is important to consolidate and extend this lead.

Despite encouraging progress to date, we know that we have not yet reached our end goal. A sustainable financial centre is one that makes the best possible contribution overall to sustainable development and value creation in economic, environmental and social terms. In other words, all stakeholders should seek to foster and improve economic efficiency, prosperity and competitiveness both in the short and long term, while embracing sustainability in all their business practices. The activities that fall under the banner of sustainable finance include not just sustainable funds, but also green bonds, impact investments, micro-finance, active shareholder engagement and financing for sustainable projects and businesses. Furthermore, the term sustainable finance extends to the incorporation of sustainability criteria into wealth management, along with a closer alignment of the entire financial system to sustainable development. And this is precisely the type of financial centre we aspire to be! Our goal here is to highlight three key criteria – environmental, social and governance (ESG) – and to support the transition to a sustainable economy. Building on the achievements to date, our aim is to position Switzerland as a premier international hub for sustainable finance.

We therefore see sustainable finance as an opportunity. The opportunity becomes even more visible in the wake of the extremely challenging climate created by the corona-virus pandemic. With its combination of know-how, financial expertise, technological solutions and practical skills, the Swiss financial centre is extremely well

positioned. Swiss banks are well aware of their responsibility to support sustainable development. The Swiss Bankers Association (SBA) has therefore made sustainable finance a top priority. As the umbrella organisation of the Swiss banks, we are actively lobbying for existing regulatory hurdles to financial instruments to be dismantled in Switzerland and the framework conditions for sustainable financial flows in general to be further improved.



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**«Our aim is to position
Switzerland as a
premier international
hub for sustainable
finance.»**

1 Executive Summary

The Swiss financial centre is a frontrunner in sustainable finance and is on course to become a premier international hub in this area. The term sustainable finance describes financial services that incorporate ESG criteria (Environment, Social and Governance) in their business or investment decisions for the benefit of clients and society as a whole. Building on various financial sector initiatives, and given suitable framework conditions, Switzerland can become a global leader in sustainable finance, thus creating a major opportunity for its financial services industry.



«Through its own initiatives and suitable framework conditions, Switzerland can become a premier international hub for sustainable finance.»

SBA's position at a glance

- Swiss banks prioritise a series of **own initiatives** focused on sustainable finance:
 - **Transparency:** The number of banks participating in international transparency initiatives on risks resulting from ESG factors is steadily increasing.
 - **Investment:** The SBA produces recommendations for the integration of sustainability principles into various areas of the banking business. Many banks have expanded their range of sustainable products and services and are aligning their business practices with the principles of corresponding international initiatives.
 - **Credit and financing:** Various banks have integrated ESG criteria into their lending practices; they are also participating in voluntary climate compatibility tests and aligning their business practices with corresponding international initiatives.
 - **Capital market and issuance:** Swiss financial institutions have expanded their offering of green bonds and sustainability bonds,¹ as well as other ESG instruments, in line with corresponding international initiatives in each case.
- The **political framework conditions** must give the Swiss financial centre enough flexibility to be able to turn sustainable finance into a competitive advantage:
 - **Transparency:** Banks advocate greater transparency concerning the risks associated with ESG factors. These transparency rules must be internationally coordinated, include the entire economy and be commensurate with the size of the financial institution.
 - **Investment:** To promote the uptake of sustainable investments, the financial centre is reliant on better market access, up-to-date investment rules for institutional investors and tax relief on trading operations. External factors must be directly priced into real economy activities in a market-based approach (e.g. through incentive taxes combined with market-oriented measures to encourage the reduction of negative external factors).
 - **Credit and financing:** In lending business, there must be no interference between ESG criteria and capital adequacy requirements. The SBA clearly rejects restrictions or bans on the financing of activities that are perfectly legal.
 - **Capital market and issuance:** The issue of financial instruments – including those compatible with ESG criteria – must be granted tax relief.

¹ Green bonds and sustainability bonds are financial instruments issued for the financing of specific environmental and sustainability projects.

Financial service providers play a key role in the transition towards a sustainable economy and society. The priority here is to ensure financial flows are more closely geared towards the achievement of international sustainability targets such as those set in the Paris Agreement on climate change or the UN's 2030 Agenda for Sustainable Development. Amongst other things, this requires the financial system to support the transition of the economy and society towards sustainable development and at the same time gradually reduce the financing of unsustainable activities.

However, only through the interaction of **all stakeholders** can financial flows become more sustainable: Switzerland can evolve into a world leader in sustainable finance through banks' own efforts, a supportive political framework and the involvement of not just the real economy, but also private and institutional investors.

Banks have launched a series of own initiatives focused on sustainable finance. Depending on the business sector in question, specific approaches for the integration of sustainability principles must be taken. All areas share a requirement for transparency regarding the opportunities and risks presented by ESG factors. In global terms, the Swiss financial centre manages about 27 percent of cross-border private wealth and 4.6 percent of assets in global investment management. In the fields of asset management and wealth management, Switzerland has the biggest leverage when it comes to sustainable finance, managing a total of CHF 716 billion of sustainable investments, according to figures from Swiss Sustainable Finance (SSF). This is equivalent to 21 percent of all the assets managed nationwide – almost double the global average of 11 percent (according to McKinsey). Among the investment funds managed in Switzerland the share of sustainable investments is 18.3 percent, while in the case of Swiss pension funds and insurance companies it is as high as 31 percent. Although the global market share of the Swiss financial centre is smaller in the area of financing, this segment is just as important when it comes to sustainable finance. International sustainability standards are becoming increasingly established in this business, with Swiss banks some of the first to sign up to the relevant norms.

The **banks' own initiatives** cover ten areas in total and can be summarised as follows:

Commitment to transparency on ESG factors

- Swiss banks contribute towards the drafting of international standards on transparency. These include, for example the G20 «Task Force on Climate-related Financial Disclosure» (TCFD), as well as voluntary participation in the climate compatibility tests of the Federal Office for the Environment (FOEN). Many banks have already committed to adapting their reporting to TCFD requirements.
- A growing number of banks are aligning their business models with the goals of the Paris Agreement, by committing to incorporate ESG guidelines such as the «UN Principles for Responsible Banking» (PRB) in their banking business.

Investment

- The SBA has drafted a guideline for integrating ESG factors into the investment advisory process for private clients.
- Most banks have expanded their range of financial instruments and services in order to incorporate sustainability preferences.
- By integrating ESG guidelines into their investment activity, numerous banks are aligning their business models with global initiatives such as the «Principles for Responsible Investing» (PRI).

Credit and financing

- A growing number of banks have integrated ESG factors into their lending practices on their own initiative.
- Depending on their business model, many banks are aligning their processes with global initiatives such as the PRB by incorporating ESG guidelines into their banking operations.
- The SBA encourages all members to participate in voluntary climate compatibility tests.

Capital market and issuance

- Various standards are currently being developed for sustainable financial instruments, such as the «EU Green Bond Standard». These are aligned with emerging taxonomies and transparency standards in whose development financial institutions are directly involved.
- Swiss banks and asset managers have developed a broad range of financial instruments focused on sustainability principles, such as green bonds, micro-finance and sustainability bonds.

In addition to banks' own initiatives, the financial centre requires an optimal **political framework** that gives the Swiss financial centre enough flexibility to turn sustainable finance into a competitive advantage. Taking inspiration from the successful Swiss approach in economic policy-making, rules should be based on principles. From the SBA's viewpoint, the focus is on the following ten action areas.

Greater transparency on the opportunities and risks related to ESG factors

- **Internationally coordinated approach to transparency rules:** The SBA supports the drive towards greater transparency regarding the opportunities and risks affecting financial flows as a result of ESG factors. Here it is important for measures to be internationally coordinated, as this is the only way of ensuring that the products and services of Swiss financial institutions are exportable and compatible with international guidelines.
- **Involvement of the real economy:** It is essential that not just banks as financial intermediaries, but also investors (who make decisions) and the real economy (which seeks financing) are involved in the process. As intermediaries, banks play a pivotal role in ensuring their clients make informed decisions that match their needs. For banks to be able to provide their investors with reliable information about the ESG-compatibility of their investments, the recipients of financial flows must provide transparency on the sustainability-related opportunities and risks of their activities. Such transparency is therefore only meaningful if the real economy, as the recipient of financial flows, is included in the scope of the transparency requirements.
- **Differentiated transparency standards:** Appropriate transparency standards should be commensurate with the size, complexity, risk profile and structure of the business model. Excessively complex regulations must be avoided, as they could become an obstacle to sustainable finance, depending on the bank's business model. Transparency requirements should be adapted according to a materiality assessment. On this basis, companies can focus on the main ESG factors relevant to their business activity.

Improving framework conditions for investment

- **Expand market access:** Swiss financial institutions require adequate international market access to be able to export services and financial instruments in the field of sustainable finance. This is the only way to develop the full potential of the vast pool of sustainability expertise built up over the years by Swiss financial institutions.
- **Up-to-date regulations in occupational pension provision:** The investment regulations for pension funds in the area of occupational pensions must be brought up to date. The SBA calls for the «Prudent Investor Rule» to be consistently applied.² This is essential for ensuring that sustainable investment by pension funds is no longer complicated by unnecessarily restrictive conditions.
- **Tax relief on the trading of sustainable financial instruments:** The SBA advocates the removal of fiscal and bureaucratic obstacles to sustainable financial instruments and sustainable investment, so as to encourage supportive framework conditions. In particular, stamp duty places the trading of sustainable financial instruments in Switzerland at a disadvantage. The SBA calls for the general dismantling of stamp duty, in order to make sustainable products and services more attractive for international investors too.

² The «Prudent Investor Rule» is explained here: <https://www.swissbanking.org/de/services/insight/insight-3.17/prudent-investor-mehr-rendite-dank-neuen-anreizstrukturen> (German only).

- **Pricing external factors into real economy activities:** Measures that influence the conduct of economic players should follow market-based principles and tackle the root of the problem. This avoids a potential investment dilemma created by inadequate pricing of external factors. The SBA advocates targeted pricing of external factors into real economy activities, for example in the form of selective incentive fees combined with market-oriented incentives to encourage the reduction of negative external factors.

CO₂ levy improves the incentive structure for financial investments

Of all the available options, the introduction of a CO₂ levy on all fossil fuels seems to be the best market-based solution. This type of incentive is far preferable to instruments incompatible with a free market economy, such as bans or subsidies. Equal treatment of energy sources through a carbon tax would considerably improve the incentive structure for low-emission technologies and for associated financial investments in Switzerland, without holding back innovation unnecessarily. In practical terms, this means expanding the CO₂ levy on fuels. This levy is also compatible with other measures, such as the international trading of carbon credits. Moreover, the financial burden of such a levy can remain unchanged for the economy as a whole, because the bulk of the tax can be redistributed. Conversely, we should steer away from subsidy mechanisms that are not technology-neutral and have a questionable impact, such as technology funds, seed capital and financial market regulations.

No counterproductive interventions in lending business

- **No interference with Too-Big-To-Fail regulation:** The stability of the financial centre is paramount. The Too-Big-To-Fail (TBTF) regulation and the requirements concerning capital adequacy and liquidity, which also affect non-systemic banks, should not be undermined. The SBA clearly rejects any tightening or loosening of these requirements due to sustainability aspects.
- **No ban on the financing of legal activities:** The SBA firmly rejects restrictions and bans on the financing of legally permitted activities. These would force banks into an inappropriate supervisory and decision-making role in the area of sustainability. Aside from that, bans on financing are counterproductive, as they would simply encourage flows to switch to other providers in Switzerland or alternative financial centres with less stringent sustainability rules. If politicians want to prohibit specific activities or products (such as oil-fired heating), outright bans are more effective.

Stronger capital market

- **Tax relief on the issuance of securities:** The Swiss withholding tax places financial instruments issued in Switzerland at a disadvantage to the international competition and restricts their exportability due to higher costs. The SBA calls for a rapid and pragmatic reform of withholding tax, so that sustainable products and services in particular can be positioned competitively in the international marketplace. Only in this way can ESG-compatible Swiss financial instruments and the Swiss capital market realise their full potential in the service of sustainability.

As an umbrella organisation, the SBA supports its member banks in their sustainability initiatives in banking operations. Here we are in continuous dialogue with all relevant stakeholders in industry, public authorities, science and civil society. In addition, the SBA works actively with its members on support measures for integrating ESG criteria into their business models, with the goal of supporting the continuous adaptation of their banking operations. By taking sustainability factors into account, the aim is to establish a new, important dimension that allows clients to incorporate sustainability preferences into their banking practices.



«Market-oriented,
principles-based
rules offer the most
success – both for
sustainability goals and
for the economy.»

Table 1

Summary of action areas for sustainable finance

Sustainability areas in banking	Bank's own initiatives	Necessary political framework
Transparency on risks associated with ESG factors	<ol style="list-style-type: none"> Contributions to international transparency initiatives (e.g. TCFD, involvement in PACTA) Growing numbers of banks are integrating ESG guidelines (e.g. PRI) into their business practices 	<ol style="list-style-type: none"> Internationally coordinated approach Involvement of the real economy Differentiated transparency requirements
Investment	<ol style="list-style-type: none"> SBA is drafting support measures to integrate ESG criteria into bank operations Selection of financial instruments and services catering for sustainability preferences Alignment with international initiatives (e.g. PRI) 	<ol style="list-style-type: none"> Expand market access Up-to-date regulations in pension provision Tax relief on trading Pricing external factors into real economy activities (e.g. via incentive fees)
Credit and finance	<ol style="list-style-type: none"> Integration of ESG factors into lending practices Alignment with international initiatives (e.g. PRB) Voluntary participation in climate compatibility tests 	<ol style="list-style-type: none"> No interference with TBTF regulation No ban on the financing of legal activities
Capital market and issuance	<ol style="list-style-type: none"> Contribution to standards for sustainable financial instruments (e.g. EU Green Bond Standard) Development of a broad selection of green bonds, sustainability bonds, transition bonds and other ESG instruments 	<ol style="list-style-type: none"> Tax relief on securities issuance

Abbreviations

ESG: Environmental, social and corporate governance

TCFD: FSB Task Force on Climate-related Financial Disclosures

PACTA: Paris Agreement Capital Transition Assessment

PRI: UN Principles for Responsible Investment

PRB: United Nations Environment Programme – Finance Initiative (UNEPFI), Principles for Responsible Banking

TBTF: Too-Big-To-Fail regulation

More explanations are provided in Chapter 3 International developments

A full glossary of sustainable finance terms is available on the Swiss Sustainable Finance website:

https://www.sustainablefinance.ch/en/glossary_content---1--3077.html

Source: SBA

2 Sustainability in the Swiss banking sector

Sustainability has recently been in the media spotlight in Switzerland and at the centre of the public debate on climate change. One particular focus has been the business practices of corporates, as these have a significant impact on the environment and society as a whole. The most obvious example is greenhouse gas emissions, which are significantly related not only to business process, but also consumer behaviour and politics. Aside from this, companies have a significant influence on the achievement of other aspects of the UN Sustainability Development Goals, such as combating poverty, gender equality and health.

Politicians are discussing how economic actors – and thus also the Swiss financial centre – should be called upon to make a measurable and positive contribution to the transition to a more sustainable economy and society. For example, the total revision of the CO₂ Act is currently under way. As Switzerland is unable to tackle global challenges such as climate change in isolation, it makes sense to focus on internationally coordinated, holistic approaches.

What contribution can the financial system make? On the one hand, financial service providers, as service-sector companies, must also strive for sustainability in their business practices. In this sense they are no different from other companies and their activities in the area of corporate social responsibility (CSR; see Figure 1). These include initiatives in corporate environmental management, such as reducing emissions and offsetting greenhouse gases in the company's internal processes. There are also initiatives in the areas of governance, the monitoring and reporting of internal sustainability, social engagement, and lobbying.

On the other hand, the financial system plays an important role in the global implementation of the Sustainable Development Goals set in the UN's 2030 Agenda for Sustainable Development and in the Paris Agreement on climate change. The purpose of these intergovernmental agreements is to improve the livelihoods of future generations.³ They can only be successful if the transition towards a sustainable economy and society is accomplished. As the link between investors and the real economy, financial institutions play a pivotal intermediary role.

3 The Brundtland Report commissioned by the United Nations in 1987 defines the term «sustainable development» as follows: «Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.» Our Common Future, United Nations, 1987.

Sustainable finance addresses the three core functions of banking: investment; credit and financing; and capital market and securities issuance (see Figure 1). Given the different roles that a bank has to play in the respective functions, it has to use specific instruments to assure sustainability. Efforts here are focused on creating transparency regarding ESG factors. This allows decision-makers to consider an investment’s sustainability-related opportunities and risks in their evaluation.

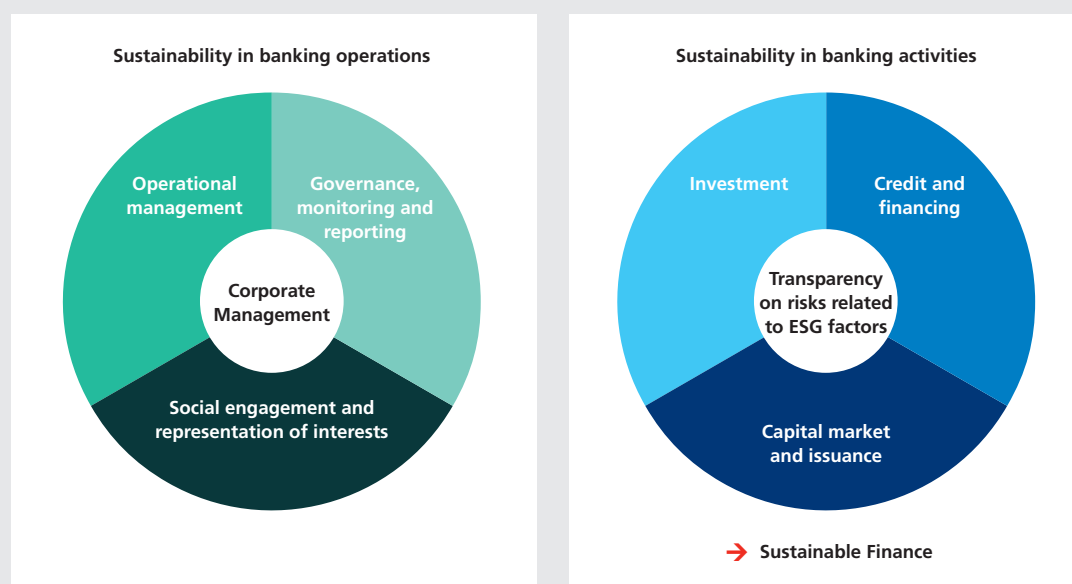
Figure 1

Banks’ business model

Basic principles on which a bank creates, documents and communicates values:

- USP
- Subsectors
- Key activities
- Key partners
- Customer relationship management
- Distribution channels
- Key resources
- Cost structure and revenue streams

Corporate Social Responsibility – sustainability in bank operations and banking activities



Source: SBA, based on Osterwalder / Pigneur, 2010: «Business Model Generation»

The financial system essentially reflects what goes on in the real economy at any given point in time. Financial intermediaries ensure that the objectives of both sides of the market – the donors and the recipients of finance – are achieved, and so they have an influence on financial flows. They process information from both market sides, provide financing to companies either directly (e.g. through IPOs) or indirectly (as a loan on their own books), and ensure that investors and savers receive their due. Here the financial flows are geared towards the needs of the company seeking capital and the investors providing it, as well as the applicable regulatory framework.



«As intermediaries, banks bring together the needs of investors and the real economy in the area of sustainability.»

2.1 Involvement of investors and the real economy

The role of the Swiss financial centre, and especially of banks, is often misrepresented in the current debate. In fact, banks only have discretion over a very small share of the total assets invested under their management. Banks actually manage a much higher proportion of financial flows on behalf of, and on the instructions of, investors. In this case, banks are duty-bound to provide transparency about the type of investments and their potential returns and risks – including possible risks arising from ESG factors – and to highlight alternatives. However, it is the investors who make the final decision, unless that has been explicitly delegated to the bank. For this reason, regulatory measures targeted solely at financial intermediaries cannot achieve their full intended effect.

For financial flows to become more sustainable in Switzerland, all stakeholders need to be involved. To achieve maximum effect, suitable measures should initially come from the financial sector itself, but should subsequently involve investors (pension funds, insurance, private investors, etc.), intermediaries (typically fund managers, asset managers, wealth managers, banks, insurers, pension funds and private investors) and providers of financial instruments (equities, bonds, infrastructure, etc.). Today, banks already play a key role in the dissemination of information. Going forward, they are willing to provide the necessary support to ensure that this information is consistently collated and communicated.

Sustainable investments are not always recognised as such by investors and do not necessarily meet their expectations. A certain standardisation of rules and terminology would smooth progress here. They should initially be developed by the financial industry itself, as has happened in the past with structured products, for example. In addition, rules should be based on principles and be proportionate, whilst allowing some discretion for an appropriate solution to be found in specific cases. The multiple definitions of «green» and «sustainable» investments are often cited as a significant obstacle to the urgently needed expansion of this type of investment. The European Commission published a taxonomy of sustainable finance in March 2020, which is likely to have both direct and indirect effects within the Swiss market.

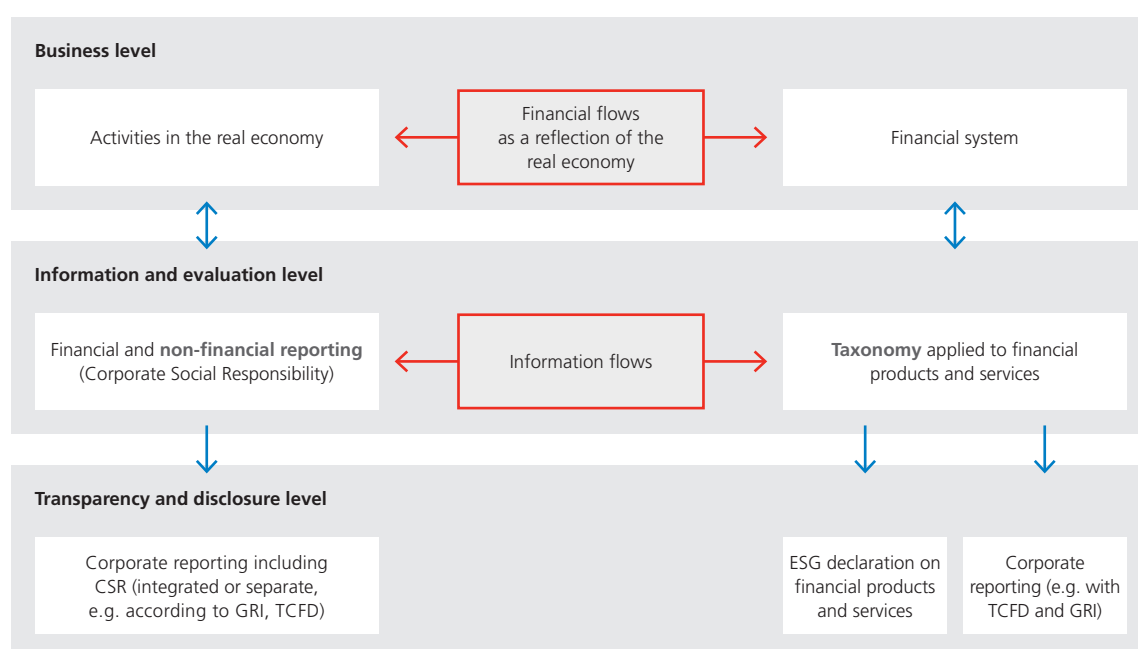
The availability of data on the sustainability credentials of companies and products is not currently comprehensive enough and in terms of data quality sometimes presents a challenge for sustainable rating systems. The disclosure of sustainability factors is mostly voluntary at present. Many Swiss companies, including financial institutions, disclose sustainability information according to standards such as the «Global Reporting Initiative» (GRI) and are in the process of implementing the recommendations of the TCFD for the reporting of climate-related financial risks. A large number of data providers are working on improving ESG data. However, data quality and availability can still be erratic. Sustainability reporting can improve transparency and integrity in financial markets if it is suitably designed, applied and verified, and also developed in parallel with other measures.

Financial flows reflect activity in the real economy (see Figure 2). There is a natural interplay here. For market players to make decisions about financial flows based on relevant information about sustainability risks, the financial system must rely on information flows from the real economy. In particular, businesses must play their part through disclosure. The best way to achieve this is through international initiatives such as the TCFD, the «EU Non-Financial Reporting Directive» (NFRD) or the «GRI Standards for Sustainability Reporting» (GRI Reporting).

Measures that fail to consider this interplay will not be very effective, as they are not suitably geared towards information flows and the associated downstream financial flows.

Figure 2

Financial flows reflect the real economy



Abbreviations:

CSR: Corporate Social Responsibility

GRI: Global Reporting Initiative

TCFD: Task Force on Climate-related Financial Disclosures

A full glossary of sustainable finance terms is available on the Swiss Sustainable Finance website:

https://www.sustainablefinance.ch/en/glossary-_content---1--3077.html

Source: SBA

2.2 Switzerland is among the leading providers of sustainable finance

Financial service providers can play a pivotal role in tackling global challenges by supporting and accelerating the transition of the economy and society towards sustainability. Financing a sustainable economy requires the financial system to facilitate the transition to sustainable development and at the same time reduce the funding of unsustainable activities. Clean energy, resource-efficient infrastructure and environmental protection are just some examples of investing in a sustainable economy. Here both private and public financial flows are important and must work together to make a vital contribution to the financing of the future.

Swiss financial institutions have been offering suitable products and services for over three decades.⁴ Within the financial industry these are marketed under the label of sustainable finance. This covers every form of financial service that embeds environmental, social and governance (ESG) measures in business or investment decisions for the long-term benefit of clients and society as a whole. The industry association Swiss Sustainable Finance has established itself as a centre of excellence for Swiss banks and asset owners, and supports the positioning of sustainable finance within the industry.

In 2018, assets worth around CHF 720 billion in Switzerland were managed according to ESG criteria, equivalent to around 21 percent of total assets under management in Switzerland.⁵ These figures highlight the leading role and expertise of institutions based in Switzerland, given that the global average for sustainable investments stands at roughly 11 percent.⁶

There is strong consensus between the authorities and the financial sector as to how the Swiss financial centre should develop in the future regarding the key issue of sustainability, with an understanding that this orientation needs to be embedded in the financial centre's business model. Initiatives to adapt business practices should not be driven by additional regulation: a voluntary approach based on economic incentives is more effective. We want to play a lead role in Switzerland in developing advisory expertise and solutions for interested investors.

⁴ SSF, «Switzerland for Sustainable Finance – Transforming finance for a better world», October 2019.

⁵ See Swiss Sustainable Finance, «Swiss Sustainable Investment Market Study», 2019.

⁶ See Swiss Sustainable Finance, «Swiss Sustainable Investment Market Study», 2019.

Both the industry and the government are working to make progress measurable and transparent. In 2017, the Federal Office of the Environment (FOEN) and the State Secretariat for International Finance (SIF) launched the first trial to analyse the climate compatibility of investment portfolios. All Swiss pension funds and insurers were able to have their equity and corporate bond portfolios tested – voluntarily, anonymously and free of charge – to check whether their environmental footprint was compatible with climate warming of less than 2° Celsius. The Swiss Association of Pension Funds (ASIP) and the Swiss Insurance Association (SIA) have supported the tests, which were carried out by the think-tank 2°Investing Initiative.⁷

In 2020 an updated climate compatibility test has been launched for pension funds and insurers, and will now be extended to asset managers and banks as well. The existing model has been expanded to include global loans and Swiss real estate investments, amongst others. Qualitative aspects such as investor dialogue with companies (engagement) will also be taken into account. The tests will be coordinated internationally under the banner «PACTA Initiative 2020». The SBA encourages its members to take part. As the test methodology has still not been perfected, the financial industry is also offering its support in refining the analytical methods.

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



«All stakeholders need to be involved if financial flows are to become more sustainable in Switzerland.»

2.3 Banks' own initiatives

Sustainable business practices are for the most part in the banks' own interest. Banks are focused on comprehensive risk management as well as their reputation as providers of top-quality services, reliable business partners and good corporate citizens. Numerous Swiss banks have taken diverse measures in the past years to contribute to the global sustainability agenda. These include corporate governance restructuring, the integration of ESG criteria into investment processes, sustainability risk audits, climate compatibility tests, disclosure of sustainability impacts and the expansion of offerings to include sustainable financial instruments.

Banks operate in a competitive environment, so they need to offer financial instruments and services that satisfy customer demand. Given increased public and political awareness of ESG themes and increasing demand from clients, many banks have developed forward-looking strategies, augmented their product range and refined their business models. By including information services, some providers of financial instruments have introduced additional information such as sustainability ratings.

Risk management is a core competence of banks, whether for their own investments or in their role as fiduciary asset managers of client funds. This also includes managing risks associated with unsustainable business practices as well as the costs and risks of the transition towards more sustainable business models. Key aspects include creating transparency regarding the sustainability-related impacts of investments, their continuous monitoring and the provision of information to clients. Institutional investors now commonly include ESG themes in the reporting on performance, liquidity and portfolio risks. In private client business, initiatives are under way to demonstrate to clients the sustainability impacts of their investments in a consolidated form. With the progress made on initiatives for standardised disclosure of sustainability impacts on the real economy and new digital solutions, the creation of sustainability reports – even for smaller portfolios or tailored to specific client wishes – will possibly soon be part of the banks' offering.

The incorporation of ESG factors into banks' internal processes means their systems must be designed to cater for the additional complexity of this new dimension in the investment and financing processes. Swiss banks are making substantial investments to implement this. In addition, staff receive specific training to ensure that sustainability criteria are embedded in services, processes and financial instruments.

A number of financial institutions have openly committed to the UN Sustainable Development Goals and the aims of the Paris Agreement, and have signalled their intention to align their financial flows with these goals.












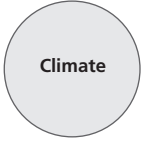








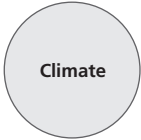

«To make sustainable finance exportable, international coordination is necessary.»

3 International developments

The involvement of all economic actors requires international coordination of activities, or ideally common standards. Given the international character of the Swiss financial system, both the United Nations initiatives and EU regulations are relevant to Switzerland (see Figure 3). The regulations and standards are partly intended as «soft laws» or self-regulation. But more and more countries are translating them into binding legislation. A growing number of banks in Switzerland already use voluntary standards or are about to do so.

Figure 3

Overview of the most important regulations and standards for sustainable finance

Promoting organisation	Focus	Most important initiatives
 United Nations	 ESG	   Principles for Responsible Investment    Principles for Sustainable Insurance
 FINANCIAL STABILITY BOARD	 Climate	  TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES  Climate Action Peer Exchange
 European Commission	 Initially climate & environment, then ESG	  International Platform on Sustainable Finance
	 Climate	 CO ₂ Act

Note: The figure is illustrative and not exhaustive.

Source: SBA

The Swiss financial centre can become a role model if it sets an example through high-quality products and services. This requires expertise, an appealing location, a broad educational offering and critical mass. Sustainability ecosystems have emerged within the Swiss financial community. In addition to asset management, these include other specific activities related to sustainable finance, and the related job market.

Over the last few years, a number of initiatives in the area of sustainable finance have brought significant progress. Switzerland is actively involved in all of these and is thus contributing to the acceleration and consolidation of sustainable finance. Some of the most important initiatives are high-lighted below.

Financial Centres for Sustainability (FC4S)



The FC4S network was founded in September 2017 in Casablanca. It was established as a partnership between the world's major financial centres and the United Nations Environment Programme (UNEP). The aim of the network is to exchange experiences and take joint action on shared priorities in order to accelerate the expansion of sustainable finance. The long-term vision of the FC4S network is the rapid global growth of sustainable finance, supported by greater international networking and a framework for collective action. Swiss Sustainable Finance and Sustainable Finance Geneva are active members. The FC4S secretariat is based in Geneva.

Network for Greening the Financial System (NGFS)



The network of central banks and supervisory authorities is a collaborative structure aimed at greening the financial system and strengthening the financial sector's efforts to achieve the objectives of the Paris Agreement. This includes, for example, mobilising capital for green and low-carbon investments. As a voluntary, consensus-based forum, the NGFS has issued six recommendations for central banks, supervisory authorities, policymakers and financial institutions with a view to strengthening their role in the greening of the financial system and management of environmental and climate risks. The Swiss National Bank (SNB) and Swiss Financial Market Supervisory Authority (FINMA) joined the NGFS in April 2019. As members, they are required to make an active contribution.

United Nations Environment Programme Finance Initiative (UNEP FI)



The UNEP FI is a partnership between UNEP (United Nations Environment Programme) and the global financial sector to mobilise private-sector finance for sustainable development. UNEP FI works with more than 300 members – banks, insurers, and investors – and over 100 supporting institutions to help create a financial sector that serves people and the planet while delivering further positive impacts. It aims to inspire, inform and enable financial institutions to improve people's quality of life without compromising the needs of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

UNEP FI supports global finance sector principles to catalyse the integration of sustainability into financial market practice. The frameworks UNEP FI has established or co-created include:

- PRB launched with more than 130 banks collectively holding USD 47 trillion in assets, or one third of the global banking sector, on 22 September 2019.
- «Principles for Sustainable Insurance» (PSI), established 2012 by UNEP FI and today applied by one-quarter of the world's insurers (25 percent of global premiums);
- PRI, established in 2006 by UNEP FI and the UN Global Compact, now applied by half the world's institutional investors on assets of USD 83 trillion.

These frameworks establish the norms for sustainable finance, thereby providing the basis for standard-setting and helping to ensure private finance fulfils its potential role in contributing to the achievement of the UN 2030 Agenda for Sustainable Development and the Paris Agreement.

UN Principles for Responsible Investment (PRI)



The PRI is an investor initiative founded in 2006. Today the PRI network is independent. It encourages investors to invest responsibly in order to improve returns and manage risks more effectively. The PRI network is a non-profit organisation that works together with global political decision-makers. It is not affiliated to any government, although it is supported by the United Nations. As an international investor network, PRI has produced six principles for responsible investment and monitors their implementation. The aim is to understand the implications of sustainability for investors and to support the PRI signatories in incorporating these factors in their investment decision-making processes. More than 110 Swiss signatories have joined the PRI.

Principles for Responsible Banking (PRB)



The PRBs provide the framework for a sustainable banking system and help the sector to demonstrate how it makes a positive contribution to society. They are accelerating the banking industry's contribution to achieving society's goals as expressed in the UN Sustainable Development Goals and the Paris Agreement.

The PRBs were launched by 130 banks from 49 countries in September 2019 at the annual United Nations General Assembly. In addition to the two big Swiss universal banks, various leading Swiss wealth managers are also signatories, others will follow.

Task Force on Climate-related Financial Disclosures (TCFD)



The TCFD of the Financial Stability Board develops voluntary, consistent, climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The Task Force considers the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across different industries. The work and recommendations of the Task Force help companies understand what financial markets want from disclosure in order to measure and respond to climate change risks. The Task Force also encourages firms to align their disclosures with investors' needs. According to TCFD recommendations, transparency is essentially voluntary. Various Swiss companies have already signed up and more are about to. However, the European Commission's «Guidelines on reporting climate-related information» regard the TCFD as the financial element of the EU Non-Financial Reporting Directive, which is binding on all EU companies. Signatories of the Principles for Responsible Investment must also align their reporting with TCFD.

EU Action Plan



The Action Plan on sustainable finance published by the European Commission in June 2018 is intended to mobilise the potential of the financial sector to achieve the goals expressed in the 2015 Paris Agreement.

The action plan has three main objectives:

- reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth;
- manage financial risks stemming from climate change, environmental degradation and social issues;
- foster transparency and long-termism in financial and economic activity.

In May 2018, the European Commission adopted a package of legal measures implementing several key actions. The four proposals included in the package are (1) a unified classification system («taxonomy»), (2) sustainability disclosure obligations for investors, (3) developing low-carbon benchmarks, (4) better advice to clients on sustainability issues.

In July 2018, the Commission also set up a technical expert group on sustainable finance (TEG) to provide information on the progress of the Action Plan.

Over the course of 2019, the TEG published several reports and recommendations on sustainable finance, including

- Final report on EU taxonomy;
- Final report on the EU Green Bond Standard;
- Final report on the EU Climate Benchmarks and Benchmarking ESG Disclosures;
- Final report on Climate-related Disclosures.

The Action Plan is expected to have a substantial impact on sustainable finance markets in Europe and beyond.

**«Industry standards
are more effective
than legislation.»**



4 SBA basic positions

Achieving sustainability goals requires a change in the behaviour of economic actors. This includes, for example, switching to alternative energy sources or avoiding products associated with human rights abuses. Some progress has already been made in particular with end customers through voluntary measures, information campaigns and certification (e.g. labels). In addition, many countries are adopting policies to try to force or encourage companies and consumers to change their behaviour.

Measures to **influence the behaviour** of economic actors away from unsustainable activities towards more environmentally friendly and socially responsible practices can be roughly divided into the following categories:

- **Control of price mechanisms**, in other words, positive or negative financial incentives (e.g. CO₂ levy, subsidies, tax relief)
- **Transparency requirements**, disclosure obligations, awareness of ESG risks and their impacts (e.g. climate compatibility tests, ESG ratings)
- Behavioural economics instruments/«**nudging**» (e.g. ESG-compatible default options while still offering freedom of choice)⁸
- **Bans** (e.g. international ban on outlawed weapons)

The SBA is open-minded about the mechanisms used to influence the behaviour of economic actors in ESG matters. The key point is **whether the measure is directed at the unsustainable activity itself or its financing**. As a rule, industry standards based on principles are preferable to legislation. In addition, the principle of proportionality of effort and costs, and the resulting return, must be considered and possible concrete measures explored in individual cases. SBA's basic positions can be summarised as follows:

⁸ Nudge is a term taken from behavioural economics that was popularised by Richard Thaler, a Nobel prize winner in economics. It is a method used to influence the behaviour of people without reverting to bans and directives or having to change economic incentives. One important nudge consists of setting optimal «defaults» while also allowing freedom of choice. As long as people do not deviate from these defaults, their behaviour is in line with the regulator's intention.

Table 2

Palette of potential measures

Measures to influence the behaviour	... regarding legal but unsustainable activities	... regarding their financing
Price mechanisms	Approval by the SBA: Efficient way of systematically internalising external factors (e.g. targeted levies on certain fossil fuels), especially in combination with potentially more efficient, market-oriented incentives (e.g. green bonus).	Taxing relevant financial instruments is rejected by the SBA , as they are already at a significant international disadvantage (Swiss withholding tax, stamp duty). Promoting ESG-compatible financial instruments through tax relief is supported (see SBA Position Paper of 19 September 2019 ⁹)
Transparency requirements for ESG risks	Approval by the SBA: (e.g. labels for the energy consumption of electrical equipment).	Approval by the SBA: Transparency on the ESG risks of investments enables banks and their clients to have well-informed risk management and report on their conduct. Transparency requirements must be proportionate to the size, complexity, risk profile and structure of the bank's business model. In addition, they must be aligned with international standards and include the real economy.
Nudging	Approval by the SBA: (e.g. green energy as the default option for utility companies).	Approval by the SBA: Nudging is an effective way of ensuring greater ESG compatibility without limiting consumer freedom (e.g. prioritising sustainable financial instruments and services in marketing activities).
Bans	No current SBA position (e.g. ban on nuclear power or oil-fired heating); however, the SBA prefers market-oriented instruments and is generally sceptical of bans.	Rejection by the SBA: The SBA clearly rejects any bans or restrictions on the financing of legal activities: a direct ban on the activity in question is a more efficient way of changing behaviour. Banks cannot and should not become «sustainability police» (e.g. enforcing ESG standards in infrastructure financing).

9 https://www.swissbanking.org/en/media/news/sba-position-paper-on-sustainable-finance?set_language=en.

Decarbonisation of the entire economy is required in order to meet the objectives of the Paris Agreement. In economic terms, the key to this is the internalisation of negative external effects that cause climate change. However, the transition to a sustainable economy can only succeed if the incentives regarding CO₂ emissions are changed. **Price mechanisms** play a key role here: ideally they should be combined with potentially more efficient support measures such as a green bonus. If possible, levies should be designed to be fiscally neutral and their full amount should be directly recycled into the economy.

As a service industry, the financial sector generates comparatively low emissions itself, but is positioned at the interface between investors and productive businesses. Cuts must be made in sectors currently producing the highest emissions.

Of all the options available, **the introduction of a carbon tax (CO₂ levy) on all fossil fuels** seems to be the one most compatible with a free market economy. This type of incentive is clearly preferable to less market-friendly mechanisms, such as bans and subsidies. Equal treatment of energy sources by means of a CO₂ levy would significantly improve the incentive structure for low-carbon technologies and associated financial investments in Switzerland, without restricting innovation unnecessarily. In practical terms, this means expanding the CO₂ levy on fuels.

This type of levy is also compatible with other measures, such as international trading in carbon credits. Furthermore, the financial burden of such a tax can be kept the same for the economy as a whole, because most of the tax receipts can be redistributed. Conversely, subsidy systems that are not technology neutral and have a questionable impact should be avoided (technology funds, start-up financing, regulations for the financial market).

The SBA does not consider a **tax on the financing** of unsustainable but legal activities (known as «brown penalising» in environmental matters) to be a sensible policy and firmly rejects such a mechanism. On the one hand, this indirect tax on such activities is not effective, while on the other hand this form of financing (through financial instruments, for example) is already at a disadvantage in an international context because of withholding tax and stamp duty. **Tax relief** in general is very welcome, on the other hand. The SBA calls for the general dismantling of stamp duty and the reform of withholding tax. These measures would allow that products and services – and especially sustainable finance – can be positioned competitively in the international marketplace. As the Swiss financial centre is already a leading provider of ESG-compatible financial instruments, the removal of tax disadvantages should help to further strengthen its own position and accelerate the international growth of sustainable investments.

The SBA is committed to the disclosure of climate risks in accordance with TCFD recommendations. **Transparency requirements** are to be welcomed, as they allow informed risk management. In addition, they enable financial institutions and their clients to publicly demonstrate exemplary behaviour. However, transparency requirements must be commensurate

with a bank's size, complexity, risk profile and business model, as they entail considerable effort and cost – especially for smaller financial institutions. Care should also be taken to ensure that transparency efforts are based on principles and coordinated with international developments.

Instruments from behavioural economics, such as **nudging**, are innovative and effective approaches that can make a valuable contribution towards the achievement of ESG goals. Here, the decision-making paths for economic actors are redirected towards sustainable options. At the same time, no restrictions are imposed regarding freedom of choice or pricing. One example is the prominent placement of sustainable products and services as the default option. This happens without state intervention and regulations.

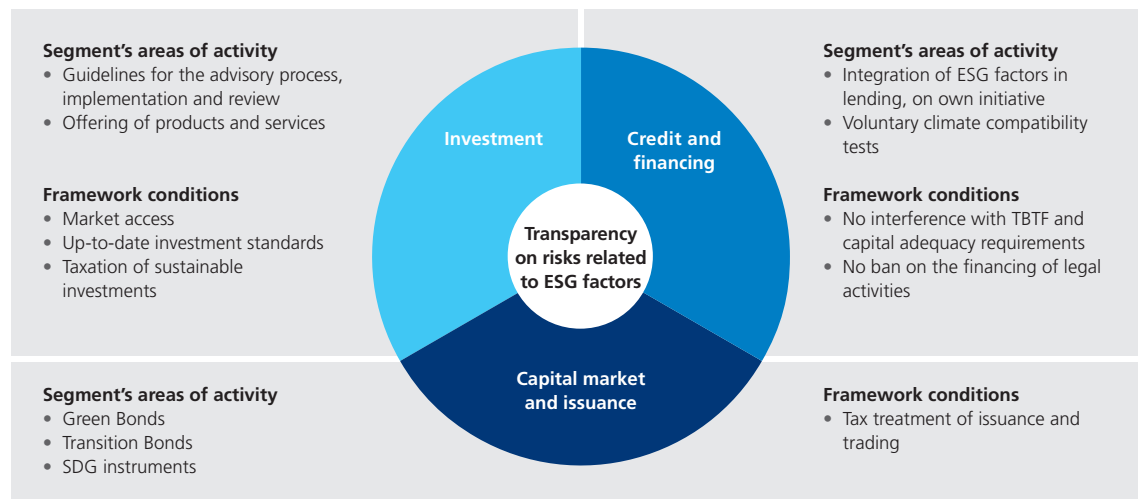
If sustainability goals have to be achieved through prohibition, the most effective solution is a direct ban on unsustainable activities. As a market-oriented association, the SBA is in principle sceptical of bans, and prefers liberal solutions. A ban on the financing of unsustainable, but legal activities is illogical and forces the financial centre into a supervisory role. Financial institutions only have limited control over the sustainability impacts of financed projects and would face both risks and substantial overheads. The SBA firmly rejects bans or restrictions on the financing of legal activities

5 What is the best way for the Swiss financial centre to support sustainability?

The most effective way for financial institutions to influence the sustainability of their financial flows is through their investment activity, in particular the client advisory process and their range of products and services on the one hand, and their lending activity on the other. Also included are services linked to the capital market, such as IPOs and securities issues, and trading (see Figure 4).

Figure 4

Sustainability areas in the banking business



Source: SBA

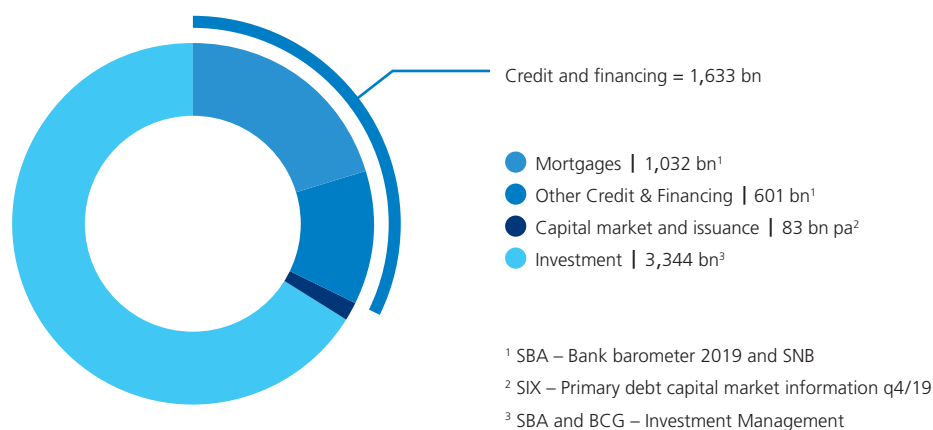
Unlike many other financial centres, Switzerland's financial industry is heavily geared towards investment activity (see Figure 5). With a share of 3 percent of global private wealth and 4.6 percent of investment management assets, as well as about 27 percent of assets owned by cross-border private clients, the Swiss financial centre has considerable influence over these assets. By contrast, lending activities via bank loans or the capital market are significantly smaller, representing between 0.5 percent and 1.4 percent of the global market (see table 3). Around 66 percent of the business volume that is relevant from a sustainability perspective is centred on wealth management (see Figure 5). Lending by banks in Switzerland is dominated by domestic mortgage business. Lending that could potentially have negative environmental impacts, such as loans linked to fossil fuels, play a much smaller part. The capital market cannot perform its role of financing the transition to a sustainable economy under the current fiscal framework.

From a Swiss perspective, investment activity offers the best leverage for effectively meeting sustainability goals. Here it should be noted that, in most cases, banks must act on behalf of and in the interest of their clients and must take their needs into account. For this reason, the SBA has published a first guideline for embedding sustainable criteria into the advisory process for private clients.

Figure 5

Quantitative share of business segments in banking business

In CHF



Note: The figure is illustrative.

Sources: SBA, SIX, SNB, BCG

Table 3

Swiss financial centre's share of global totals, by service

		Switzerland's volume	Switzerland's share	Reporting date	Source
Investment activity	Total AuM for private clients	CHF 3,700 bn	3,0 %	y/e 2018	BCG
	AuM for cross-border private clients	CHF 2,300 bn	26,6 %	y/e 2018	BCG
	AuM in Investment Management	CHF 3,300 bn	4,6 %	y/e 2018	BCG, SBA
Financing	Bank lending to non-banks (excl. mortgages)	CHF 600 bn	1,4 %	y/e 2018	SNB, BIZ
Issues/ primary trading	Bond issuance (excl. public-sector issuers)	CHF 80 bn p.a.	1,1 %	2019	SIX, Dealogic
	IPO volumes of equities	CHF 3 bn p.a.	0,5 %	2019	SIX, Reuters

«Transparency
allows informed
investment
decisions.»



5.1 Transparency of risks associated with ESG factors

The risks deriving from climate change and other sustainability factors pose a threat to companies and national economies, which in turn could undermine the stability of the financial system. This includes physical risks, such as the potential impacts of climate change on land prices in exposed regions on the one hand, and, on the other hand, sustainability-related transition risks – in other words, costs and risks linked to the transition to sustainable development. Another factor is the uncertainties created by state measures to promote sustainability. For example, a strict policy on climate change (such as bans on carbon energy sources) as well as changes in consumer preferences, would undermine the profitability of investments in fossil fuels and lead to misallocations. The long-term success of banks depends on their ability to manage risks and opportunities in a prudent and visionary manner – ESG risks included.

Central banks and regulators have recognised the pressing nature of this topic and in 2017 launched a network (NGFS), which has set itself the goal of better understanding and controlling the financial risks linked to climate change. Both the SNB and FINMA have been members of NGFS since April 2019. Many Swiss banks are therefore already actively working to incorporate social and environmental factors – especially climate-related risks – in their internal risk management procedures. In this context, various institutions have announced their support for the work of the FSB's TCFD. In July 2017, the task force published its final recommendations for the voluntary and consistent disclosure of climate-relevant information by companies.

According to TCFD recommendations, transparency is essentially voluntary, but increasingly relevant for entrepreneurial success. Various Swiss companies have already signed up, and more are about to. However, the European Commission's «Guidelines on reporting climate-relevant information» regard the TCFD as the financial element of the EU Non-Financial Reporting Directive, which is binding on all EU companies.



On top of that, numerous Swiss banks already screen climate risks – along with other environmental and also social risks – during their internal risk management procedures. Some have identified sectors with potentially much higher environmental and social risks and have developed appropriate internal guidelines governing the responsible provision of financial services for clients in these sectors.

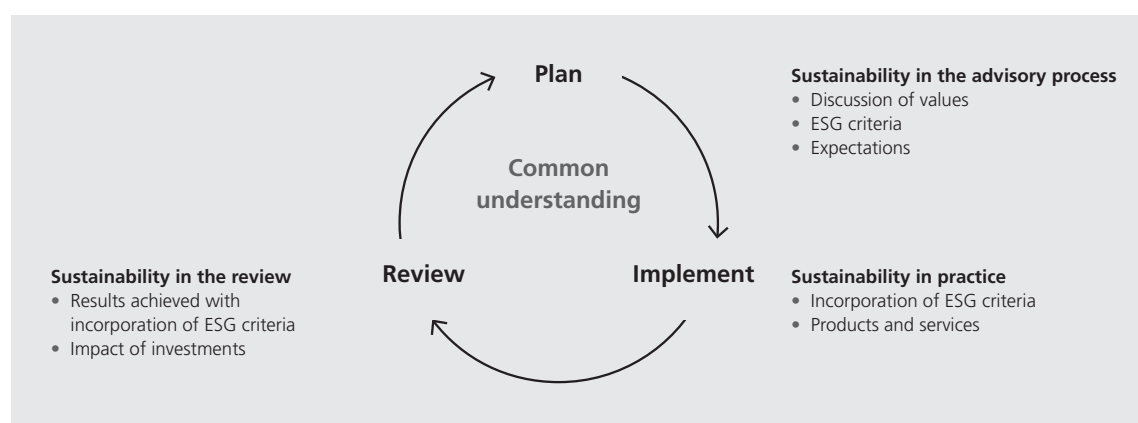
5.2 Wealth management: three phases of the client process

In the area of wealth management, SBA has published an initial guideline which, although not binding, emphasises the very high priority that banks give to sustainable finance. The publication simplifies the implementation of ESG objectives for banks and will have a signalling effect, as well as addressing the political framework required for the Swiss financial centre.

The guideline is oriented towards the three generally recognised phases of the client process (see Figure 6). This is also consistent with EU developments (specifically MiFID II) and thus promotes industry-led harmonisation.

Figure 6

Sustainability in wealth management



Source: SBA

The guideline considers the advisory process (Plan) and how sustainability criteria can be incorporated into it. Additional support measures will be planned as necessary.

In the advisory process for private clients, consideration is also given to the client's sustainability preferences. As well as the approaches already established (centred mainly on risk, return and liquidity), ESG factors provide an additional dimension. Here it should be made clear to clients that a sustainable approach can generate added value.

5.3 Financing: international coordination desirable

The SBA is aware that the lending activities of Swiss banks are attracting more and more attention from politicians, the general public and environmental lobby groups, and that possible political demands for binding industry agreements (potentially with emission reduction targets) are a consequence of this criticism. More and more Swiss banks acknowledge a collective responsibility to address the challenges of climate change, by supporting the transition to a low-carbon and climate-conscious economy through their lending activities.

Banks endeavour to be reliable partners for companies that actively help to shape the transition towards a more sustainable world. Banks can support their clients in developing alternative business models and technologies, for example by offering suitable financing. If the move away from energy sources that still constitute a large share of global demand (especially in developing and newly industrialised countries) is too radical and too sudden, it would create a high level of uncertainty and could possibly be counterproductive from a sustainability perspective. In addition, taking such a step in Switzerland could disrupt SME financing. Banks can actively support clients and relevant sectors in the transition towards a low-carbon and climate-conscious economy.

For Swiss lending activity to become more sustainable, the importance of an internationally coordinated approach must be emphasised, in order to avoid potential shifts in financing. Initiatives such as PRB and TCFD show the way forward and are increasingly being applied by banks in Switzerland as well.

The PRB were developed by 30 global banks with the support of UNEPFI. These principles call for the banking sector to align activities with the objectives expressed in the Sustainable Development Goals (SDGs) and with the Paris Agreement on climate change, and form a comprehensive framework for incorporating sustainability into all segments of banking business.

The signatory banks, including a number of Swiss institutions, commit to realigning their business strategy, amongst other things. This should be consistent with the needs of individual banks, and should also contribute towards the achievement of social goals. Their aim here should be to adopt business practices which continuously underpin the positive impacts of their activities, financial instruments and services.

In lending business, some – but not all – of the measures that may be considered in the context of competition between banks include:

- Development of suitable incentives for clients to make more sustainable financial decisions. This can be through preferential interest rates, reward programmes for sustainable client decisions, etc.
- Offering «sustainability-related loans» or «positive-impact loans» in which some of the provisions can be linked to making progress in the area of sustainability.
- Creation of a «race to the top» among clients, whereby attractive interest rates, prices, conditions and value-added services could be offered to more sustainable clients.
- Identifying where new or existing financial solutions can play a central role in promoting clients' sustainable business practices.

The industry expects the lending business in particular to change dynamically of its own accord through the interplay of the six PRB principles¹⁰ (see Appendix, page 46). In Switzerland there is a good chance that four banks will be among the first signatories and others will join later. By doing so, these banks make a major commitment to the Sustainable Development Goals, the Paris Agreement and local initiatives for sustainability in the financial sector.

An important driver for ensuring greater consideration is given to sustainability factors is for companies in the real economy receiving loans to disclose the ESG impacts of lending to the banks providing the finance. Here the TCFD recommendations provide an important framework.

In addition, numerous banks are taking part in the «Paris Agreement Capital Transition Assessment» (PACTA) pilot study to assess methods for aligning bond portfolios with the objectives set out in the Paris Agreement. It should be stressed, however, that the financial industry cannot implement sustainability goals on its own, and that the real

¹⁰ <https://www.unepfi.org/banking/bankingprinciples/>.

economy plays an equally crucial role in the shift towards a decarbonised society. For this reason, banks are currently developing strategies, processes and instruments to actively support clients in these sectors in the transition towards a low-carbon and climate-conscious economy.

5.4 Capital market: exploiting the full potential

The capital market plays a key role in financing the transition to a sustainable economy. The total volume of bonds issued every year on the Swiss stock exchange is around CHF 80 billion. Equities worth around CHF 3 billion are also issued as part of IPOs. This is equivalent to around 11 percent of Swiss gross domestic product. Switzerland's capital market is therefore much smaller than other segments of the financial centre (see Figure 7). This is partly down to tax disadvantages (withholding tax, stamp duty). Other financial centres do not have these Swiss idiosyncrasies and are much more attractive for the issue and trading of securities.


Figure 7

Switzerland only has a small share of the green bonds market



Note: the size of the circle corresponds to the respective value.

Sources: SNB, SIX, Climate Bonds Initiative



Green bonds and sustainability bonds have been issued and traded on the Swiss stock exchange since 2014. This category of bonds is screened by the «Climate Bonds Initiative» for their sustainability impact and applies to types of financing that are aligned with the objectives of the Paris Agreement. CHF 16.9 billion of these bonds have been issued to date in Switzerland (see Figure 7), putting the Swiss stock exchange in 17th place in global rankings. Furthermore, a closer look at the individual issuers shows that they are mainly from abroad and that Swiss issuers come chiefly from the public sector (government or state-affiliated). In other countries, issuance includes not just green bonds and sustainability bonds, but also transition bonds and other financial instruments that encourage the transition towards a more sustainable economy. These types of bond are not yet available on the Swiss capital market, however. Despite the substantial investment volume and excellent infrastructure, Switzerland is still a long way from realising its full potential in the issuance of sustainable financial instruments.

«Tax burdens weaken the financial market – especially for sustainable finance instruments.»



6 Setting the right course!

For Switzerland to be able to promote the sustainability of its financial centre effectively, it must become a role model that others can follow. It is not one of the world's biggest financial centres, but still has the potential to become a premier international hub in sustainable finance. The unique combination of financial and technological expertise, versatility and substantial clients' assets under management make Switzerland the perfect candidate for this role.

Switzerland's financial institutions and their clients have already done some crucial ground-work here. However, for the Swiss financial centre to be able to develop its full potential, the right regulatory framework needs to be put in place as well. Wherever possible, market-oriented and principles-based instruments should be used for this purpose which offer incentives for a permanent change in behaviour. Particularly restrictive measures which are not consistent with international developments cannot serve as a model. Well-intentioned bans – such as on the financing of activities harmful to the environment – are not effective. On the one hand, they force financial institutions into an inappropriate supervisory role. On the other hand, there is a danger that they simply encourage financing to switch to a different location with lower sustainability standards, and thus do nothing to support the transition to sustainable development. In addition, the transition away from carbon-intense industries is already underway. This is reflected in the lending guidelines of globally oriented Swiss banks which actively support their clients on the path towards greater sustainability and accelerate their progress through proactive advice.


Numerous countries and regions, especially the European Union, are making rapid headway in assembling a regulatory framework for sustainable finance. It is important that Switzerland takes these developments into consideration as best it can in order to reduce the implementation overhead for banks. Switzerland should therefore become actively involved at an early stage in international coordination forums.



Far more effective than strict bans are price mechanisms that ensure the internalisation of external costs and have a neutral fiscal effect, such as levies on unsustainable activities. Apart from that, tax rules could also be designed to offer targeted tax relief on desirable forms of behaviour. The general dismantling of stamp duty and a reform of withholding tax would help the Swiss capital market to finally develop its full potential, especially in financial instruments focusing on ESG factors. Only if the Swiss financial centre is able to export sustainable finance will it win international recognition and endorsement. To do so, Switzerland needs access to these markets.

Furthermore, recent findings in behavioural economics show that the conduct of investors does not necessarily have to be guided by additional regulation. By creating transparency and using nudging and other approaches, sustainable solutions can still be successfully promoted without state intervention. It is therefore important to prevent a situation where valuable and forward-looking incentives and enhancements of the financial industry are complicated or even prevented by unnecessary and potentially counter-productive regulation.

Switzerland has a realistic chance of becoming a premier international hub in sustainable finance with model character. The SBA supports this vision. Now, all partners in the Swiss financial centre are called upon to make this a reality.



**«A lighthouse
doesn't have to
be big – it has
to be bright!»**

7 Appendix

Principles for Responsible Banking

1. Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

2. Impact & Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

3. Clients

We will work responsibly with our clients to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

4. Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

5. Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

6. Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.



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