Swiss Banking

Guidelines for the financial service providers on the integration of ESG-preferences and ESG-risks into investment advice and portfolio management

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Guidelines of the SBA

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Self-regulation of 16 June 2022 for the member institutions of the Swiss Bankers Association (SBA) and financial service providers that have joined the self-regulation

Preamble

With the intention of

a. contributing to sustainability within the meaning of the Federal Council's guidelines (report of 24 June 2020) and the press release on sustainable finance (17 November 2021);
b. integrating clients' ESG-preferences and possible ESG-risks in investment advice and portfolio management;
c. creating transparency for clients on ESG in investment advice and portfolio management and
d. thereby further strengthening Switzerland's financial centre nationally and internationally,

the member institutions of the Swiss Bankers Association as well as joining banks and other financial service providers (together "financial service providers"), agree to adhere to these guidelines.

1. Purpose, scope of application and guidelines for implementation

1.1 Purpose

Art. 1

1 These guidelines define a uniform minimum standard within the industry for the consideration of ESG-preferences and -risks in investment advice (portfolio-based and transaction-based) and portfolio management.

2 Among other things, they shall prevent greenwashing when providing investment advice and portfolio management to clients. These guidelines therefore also serve to promote the Swiss financial centre and enhance its reputation.

1.2 Scope of application

Art. 2

1 SBA members are subject to these guidelines. As regards the territorial scope of application, the provisions of the Financial Services Act (FinSA) and the Financial Services Ordinance (FinSO) apply analogously.

2 Non-members may join the guidelines voluntarily and communicate this to the SBA in writing or another form demonstrable via text. Based thereon, non-members will be included in a list which is published by the SBA on its website and updated periodically.

3 These guidelines take precedence over all other regulations issued by other industry and business associations governing the treatment of financial instruments and financial services with regard to ESG-aspects.

Art. 3

The guidelines relate to investment advisory and portfolio management services. The other financial services according to FinSA art. 3 letter c are excluded from these guidelines.

1.3 Guidelines for implementation

Art. 4

1 These guidelines set out principle-based obligations that the financial service providers must substantiate and implement with a view to their individual circumstances.

2 These guidelines set minimum standards. Financial service providers are free to implement more comprehensive measures.

3 If a financial service provider meets the relevant EU standards on ESG in the areas of investment advice and portfolio management, the requirements of these guidelines shall be deemed to have been met as well.

Art. 5

These guidelines do not create or remove any obligations under civil law, nor do they exempt the financial service providers governed by them from complying with existing supervisory and civil law obligations.

Art. 6

Investment advisory and portfolio management processes which already integrate ESG-preferences and risks are to be verified for conformity with these guidelines, and must be adapted by the financial service provider if necessary.

Art. 7

In the context of greenwashing, three levels are essentially relevant: financial service provider, financial service and financial instrument. The focus of these guidelines is on the financial service level. On the level of the financial instrument, examples of greenwashing in relation to collective investment schemes are set out in FINMA Guidance 05/2021 "Preventing and combating greenwashing". These constellations may also be relevant to other financial instruments. Measures to combat greenwashing at the level of financial instruments are also outlined in the guidelines of other industry organisations. The risk of greenwashing at the level of the financial service provider can also be countered through suitable training and education of staff (see art. 15).

2. Definitions

Art. 8

1 The following terms apply in these guidelines:

a. ESG: stands for Environment (e.g. energy consumption, water consumption), Social (e.g. attractiveness of employer, management of supply chains) and Governance (e.g. compensation policy, company stewardship).

b. ESG-criteria: criteria of investing, which financial service providers take into consideration in the context of their ESG-investment solutions.

c. ESG-preferences: the client's preferences as to whether and which ESG-characteristics should be integrated into their investment solutions.

d. ESG-approaches: approaches as to how ESG-criteria can be integrated into the investment process.

e. ESG-investment solutions: investment solutions, i.e. portfolio management and investment advisory mandates that take ESG-criteria into consideration.

f. ESG-characteristics: features and extent to which ESG-criteria and/or ESG-approaches are integrated into a financial service provider's ESG-investment solutions.

g. ESG-risks: current or future consequences of ESG-criteria that could have a positive or negative effect on the value of investment solutions.

2 Otherwise, the terms set out in the FinSA apply to these guidelines.

3. Client segmentation

Art. 9

1 These guidelines adopt the client segmentation according to FinSA article 4. Financial service providers assign the persons to whom they provide financial services to one of the following segments:

a. private (retail) clients;

b. professional clients;

c. institutional clients.

2 Professional clients can waive the application of the obligations set out in art. 10 and 13-14 of these guidelines by financial service providers to them.

3 These guidelines do not apply to institutional clients.

4. Duty to provide information

Art. 10

1 In the clients' interests for more sustainability, it is recommended that financial service providers generally provide them with information about the available ESG-investment solutions.

2 Where ESG-investment solutions are concerned, during the general risk disclosure process, clients are to be informed also about the ESG-risks and -characteristics associated with financial instruments, respectively financial services. This strives to enable clients to understand the relevant ESG-characteristics and, on this basis, be able to tolerate the risks associated with the ESG-investment solutions.

3 The financial service provider also makes available to clients with ESG-preferences general information in relation to the ESG-preferences themselves as well as in relation to the offered ESG-investment solutions. At the same time, it can also provide information about which ESG-approaches are followed.

4 With reference to the specific ESG-investment solution chosen by clients, the financial service provider informs them how their ESG-preferences are taken into consideration in this investment solution.

5 Misleading or false information relating to the ESG-characteristics of financial instruments and investment solutions is prohibited.

5. Clients' ESG-preferences

5.1 Assessment

Art. 11

1 The assessment of appropriateness or suitability that has to be conducted for investment advice or portfolio management applies equally to ESG-investment solutions. The financial service provider therefore ensures that the client's ESG-preferences are analogously included in this assessment.

2 When assessing the appropriateness or suitability, the financial service provider therefore enquires about the clients' ESG-preferences. If there are several relationships or portfolios with a client, different ESG-preferences may be collected.

3 In connection with portfolio management and portfolio-based investment advice, financial service providers strive to incorporate the collection of ESG-preferences seamlessly into the assessment of the investment objectives. In connection with transaction-based investment advice, such collection may be conducted as part of a one-time procedure and separately from determining the client's knowledge and experience. For example, this may be done on an ad-hoc basis at the point of advice.

4 Clients can be put into specific groups according to their ESG-preferences (e.g. very interested, interested, neutral; see Chapter 6 Documentation below).

5 In the case of portfolio-based advice and portfolio management, ESG-preferences should not take precedence over the clients' personal investment objectives.

6 If clients do not express any specific ESG-preferences, and therefore take a neutral stance on the integration of ESG-criteria, the consideration of ESG-criteria in investment advice and portfolio management is not or only necessary if the financial service provider itself deems this appropriate.

7 Clients who do not answer the question on ESG-preferences can be treated in the same way as clients who have given a negative reply and can also be considered to be "ESG-neutral".

5.2 Matching

Art. 12

1 With portfolio-based investment advice and portfolio management, the financial service provider considers that the clients' ESG-preferences are aligned with the ESG-characteristics of the investment solution, provided the overriding investment objectives are not violated.

2 With transaction-based investment advice, the financial service provider considers that the clients' ESG-preferences match the ESG-characteristics of the recommended financial instruments.

3 If financial instruments or investment solutions do not align with the ESG-preferences expressed by clients (if there is no ESG-related alternative available for the required asset class, for example), this must be clearly highlighted and communicated to the clients in the relevant investment recommendation. Such transactions may only be executed once the clients have been informed of this mismatch. Such a deviation from the ESG-preferences can occur for an individual transaction and does not require a general adjustment of the client profile.

4 Clients considered as "ESG-neutral" may be recommended ESG-investment solutions or financial instruments as well as investment solutions or financial instruments without ESG-criteria.

6. Documentation

Art. 13

Financial service providers document in an appropriate fashion:

a. whether clients have ESG-preferences or are ESG-neutral;
b. if applicable, which ESG-preferences clients have;
c. whether the ESG-characteristics of a given ESG-investment solution or financial instrument match the clients' expressed ESG-preferences;
d. that clients have been informed about the mismatch if financial instruments respectively investment solutions deviate from the ESG-preferences they have expressed.

7. Rendering of account

Art. 14

1 The obligations regarding rendering of account stipulated in the FinSA apply analogously to the ascertainment of ESG-preferences.

2 Upon request, financial service providers render account to clients with ESG-preferences on whether the ESG-investment solutions or financial instruments offered match their ESG-preferences.

8. Training and professional development

Art. 15

1 According to the FinSA, financial service providers ensure that their staff possess the necessary skills, knowledge and experience to perform their work.

2 Client advisors therefore need to obtain appropriate training, respectively possess the relevant knowledge concerning sustainability, ESG-investment solutions and applicable ESG-approaches. In particular, the relevant training for client advisors should include the following topics:

a. Basics of ESG, including different ESG-risks
b. Overview of international principles and regulations
c. Knowledge of the ESG-approaches followed by the financial service provider in investment advice and portfolio management
d. Specific knowledge and understanding of how the offered ESG-investment solutions satisfy the client's ESG-preferences
e. Knowledge of how existing investment solutions can be transitioned into ESG-investment solutions
f. Basic understanding of greenwashing and how to avoid it

9. Product information

Art. 16

The SBA is currently consulting with other industry organisations, authorities and offices about whether, and how, ESG can be incorporated into product information documents (prospectus, key information document, term sheet, marketing material, etc.). The SBA is following developments closely and will adapt these guidelines if necessary.

10. Audit

Art. 17

1 Verification of compliance with these guidelines should be included in the audit catalogue of the financial service provider's internal audit.

2 The audit should be carried out in accordance with the generally applicable audit frequency of the financial service provider. It should be based on the financial service provider's risks, organisation and activities, but should be carried out at least every three years.

11. Final provisions

Art. 18

[1] These guidelines replace the “Guideline for the integration of ESG-considerations into the advisory process for private clients (2020)” as soon as they are implemented by the individual institution.

[2] These guidelines come into force on 01.01.2023.

[3] The following transition periods apply:

a. For training and professional development: until 01.01.2024;

b. For new client relationships: until 01.01.2024;

c. For existing client relationships: until 01.01.2025.

Swiss Bankers Association
Aeschenplatz 7
P.O. Box 4182
CH-4002 Basel
office@sba.ch
www.swissbanking.ch