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# **Sustainability in Switzerland's financial sector**

Situation analysis and positioning with a focus on environmental aspects

**Federal Council report**

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## Executive Summary

The Federal Council sees sustainable finance as a great opportunity for the Swiss financial centre and as a relevant competitive factor in sustainable growth. The Swiss financial centre should be a leading global location for sustainable financial services. The Federal Council therefore intends to shape the framework conditions in such a way that, firstly, the competitiveness of the Swiss financial centre is continuously improved and, secondly, the financial sector can make an effective contribution to sustainability in line with the UN's 2030 Agenda.

In this regard, the Federal Council has recognised the following principles:

- Sustainability<sup>1</sup> is key to financial market policy. The authorities, the financial sector and civil society are jointly committed to a sustainable Swiss financial centre. The opportunities offered by digitalisation should also be used to the best possible extent in this area.
- Financial market and environmental policy instruments are used in a targeted and effective way for specific objectives. Financial market policy instruments such as financial market regulations are aimed at achieving the goals of financial market policy, for example client and creditor protection or stability and competitiveness. This also involves financial markets creating transparency, taking full account of long-term risks and appropriately pricing them. The purpose of environmental policy instruments is to achieve environmental policy goals such as internalising external costs caused by activities which are harmful to the environment.<sup>2</sup> In addition, there are individual tools that are directly environmentally effective (e.g. voluntary climate compatibility tests) which specifically concern the financial sector.
- It should be possible to achieve efficient and risk-appropriate pricing. Transparency, for example as regards the environmental impact of financial products and services, is a feature of well-functioning markets, as it provides market participants, clients (investors, insured persons), providers and above all supervisors with a basis for decision-making. Transparency is also a prerequisite for appropriate risk management. Risks should also be priced for the medium and long term. Financial market providers comply with the high quality standards, including in the areas of consultancy and client protection, by ascertaining and meeting their clients' preferences with regard to sustainability.

The Federal Council's policy, already defined in 2016, is based on the primacy of market-based solutions, the subsidiarity of government action and the role of transparency and a long-term focus. It is complemented by the objectives of the Federal Council's 2016 financial market strategy for the Swiss financial centre<sup>3</sup>: quality, stability and integrity.

In light of these principles, the Federal Council firstly wants to review the regulatory framework for optimisation potential; secondly it wants to expand its international commitment; thirdly it wants to intensify exchanges with the parties involved.

The creation of framework conditions or a need for regulation is justified in the event of market failure. This could happen in the real economy if, owing to lacking or insufficient

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<sup>1</sup> This report focuses on environmental aspects.

<sup>2</sup> This also applies analogously to social and governance areas.

<sup>3</sup> See Federal Council report: "Financial market policy for a competitive Swiss financial centre", October 2016; <https://www.sif.admin.ch/sif/en/home/dokumentation/publikationen/bericht-finanzmarktpolitik.html>

## Sustainability in Switzerland's financial sector

internalisation of external costs, there is little or no clarity on true costs. Certain market imperfections, and thus opportunities to optimise, can also be identified in the financial market: these can be found in the areas of transparency and reliability, comparability of information for market participants, and the pricing of risk. In particular, the long-term environmental impact is currently not sufficiently taken into account in short-term financing and investment decisions in certain areas.

The analysis of the international environment emphasises that sustainability has generally gained in importance in the financial sector. Various financial centres (in particular the EU) are firmly committed to sustainable finance, which may lead to competitive pressure on the one hand and to further potential regulatory disparities on the other. These developments must be taken into account accordingly if the Swiss financial centre is to position itself successfully as a centre for sustainable financial services.

In view of the global challenges, the Federal Council believes that further efforts must be made to maintain and further expand the interests and the competitiveness of the Swiss financial centre in this area. This commitment is part of the credibility and, hence, the quality of the Swiss financial centre and its international competitiveness. A high level of confidence in the market, especially the financial market, is a key aspect to which the Swiss economy is committed and which makes it extremely successful in the international arena.

This report provides a complete overview of possible measures and evaluates them. In some areas of sustainable finance, the financial sector has already taken measures, and the Federal Administration is active in others (e.g. offering systematic and comparable environmental impact tests). As instructed by the Federal Council, the FDF, in close cooperation with the DETEC and industry, as well as with FINMA and the SNB, is also already working on the need for further action, particularly in the areas of transparency and reporting, due diligence and risk assessment, international developments and market access. The FDF will report to the Federal Council at the end of 2020 and, if necessary, submit proposals, including for legal adjustments.

The report is structured as follows: chapter 1 provides an introduction to the topic of sustainability in the financial sector, including the political environment and the overarching objectives. Chapter 2 contains an economic analysis of the environmental issue, followed by an overview of international activities and initiatives in chapter 3. In chapter 4, we review the need for action and the Federal Council's principles, before discussing selected measures and evaluating them against the potential need for regulation. Chapter 5 provides an outlook and concludes the report.