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Regulate or not regulate sustainable finance in Switzerland? Market insights and Swiss leadership ambition

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Regulate or not regulate sustainable finance in Switzerland?

Market insights and Swiss leadership ambition

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Enterprise for Society (E4S) is a joint venture of the University of Lausanne through its Faculty of Business and Economics (UNIL-HEC), the Institute for Management Development (IMD) and the Ecole Polytechnique Fédérale de Lausanne (EPFL), under the stewardship of its College of Management of Technology, with the mission of spearheading the transition towards a more resilient, sustainable, and inclusive economy. E4S is committed to training the next generation of leaders, inspiring economic and social transformation, and promoting change by strengthening start-ups and boosting innovation.

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Executive Summary

Amidst social unrest, biodiversity loss, and climate change, regulators[1] worldwide are strengthening sustainable finance regulations by: (1) increasing transparency of sustainability characteristics of financial products and the companies who issue them, complemented by due diligence, (2) suggesting classifications for determining the degree of sustainability of economic activities and financial products, and (3) introducing requirements to align the sustainability preferences of end investors with their portfolios.

In Switzerland, sustainability regulation for financial actors is so far mostly market based. The Swiss legislator has announced stricter regulation around greenwashing, while leaving Swiss financial institutions to self-regulate in a coordinated way via industry associations. Many Swiss financial market actors anyways need to report under the complex European Sustainable Finance Disclosure Regulation (SFDR) in the EU. In that context, industry associations have issued guidance to mainstream best practices and increase transparency. Still, many doubts remain, especially on harmonized data management, and in particular for smaller actors.

Through formal interviews, this study gathers opinions of Swiss financial market actors on recent regulatory developments. Last year, the Enterprise for Society (E4S) Center published a series of white papers on how to improve Swiss Sustainable Finance Regulation. With this study, we add a practical angle, showcasing diverse financial market sentiments collected via formal interviews with financial market actors. The aim is to shed light on the ongoing (self-) regulatory developments in Switzerland, focusing on greenwashing prevention and transition financing.

Interviewees assert that sustainability disclosures need to align along supply chains. Improving such data and prioritizing decision usefulness of information is essential for increasing transparency. This may be achieved via a risk-adjusted, proportional approach rather than a local Swiss standard. Despite major challenges, Swiss market actors have widely implemented the SFDR, but data harmonization requires official adoption or aligned disclosure guidance for products and firms.

Market participants also confirm a current lack of clarity around classifications for sustainable financial products, calling for harmonization of parallel initiatives. The interviewees highlighted that the original Swiss Climate Scores – a set of indicators– should be further developed to illustrate alignment and contribution of portfolios towards climate goals. At the same time, the market needs guidance around other biodiversity and social goals. The interviews also yielded varying interpretations of sustainability impact and transition, calling for name rules or labels as developed in the EU, US and UK. Interviewees also confirmed the potential to scale up sustainability-related bonds, with strict application of market-based rules.

At the points of sale of financial products, interviewees believe that the request of client preferences requires education and clarification of responsibilities. Financial advisors should receive training on sustainability issues, to be able to better inform the clients on the sustainability impact and dependency of their portfolio. Clients would benefit from more public (sustainable) finance education. Harmonized guidance for clients and advisors should complement holistic value propositions and facilitate sustainable investment and financing.

1 By referring to (self-)regulators we mean a combination of people or organizations that produce both, centralized legislation (hard law) and decentralized market-based guidance, e.g. issued by NGOs or industry associations. While self-regulation can quickly adapt, thus mainstream up-to-date best-practices, provide clarifications and support and incentivize experimentation, hard regulation may provide for sanctions or penalties and serve in particular to enforce a minimum standard or common interpretation across stakeholders.

KEY TAKEAWAYS

1. There remains a lack of harmonization around sustainable finance in Switzerland, Europe and beyond, but regulatory efforts are underway.

2. Swiss financial market actors have advanced in disclosing sustainability risk and impact in line with the SFDR, despite major interpretation and data challenges.

3. Without a centralized taxonomy, name rules or labels, Swiss financial institutions apply internal categories, and follow international frameworks trying to classify characteristics of sustainable products.

4. At point of sale, in particular retail investors require more guidance and a common understanding of sustainable investment and financing tools, to voice preferences and make the financial system a more inclusive catalyser for sustainability.

E4S SUSTAINABLE FINANCE REGULATION SERIES

The E4S Series on Sustainable Finance Regulation investigates regulatory developments in Europe and beyond and discusses the implications for Swiss corporate and financial market actors, regulators, and civil society. **Swiss Subsidiary Tradition in Light of Foreign Approaches** sets the stage in assessing regulatory objectives and comparing regulatory approaches for sustainable finance across jurisdictions. **Corporates: Comparative Analysis for Switzerland** compares sustainability-related reporting regulation targeting corporate actors across jurisdictions and provides recommendations for the Swiss context. In a third white paper, **Financial Market Participants: Comparative Analysis for Switzerland,** the series highlights the specificities and implications for financial market actors.

This white paper complements the series by presenting Swiss financial market insights collected during a formal interview series.

1 INTRODUCTION

While the Swiss market of sustainable investments is growing, credibility remains an issue. Between 2014 and 2022 sustainable investments rose from CHF 71.1 bn to CHF 1610 bn (Figure 1). However, given unclarity around the definition of sustainable investments, the market share of such remains blurry – figures for the sustainable share of the Swiss collective investment market vary widely between 4% and 53% [1].[2] Fearing loss of credibility, supervision is increasing. In the first half of 2023, FINMA, the financial market supervisor in Switzerland, investigated over 20 financial institutions for "greenwashing",[3] i.e. advertising products as environmentally friendly when they are not [3].[4] At the end of 2022, the Federal Council outlined a definition according to which sustainable investments are required to align with, or contribute to, one or more specified sustainability goals. Accordingly, the integration of Environmental, Social and Governance (ESG) risk is no longer sufficient for a financial product to be called sustainable (Box 1).[5] Efforts are underway to further clarify and define what sustainable financial products and services are, including their respective sustainability impact.[6]

The Swiss government's vision of stricter regulation for sustainable finance might soon turn into a federal law. While politicians struggle to agree on measures to raise the global carbon price, regulators worldwide are increasingly expecting financial market actors to become gatekeepers and catalysers for a sustainable transition of the economy. In doing so, the Swiss Federal Council's priorities for sustainable finance are sustainability data, transparency and impact investments, with a focus on greenwashing prevention [6], [7]. In fall 2023, the Federal Council further clarified that stricter regulation in form of a greenwashing ordinance might introduce a minimum standard for sustainable financial products by end of August 2024, leaving time for industry associations to enhance existing self-regulation [8]. So far, industry associations such as the Swiss Bankers Association (SBA), the Asset Management Association Switzerland (AMAS) and the Swiss Pension Fund Association (ASIP) have developed internally binding self-regulations [9], [10], [11], and further support the Federal Council's approach to greenwashing [12] as well as initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ), the Paris Agreement Capital Transition Agreement (PACTA), the Swiss Climate Scores (SCS) and the Swiss Stewardship Code. Under FINMA supervision, financial institutions already had to disclose climate data according to the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD), before the Swiss Climate Ordinance entered into force for all large firms.

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2 Related interviewee quote: "As soon as it moves to broader circles, it starts to interest the regulators."

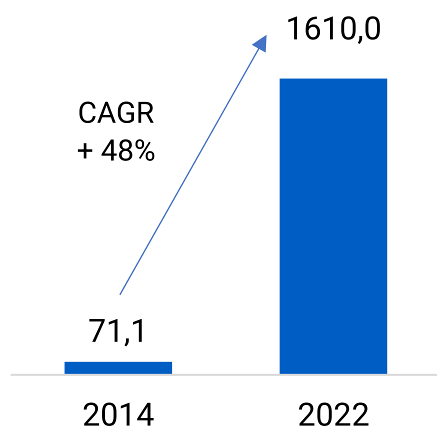
3 FINMA defines greenwashing as "the risk that clients and investors will be misled, either knowingly or unknowingly, about the sustainable characteristics of financial products or services" [2].

4 Ongoing regulatory developments and recent research [4] show that greenwashing interpretations such as in the EU go far beyond misleading marketing claims. The term's use extends to corporate violations of environmental and social human rights as well as the lack of transparency around sustainability goals more broadly. Therefore, anti-greenwashing efforts target both disclosures but also the intentionality of products and providers (cf. DNSH/PAI discussion under 3.2). However, in the absence of a detailed sustainability framework covering international stakeholders, the definition of greenwashing remains blurry.

5 This concept of sustainable investments is increasingly reflected in self-regulations by Swiss financial market actors.

6 One way to further clarify the sustainability impact is, for example, the definition of transition reduction paths for "Paris-aligned" products and respective accountability. In December 2023, Mr. Baumann from the State Secretariat of International Finance (SIF) confirmed the Federal Council's expectation that a credible definition of sustainable financial products must go in hand with a "description of sustainability approaches applied, accountability, verification by an independent third party, binding nature, enforceability of rights and access to legal recourse for customers" [5].

Figure 1: Growing volume of sustainable investments in Switzerland (in CHF bn)



Source: Swiss Sustainable Finance (2023) [1].[7]

Generally, sustainability-related regulation for large firms is increasing. In June 2023, the Swiss voted to confirm the national commitment under the Paris agreement to make financial flows compatible with climate objectives [13, Art. 1, let. C], [14], demanding the Swiss financial center to "effectively contribute" [13, Art. 9]. Rules for harmonized sustainability disclosures are specified by the Code of Obligations (CO) and the Swiss Ordinance on Climate Disclosures [15]. The new Climate Ordinance entered into force in January 2024, and clarifies in particular the climate-related disclosure requirements under Art. 964*a-c* CO [16]. But many market actors already comply with European disclosure requirements, as outlined in the Sustainable Finance Disclosure Regulation (SFDR) [17], and the Corporate Sustainability Reporting Directive (CSRD) [18], based on a taxonomy which defines environmentally sustainable economic activities [19], [20].

However, the extent to which firms are prepared for such top-down sustainability disclosures varies greatly. Under both Swiss and European regulations, financial market actors are required to progressively report sustainability data, from 2024.[8] To comply with such regulation, financial institutions gather sustainability data from investee firms or creditors, both large and small. On the one hand, multinational financial institutions built up significant resources for compliance with these new regulations, and established internal structures to account for both their business's dependency and impact on sustainability factors, such as clean air or water (double materiality). On the other hand, smaller and local retail-focused financial institutions cannot keep up with all the European – let alone global – regulatory developments. This is a large issue, considering that such smaller banks are often the primary financiers for small and medium enterprises (SMEs), which make up for 99% of Swiss companies and create two thirds of jobs in Switzerland [26]. Thus, a large part of sustainability data for transparency on the Swiss economic transition must come from SMEs, and they too are subject to the burden of gathering data.

As of today, the approach of the Swiss authorities in regulating sustainable finance remains different from the one of the EU. The Swiss Federal Council has rejected the adoption of the EU taxonomy at least until

7 Note: CAGR refers to Cumulative Annual Growth Rate and represents the annual growth rate of a financial metric – here volume of sustainable investments in Switzerland – over a certain period – here between 2014 and 2022. Note that between 2021 and 2022, Swiss sustainable investments decreased from 1'982 bn to 1'610 bn. This reduction can mainly be explained by negative financial market performance. Part of the reduction can also be explained by a tightening of the definition of sustainable investments by respondents as well as a methodology change for calculating volumes.

8 The above-mentioned Swiss Climate Ordinance introduces the TCFD recommendations as a minimum standard for firms above 500 employees (threshold progressively lowered), CHF 20 mio total assets of more than CHF 40 mio turnover. Future updates to Swiss reporting requirements might go into the direction of the European Sustainability Reporting Standards (ESRS) under the CSRD [21], [22], [23] or the International Financial Sustainability Reporting Standards (IFRS S1 & S2) [24], [25].

2025, due to criticism that a categorization of sustainable vs unsustainable economic activities does not shed sufficient light on a sector's or company's potential to transition [27].[9] Instead of defining sustainable economic activities as the basis for sustainable financing and sustainable investment, the Swiss regulator has addressed greenwashing more narrowly, i.e. by increasing supervision, regulatory deterrence and evolving 'principle-based' self-regulation by industry associations (see above). In particular, the Swiss Climate Scores have been introduced as simplified indicators for transparency on how aligned portfolios and investment mandates are with the goals of the Paris agreement. The scores are currently being further developed [31]. With clarification on a centralized definition for Swiss sustainable financial products outstanding (Box 1), financial market actors are trying to interpret and further develop existing guidance, balancing disclosures under the EU SFDR and structuring their products according to internal classifications (Figure 6, Section 3.1.2). For now, the Federal Council ruled out a 1:1 adoption of the EU regulatory framework, but without a clear definition or uniform sustainability labels, greenwashing risk persists.

For what concerns the classification of green financial products and usability at point of sale, Swiss regulators apply a "wait and see" approach. This choice is motivated by the continuous evolution of sustainable finance regulations worldwide**.** The SFDR is currently being revised,[10] and the European Securities and Markets Authority (ESMA) will announce new rules for investment funds with sustainability- or transition-related names in Q2 2024. In the US, the Securities and Exchange Commission (SEC) also issued rules on funds' names recently, and the UK has published Sustainability Disclosure Requirements (SDR) and investment labels (Section 3.2.3). Swiss regulators thus wait and see how such international regulations develop, aiming to keep Swiss (self-)regulation "compatible with the approaches applied in other countries" [5], while protecting consumers and increasing accountability.

Given this context, this paper synthesizes collected market insights to confirm our previous regulatory recommendations [33], based on the underlying white paper series on sustainable finance regulation for Switzerland [34]. In this paper, we share the results of formal interviews with key market actors, to evaluate our desk-based recommendations, namely (self-)regulatory potential to:

- **Enhance transparency** on financial-product sustainability through disclosure, prioritizing harmonization of data between countries and across value chains, and focusing on the quality of decision-useful information;
- **Provide classifications** for products' sustainability characteristics, e.g. in form of fund names and labels, with impact and transition categories, and sustainability-related bonds;
- **Promote the integration of client preferences** into advisory services and investment decision-making.

For a detailed description of these preliminary recommendations based on identified issues, see Section 2.1.

While we believe that more research is necessary to reflect varying needs, we hope to provide a deeper understanding of how diverse stakeholders in the financial industry

9 Taxonomies in other jurisdictions have tried to capture transition potential by introducing a traffic light system for defining the sustainability of economic activities, e.g. the ASEAN [28] or in particular Singapore's [29] taxonomies. The European Platform on Sustainable Finance has recommended an Extended Environmental Taxonomy to include respective traffic light categories [30].

10 The EU SFDR requires financial institutions to disclose entity and product data e.g. for funds the degree of alignment with the EU taxonomy. The SFDR does not intent to label financial products as sustainable, but its disclosure articles have been widely misunderstood as classification system, including by Swiss market actors (cf. Section 3.1. and 3.2). Notably, the SFDR does not cover all types of financial products so far. The SFDR consultation focused in particular on legal certainty, the useability of the regulation and its ability to play its part in tackling greenwashing [32].

are impacted by evolving regulation and shed light on widespread sentiments. With this white paper we target both the stakeholders at the forefront of sustainable finance and those who lack resources, capacities, or access to decision making.

The following section will summarize our preliminary recommendations for Swiss sustainable finance regulation and present the methodology underlying the qualitative study presented in this paper (Section 2). In Section 3, we then discuss the identified issues from last year's white paper series in the context of reported market opinions, in particular focusing on disclosures, classifications and point of sale communication. In Section 4, we recommend a way forward for Swiss leadership on sustainable finance (self-)regulation, in line with international sustainability goals and commitments.

Box 1: Spotlight on excerpts from key Swiss and EU regulations

This box summarizes key Swiss and EU regulations for sustainable finance, with the aim of clarifying common misunderstandings and comparing regulatory expectations which will then be referenced back later on in the text.

Both the EU and Switzerland recognize that stricter rules for sustainable financial products are necessary in order to protect consumers and invest in a sustainable transition of the economy**.** While in Europe, the Sustainable Finance Disclosure Regulation (SFDR) requires detailed disclosures on sustainability characteristics of financial actors and products, it does not exactly prescribe how sustainable financial products must be composed. Thus, it does not classify sustainable financial products, but merely requires different levels of disclosures depending on the sustainability ambition behind the respective product. Since this has been widely misunderstood by financial markets, Swiss regulators seek to better define sustainability objectives of financial products. The challenge of doing so meaningfully lies at the core of this paper. One main difficulty consists in avoiding that products with specific sustainability ambition harm other sustainability goals (Do No Significant Harm/DNSH – Box 3).

In the EU, the SFDR includes disclosure obligations in relation to sustainability characteristics but does not classify products:

- **Article 6** “Transparency of the integration of sustainability risks”, specifying details which shall be disclosed by financial market participants and advisers
- **Article 7** “Transparency of adverse sustainability impacts at financial product level”, specifying how to disclose principal adverse impacts (PAIs) of business activities on environment and society, hence so-called negative externalities, including a required explanation in case PAI information is omitted
- **Article 8** “Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures”, specifying how these characteristics are met in line with the respective technical standards
- **Article 9** “Transparency of sustainable investments in pre-contractual disclosures”, including specifications on how indices and sustainability definitions are applied or emission reductions measured [17]

In Switzerland, the Swiss Federal Council has put forward Sustainable Investment Objectives:

Financial products or services that are labelled as sustainable or as having sustainable characteristics must also pursue at least one of the following investment objectives in addition to their financial goals:

a) Alignment with one or more specific sustainability goals, or
b) Contribution to achieving one or more specific sustainability goals.

Financial products and services that aim at reducing ESG risks or optimising financial performance follow purely financial investment objectives and should therefore not be described as sustainable, unless they also pursue one of the investment objectives outlined above. Indeed, ESG risks should rather be taken into account as part of fiduciary duties [35].

2 METHOD AND LIMITATIONS

2.1 SUMMARY OF REPORTED ISSUES AROUND SUSTAINABLE FINANCE REGULATION IN SWITZERLAND

The core piece of our analysis consists of screening sustainability reports and conducting formal interviews with regulatory professionals from diverse Swiss financial institutions, which we then corroborated with public statements and secondary sources. The interview series primarily served to test the recommendations of the E4S series of white papers on sustainable finance regulation [34]. We re-propose the previously identified and reported main issues and recommendations in Figure 2.

Figure 2: Main issues and recommendations from our white paper series

Category	Reported Issues	Preliminary Recommendations
Enhancing financial-product transparency via sustainability disclosures	Unsustainable administrative burden for financial institutions to navigate corporate and financial-market disclosures, specifically for CH, EU, UK and US	Switzerland should officially accept EU disclosures and provide support for further harmonization of datapoints across sectors and supply chains
	EU reporting requirements for financial institutions (SFRD) and companies (CSRD) phased in at different times with different scope of compulsory indicators & lack of supply chain data, in particular on PAIs	NZPDU and ESAP should connect and harmonize publicly available sustainability data to replace estimations and reliance on fragmented indicators from for-profit providers & more support for SMEs is necessary
	SMEs lack capacities & expertise to meet complex requirements on disclosure data	Switzerland could adopt a local disclosure standard for SMEs & further enhance interoperability with international regulation, such as SFDR and CSRD
	Investors lack decision-useful information to finance an environmentally friendly transition; the voluntary Swiss Climate Scores shed light on climate-alignment of portfolios, though are less developed than foreign binding regulations	Switzerland should further develop the Swiss Climate Scores & enhance comparability of e.g. data from external providers or long-term temperature predictions
	Current Swiss reporting requirements and self-regulation, e.g. by AMAS, SBA and ASIP, are less detailed/strict than EU regulation	Self-regulation could be further enhanced and recognized by FINMA in order to apply to the whole financial sector
	Lack of more stringent disclosure requirements on (non-financial) positive and negative environmental impacts for financial products which claim to be sustainable	Sustainability-related disclosure requirements for all products and providers could impose bureaucratic effort on laggers rather than frontrunners, thus reverse the burden of proof
	Market freedom and lack of alignment with EU regulations (the Swiss Federal Council rejected the adoption of the environmental EU taxonomy at least until 2025)	Swiss regulation should provide more guidance to avoid further fragmentation and clarify which environmental activities and financial products count as sustainable
Classifying financial products based on their sustainability characteristics	Financial institutions disclose their climate-engagement policies in inhomogeneous ways, carrying greenwashing risk because engagement can be an excuse to avoid divestment	The Swiss regulator should make it compulsory for financial institutions to disclose the escalation process, to proof the existence of clear rules in case engagement is unsuccessful
	Swiss financial-market actors are impacted by foreign classifications, in particular that developed in the UK, the US and the EU	Swiss regulators should internationally align the definition of sustainable financial products and services, e.g. on fund's names, benchmarks and labels, contributing in particular to a common understanding of "transition" and "impact".

	Name rules such as in the US, leave a lot of freedom in terms of how sustainability is defined	Regulators should introduce minimum safeguards to avoid environmental and social harm, e.g. in line with the UN Global Compact and the OECD Guidelines for Multinational Enterprises
	Green bonds are issued in line with the market-based Green Bond Principles, and the Climate Bond Initiative, which provide for flexibility	The Swiss Sovereign Green Bond Framework should inspire rigorous green bond issuance, with strict rules for the use of proceeds, observing the EUGBS and the Common Ground Taxonomy
Integrating the sustainability preferences of clients	Financial market actors struggle to set strict sustainability policies on what to offer to clients, in light of the fiduciary duty to maximize returns	Top-down regulation can further empower clients on whether/to what extent they want to invest sustainably
	Limited visibility on sustainability characteristics of financial products; retail investors lack sustainable finance education	Swiss regulation could further harmonize the explicit request of client preferences, aligned with product categories and general education on sustainable finance

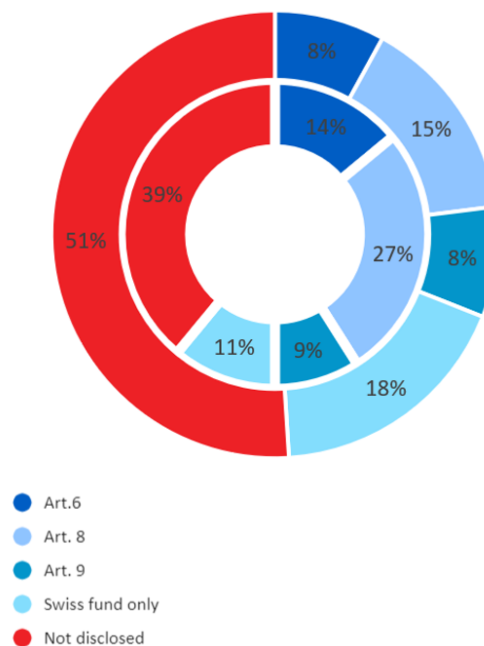
Source: Authors. For details on the methodology see Section 2 and Annex.

2.1.1 Enhancing financial-product transparency via sustainability disclosures

In our white paper series, we highlighted that Swiss regulation should focus on harmonization, or so-called interoperability, between disclosure frameworks, to avoid a double reporting burden but also to help further align different approaches such as the EU SFDR.[11] In Switzerland, two thirds of banks and asset managers fall under the scope of the EU regulation, but only few disclosed according to SFDR Art. 6, 8 and 9 in 2021 and 2022 (see Figure 3). Swiss companies spent significant resources struggling with SFDR implementation, in light of challenges such as regulatory unclarity, the lack of standardized metrics, limited data availability, etc.

To ensure data availability related to investee companies, we suggested aligning timelines and scopes for reporting obligations for financial and non-financial market participants. We highlighted that "even after the full application of the CSRD [in 2028/2029], unclarities remain as to whether the required information from financial market participants will match the information disclosed by firms;" and we stressed that the Net-Zero Public Data Utility (NZPDU) and the European Single Access Point (ESAP) should be further developed. We also noted that "data on investee companies is more challenging to access".

Figure 3: Classification of funds based on the EU's SFDR by Swiss asset managers (in % of AuM; n=44)



Note: Outer circle – data from 2022; inner circle - data from 2021

Source: SSF Sustainable Investment Market Study (2023) [1].

11 Foreign reporting regulations that have an impact on Swiss actors shall be considered. Based on the close economic ties between Switzerland and certain jurisdictions as well as their significance, we address in particular the rules of the EU, US, UK, and Singapore.

Last but not least, we suggested to prioritize the disclosure of data needed for decision-making, given the goal of harmonizing and accelerating the economic transition. Firstly, additional sustainability information should be required also from products without any stated sustainability ambition. We suggested that FINMA recognition of e.g. AMAS' (updated) self-regulation could diffuse such requirements across Switzerland [10]. Secondly, we called for disclosures on science-based metrics, which should speak to foreign and retail investors, and be further aligned internationally. Thirdly, we suggested to prioritize disclosures on engagement policy and results, as outlined by the Federal Council [35], since "such disclosures, including the escalation process in case engagement is unfruitful, is particularly important for firms targeted for their transition potential to make sure that the talk is being walked." Fourthly, we suggested to look at UK regulation [36], [37] for justification of why assets are held for other than sustainability purposes (cf. discussion around proposed UK 'unexpected investment' category in Section 3.2).

These findings led to the realization that the market needs sustainability classifications as part of a harmonized sustainability framework and a common understanding, in addition to mere disclosure categories, reflected by the market's misinterpretation of SFDR disclosure categories as sustainability classifications.

2.1.2 Classifying financial products based on their sustainability characteristics

We highlighted the usefulness of rules for fund names and labels for comparison, noting that the Federal Council's preliminary sustainable product definition (Box 1) does "not specifically require a differentiation between environmental and other sustainability objectives, nor takes into account the potential negative effects of an economic activity in which the financial product invests in other objectives of sustainable development", the Do No Significant Harm – (DNSH) Principle (Box 3 in Section 3.2.2). Without DNSH, coal plants with great working conditions could be considered as sustainable as a wind farm offering similar working conditions or a pharmaceutical company actively involved in philanthropic projects to improve access to education.

Furthermore, we suggested that clear impact and transition categories with clearly measurable objectives may help channel investments where they are most needed, and help reduce greenwashing. An impact label should be aligned with the EU's Art.9, the US ESG-Impact Funds, and the UK Sustainable [now Sustainability] Impact label. A transition label could require disclosures on engagement, incl. an escalation plan, and theory of change. A transition category, such as the UK "Sustainability Improvers", together with active ownership and guidance for engagement, could accompany firms on their sustainability pathway.[12]

We further shed light on the potential scale up of sustainability-related bonds. We observed that the Green Bond Principles (GBP) were widely accepted by the industry, but lacked a guarantee of quality, whereas the Climate Bond Standards (CBS)' certification ensures the use-of-proceeds. We recommended Switzerland to issue further Green Sovereign Bonds, following the GBP and promoting existing certifications (for issuers and on the use-of-proceeds), "while closely following the international harmonization attempts around the Common Ground Taxonomy."

2.1.3 Integrating the sustainability preferences of clients

We suggested introducing common requirements applicable to all financial advisers for the explicit request and integration of clients' ESG preferences in the advisory process and considering them in investment decision-making. Currently, SBA self-regulation is only binding for

12 In the final Sustainable Disclosure Regulation (SDR) the UK has dropped strict stewardship conditions for the "Improvers" label [38], [39], [37]. See footnote in Section 3.2.

members, and the Financial Services Act (FinSA) does not explicitly include the obligation to inquire and integrate clients' sustainability preferences, unlike MiFID II in the EU.

We further saw a need for providing general sustainability and sustainable finance education to investors. In order to achieve a democratic transition towards a sustainable economy, "other channels [than exclusively financial advisors] should be used to explain to investors what sustainable investment opportunities they have and how the financial system works, so that they can understand its mechanisms."

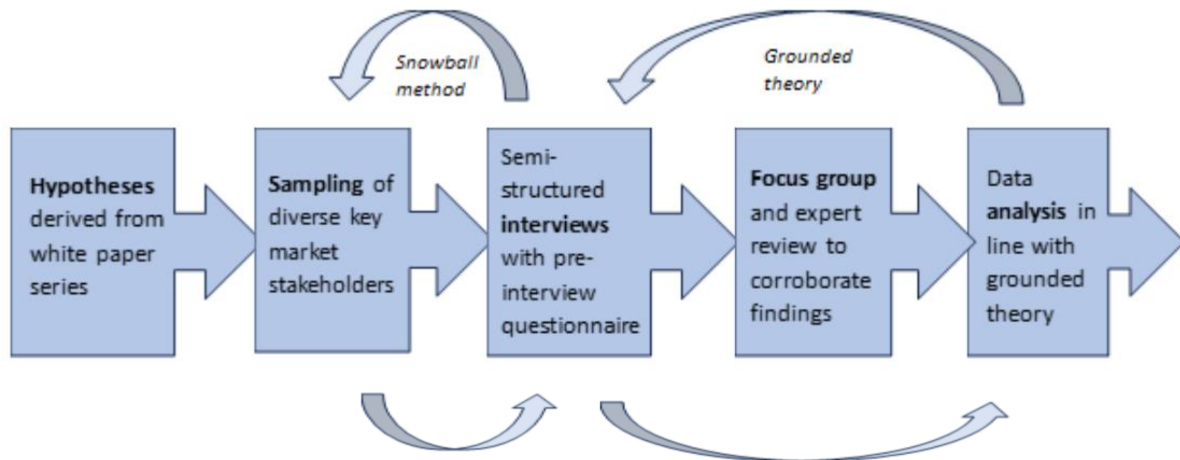
These issues and recommendations are summarized in the table above (Figure 2), and will be discussed in light of the interview series in the following sections. For more background information please refer to our white paper series [34].

2.2 DATA GATHERING AND ANALYSIS

The insights reported in this paper are based on semi-structured interviews with market participants (Figure 4, for methodological details refer to Annex 1). The ethics board of the University of Lausanne approved our study and research followed strict data confidentiality rules (see Annex 4 for submission to Ethics Board). We contacted a wide range of financial market actors, across the different regions of Switzerland (Suisse Romande, Deutschschweiz with Liechtenstein, and Ticino; see Annex 3 for interview reach-out). Based on the responses, between May and December 2023, we conducted semi-structured interviews of 1 hour with ten respondents, including regulatory experts from publicly listed, private, cantonal and retail banks and asset managers as well as institutional and impact investors. Although the main structure of the interviews remained consistent, we adapted the questions based on personal expertise, company exposure and (self-) regulatory updates (see Annex 7 for exemplary interview outline and general introduction). Before each interview, we consulted publicly available resources, such as sustainability reports as well as newspaper articles. One week before the interview, interviewees completed a 5-minute questionnaire that covered standardized questions (see Annex 6 for anonymized interview questionnaire). Interviews took place in person or in hybrid format, depending on preference and geographic feasibility. In addition to formal practitioner interviews, we conducted a discussion round with selected market actors (see Annex 1 for theory on focus groups). This one-hour format and several one-on-one research discussions served to corroborate the findings of the interviews.

The research process included the transcription, translation, coding and interpretation of the recorded conversations. Each interview and the focus group were recorded and consequently transcribed in English, French or German. We then coded and mapped the responses manually as well as with the help of the Atlas.ti software [40]. The interview-, analysis- and evaluation- process relied on grounded theory and snowball sampling methods. Grounded theory focuses on developing theories grounded in data, while snowball sampling is a non-probability sampling technique used to access and study hard-to-reach or hidden populations by relying on participant referrals (methodological theory in Annex 1).

Figure 4: Process chart of methodology



Source: Authors. For details on the methodology see *Annex*.

3 DISCUSSION AND EVALUATION BASED ON FORMAL INTERVIEWS

This section provides a snapshot of opinions from financial-market participants on sustainable finance regulation, focusing on transparency via disclosures, classifications and point of sale. Swiss market actors are partially implementing EU disclosure requirements and have started developing guidelines, tools, and strategies to avoid greenwashing and harmonize sustainable financial products.
In Section 3.1, we discuss Swiss financial market experiences with evolving disclosure regulation (see Section 2.1.1). In Section 3.2 we dive deeper into product classification for transition acceleration and impact scale-up, based on the issues laid out in Section 2.1.2. We also discuss interviewees' concerns around client preferences, and an increasingly common understanding of sustainability, in particular via education and clarity on responsibilities at point of sale (Section 3.3, see Section 2.1.3). The insights from each section are summarized in Figure 5, Figure 7, and Figure 8.

3.1 IMPROVING TRANSPARENCY ON MARKET-ACTORS AND PRODUCT SUSTAINABILITY THROUGH DISCLOSURES

On transparency via disclosures, interviewees confirmed the core issues laid out in Section 2.1.1, namely the need to improve transparency on financial-product sustainability through disclosures, focusing on:

(1) **interoperability**, given the already burdensome implementation of SFDR (Section 3.1.1),
(2) **data availability**, in particular with regard to principle adverse impacts (PAIs), ratings, engagement and due diligence – also for SMEs (Section 3.1.2);
(3) **the need for decision-relevant information**, in particular considering disclosures for all funds, support for transition data across industries as well as supply chains, and the Swiss Climate Scores (Section 3.1.3).

3.1.1 Equivalence or substituted compliance? Learning from financial market actors' SFDR journey

Swiss financial market actors recognize the ambition and the influence of EU policy for sustainability-related disclosures. According to the Swiss Sustainable Investment Market Study [1, pp. 8 and 62 Figure 46], two third of Swiss banks and asset managers have the legal obligation to comply with the EU regulation. Financial market actors consider the EU a "leading jurisdiction". Even those interviewees who are not obliged to comply with the SFDR recognize "that Swiss legislation is then influenced by it". Others go further and describe Switzerland as "de facto interdependent with our key market, European Union." In that context, interviewees consider the SFDR and the Action Plan "a useful tool", "a good thing" with the aim of transitioning the European economy.

In the course of the interview series, market participants uttered the wish to maximize the use of data collected for SFDR compliance, and to avoid any additional reporting burden in form of distinct Swiss disclosure rules. As outlined in Section 2.1.2., we previously recommended interoperability through equivalence or substituted compliance,[13] i.e. automatic acceptance of EU reports under Swiss law and alignment with other international regulations such as the new SEC Rules on fund names,[14] disclosure regulations in the UK or Singapore. Interviewees highlighted that

13 While regulatory equivalence in the EU context connotates a Commission decision on which regulations are officially accepted as equivalent, substituted compliance in the Swiss context could allow EU reports to be recognized while providing for lighter Swiss requirements or lighter enforcement for small players.

14 In September 2023, the SEC adopted amendments to the so-called Investment Company Act's "Names Rules",

they "have to do [EU reporting] anyways. So as long as whatever [they] do there could be exactly also applicable [in CH]," they would approve. Participants also stressed that some self-regulations already allow for interoperability. For example, the current AMAS self-regulation on firm and product-level disclosures explicitly considers a financial-market actor compliant when disclosing according to EU regulation. Similarly, one interviewee reported an official letter his firm sent in supporting Singapore's recognition of reports published under EU regulation. In the meantime, the Swiss Federal Council has announced that further regulatory alignment in particular with EU regulation is being sought [8].

However, participants experience major implementation challenges with SFDR. In general, the regulatory process reportedly "could have been much more efficient" and "interpretation [of the legal text] and the implementation were a huge cost". Interviewees described their "journey to navigate all of the legislation". In particular, explanatory documents appear excessively long and challenging to understand, and EU regulators published clarifications (Regulatory Technical Standards - RTS) with significant delay. More than one interviewee missed "guidance on how one could deal with proxy data" and stated "never [having] gotten an answer" to letters from the regulator. Furthermore, interviewees observed that EU agencies occasionally contradict each other, and financial institutions struggle to retrieve corporate sustainability data before the progressively implemented CSRD requires respective firm-level disclosures (Section 1). The reported lack of clear guidance, which is confirmed by public reports of internal EU struggles [42], may have contributed to "[the emergence of] the whole rating and consultancy industry around it". Further criticism from the interviews highlights that the SFDR primarily targets investments in listed equities and does not include certain asset classes such as structured products, nor takes into account data limitations concerning impact investments in emerging markets.

3.1.2 Enhancing data availability – A priority for disclosure regulation

Furthermore, our interviews confirm that the misalignment of reporting requirements for banks and companies is causing struggles. Specifically, financial institutions have problems assessing principle adverse impacts (PAIs) without respective data from smaller actors who lack the resources to tackle complex bureaucracy. We previously found that data availability may remain challenging, even after full application of CSRD in 2028/2029 (Section 2.1.1). Firstly, SMEs are likely to struggle with bilateral data requests from larger supply chain partners who need to comply with novel sustainability disclosure regulation. Secondly, sustainability reporting requirements for firms under CSRD do not match the compulsory datapoints for financial institutions under SFDR. Interviewees hope that additional sustainability guidance for smaller and foreign corporates will improve supply-chain data. However, while the final European Sustainability Reporting Standards (ESRS), which specify disclosure requirements under CSRD, "will get a lot of these companies in line", they will still not label all datapoints required under SFDR as compulsory. This SFDR/CSRD misalignment is addressed by the EU's SFDR revision (Section 1). The difficulty in regard to the misalignment lies in investors' dependency on supply chain data. For example, an investor requires precise data on the emissions arising from investee companies to calculate his own carbon footprint (so-called scope 3.15), which "is so far down the line that it's really hard to account for [without supply chain data or with mere estimations]". In that context, market participants also support the

focusing on investor protection with the help of an "80 percent investment policy", according to which at least 80% of investments need to be invested in line with what the fund name suggests [41]. For example, a "water security" fund, would need to invest at least 80% of assets into companies selected in line with the purpose of water security. The amendments also require quarterly reviews and enhanced disclosures.

planned collection of all disclosure data on centralized, public platforms, such as the planned NZPDU or ESAP (Section 2.1.1). In the meantime, market participants rely on estimations, so-called proxy data, and internal systems,[15] to combine available disclosure data with sector averages, ratings from e.g. Sustainalytics, MSCI, Inrate,[16] and due diligence insights.[17,18]

3.1.3 Requiring transparency on decision-useful information

Besides enhancing general data availability along value chains, it is crucial to consider which data investors and other stakeholders need, in order to make sustainable allocation decisions. In our white paper series, we explained that the EU is the most ambitious, not only in requesting enhanced disclosures on sustainability matters in the financial-decision context, but also on additional information on environmental and societal risks and impacts (double materiality). Furthermore, sustainable economic activities are defined in detail via the EU environmental taxonomy, which Switzerland is refraining from adopting for now (Section 1 and 2.1.1).

Financial market actors confirm that "people are still confused" by the concept of double materiality, while "sustainability risk integration goes mainstream". In our white paper series (Section 2.1.1) we argued in favor of double materiality disclosures as the basis for better decision-making in society, politics and finance,[19] covering the interests of diverse stakeholders and potentially helping to price externalities.[20] Interviewees acknowledged a preference towards double materiality, as inscribed in the Swiss CO, but insisted on prioritization given limited resources and the above outlined data challenges. While all participants agreed that sustainability is to some extent a financial risk for business,[21] the considered time horizon and range of externalities vary greatly. The detailed European request for non-financially relevant disclosures is perceived as challenging (Box 3 & PAI discussion),[22] thus

15 An institution might decide to report a simplified overall sustainability score (e.g. A, A+, A++) per investment, which is evaluated against in-house guidelines, rather than reporting the various third-party indicators (e.g. country risk, water use, etc.) to clients. Interestingly, an interviewee highlighted the risk that over-definition via indicators can be confusing or counterproductive in that outcomes are distorted towards the selected indicators (Goodhart's law). For example, a company wants to score high on ESG, thus chooses a variety of indicators from an external data provider and combines these with internal data to fulfill the criteria of a certain rating, e.g. by focusing on low-hanging fruits/good looking indicators for environmental measures rather than where the impact would be largest.

16 Participants acknowledged the need for harmonization and rigor of such ratings (2.1.1), see proposed EU ESG rating regulation [43].

17 Many financial market actors in Switzerland already have Code of Conducts for supply chain partners in place. Besides, market actors referred to the Swiss Due Diligence and Transparency Ordinance (DDTrO), where "Switzerland is stricter [than the EU so far], which we are usually not." However, financial market actors report to have no "second line of defense controls [on SMEs]".

18 Market participants report collectively organized due diligence and stewardship efforts, e.g. via impact-focused industry associations, Ethos or Colombia Threadneedle/Reo.

19 Beyond decision-useful information targeted in particular at professional investors (financial materiality/IFRS approach), we take a broader double materiality stance, and also consider decision-making e.g. by retail investors or in the interest of nature as silent stakeholder – the wellbeing of which we consider essential for human survival.

20 Externalities refer to situations in which prices do not cover all costs, such as impacts of production or consumption which affect a third party, e.g. microplastics in oceans, consumed by animals and humans, due to global plastic waste.

21 Interviewees agreed that "if we want to reach that goal of shifting towards a more sustainable economy, then [integrated reporting, i.e. linking sustainability with financial data] is definitely the way to go." In that context, calling sustainability reporting "non-financial", as the Swiss Art. 964 CO which was modeled after the NFRD does, it misleading. The new European Directive is no longer called "non-financial". The Corporate Sustainability Reporting Directive specifically recognizes the financial importance and increasing integration of sustainability data, but requests disclosures as well on non-financial impacts (PAI). In that context, one interviewee observed that the Swiss reporting requirements are "outdated", in that they are based on the previous NFRD and not CSRD. But the Federal Council has announced updates.

22 Surprisingly, a recent report by Enfinit and Pelt8 [44] found that Swiss corporations struggle with *financially* material disclosures in particular, although the discourse often circles around the burden of double reporting. The difficulties with financial materiality might be due to the expectation of robust quantitative data, in line with the mainstreaming of sustainability risk integration. Contrary,

participants suggest prioritizing the alignment of information which companies must disclose in their transition plans (Section 3.2).[23] In the focus group, participants disagreed on whether the current scope of Swiss reporting requirements was sufficient to collect all material corporate data necessary for decision-making in planning a sustainable transition, or whether more SME data is necessary.[24]

Interview and focus group participants confirm that sustainability disclosures for all financial products could move the burden of proof on everyone rather than punish the frontrunners. On EU level, SFDR's Article 6 generally requires sustainability-risk disclosures, while SFDR's Article 8 and 9 add additional disclosure requirements for funds which claim to promote sustainability or specifically target sustainability impact (Box 1). One participant highlighted that in the course of the current SFDR consultation, the Dutch Authority for the Financial Markets suggested to extend mandatory PAI disclosures to all product types [45]. The current disclosure requirements are a lot of bureaucratic work for the ones who want to comply with Articles 8 or 9, but it actually does not require so much disclosure from Article 6 funds. An interviewee's idea would be to not only "penalize the ones who are doing good [with additional disclosures], but to penalize the ones who don't want to restructure." For Switzerland, we previously suggested that current AMAS self-regulation could be updated and apply to the entire sector, thus cover all Swiss financial products, via a recognition by FINMA (Section 2.1.1). But interviewees highlighted the legal difficulties that a recognition by FINMA would entail, and preferred a regulation which covers the whole economy rather than only the financial sector. Currently, AMAS' internal guidance focuses in particular on funds with sustainability characteristics, however suggests disclosures on provider- and product level [10].

Interviewees agree that an issuer's sustainability profile must be stricter aligned with a product's sustainability characteristics. We suggested prioritizing disclosures which help to track if financial market actors "walk the talk", e.g. via enhanced disclosures on engagement or unexpected investments (Section 2.1.1). Participants did not reject these ideas. Supporting our disclosures-for-all-financial-products suggestion above, one participant highlighted that currently, the extra-financial reporting requests sustainability disclosures from those who "do it anyways", in line with their already sustainable business model. Another interviewee warned that "transition washing" is the new ESG "risk-integration" or "engagement washing",[25] referring to the increasingly broad interpretation of greenwashing (Section 1). For example, financing for the retrofitting of buildings, could be combined with pressure concerning the sustainability-profile of the recipient, i.e. avoiding that financing for retrofitting benefits economic activities with high waste of energy, such as indoor skiing facilities in arid areas.

On the financing side, interviewed representatives from cantonal and retail-oriented banks have started to gather sustainability data for SMEs. A cantonal bank

quantitative metrics are still lacking for impact reporting (see PAI data struggles Section 3.1.2).

23 In the context of the Climate Ordinance's consultation process, it is important to note that the Federal Council has provided the Federal Department of Finance with the task to clarify minimum expectations for transition plans of financial institutions by the end of 2024 Federal Council 2024.

24 Currently, Swiss reporting requirements under Art. 964 CO define material information via the climate ordinance, and the announced lowering of FTE threshold while maintaining the definition of corporations of "public interest" (unlike in the EU where "public interest" was dropped). A participant criticized that this does not guarantee sufficient SME data to make transition-relevant decisions.

25 ESG risk integration is no longer considered sufficient to call a product or entity sustainable, since it focuses mostly on financial risk to business rather than business' impact on the outside world (see Box 1). Engagement can serve as an excuse to avoid divestment, unless clear escalation strategies and measurable transition efforts exist. Transition washing describes the respective misuse of the word "transition", without clarity on what transition actually means and how it is measured. All these are facets of greenwashing.

representative reported that most SMEs do not seem to sense the trickle down of sustainability reporting and due diligence yet, but observed increasing interest in sustainability. While SMEs reportedly fear the bureaucratic burden imposed by questionnaires, they might be willing to disclose information via local banks, as long-term and trusted sustainability-related contact points (Section 3.3)[26] with a self-interest in SME transition data for reporting and valuation reasons.

Interviewees prioritize the collection of such SME data which is particularly relevant for environmental risk calculation, recommending incentives such as mild enforcement and support for data-collection. Such risk-adjustment and proportionality could help balancing reporting burden and necessary harmonization of datapoints for transition efforts. Rather than considering the development of a local disclosure standard (Section 2.1), which does not satisfy the need for supply chain datapoints under more complex regulations, interviewees insisted that all material datapoints must be traceable along the whole value chain. However, accountability and punishment may be reduced for smaller actors with less capacities, and market actors expect further guidance and technical support, e.g. around transition plans, from industry associations.

Interviewed market participants highlight that the sustainability effort is about more than just marketing. Although "Article 9 [disclosures indeed serve as] a good marketing tool", one interviewee stated that "it's not just that we need to [share sustainability information] because it's a fancy topic, but because we want to contribute to solutions of global challenges." Without agreement on how to solve these complex challenges, transparency is a first step, but purpose-alignment on what the preferred solutions to these challenges are, needs to follow to achieve a successful transition of the economy.

BOX 2: Spotlight on the Swiss Climate Scores - Decision-useful disclosures or sustainable product label?

The Swiss Climate Scores are indicators[27] for simplified climate disclosures. The selected metrics are inspired by the TCFD recommendations and can be calculated with the help of a provided Excel sheet [47]. NZZ recently called the Swiss Climate Scores, a "set of transparency criteria for climate-aligned investing",[12] and one of the probably most important projects during the last year with the potential to become a "fridge label", a reference to the traffic light energy label for fridges in the EU [48]. Interviewees report that data availability for the indicators is better than for broad disclosures under SFDR (Section 3.1.2). However, critical voices address the selection of underlying data, which remains at the discretion of the individual institution, hence published scores might be biased towards favorable ratings of MSCI or Sustainalytics (Section 3.1.2). Furthermore, the global warming potential or implied temperature rise

26 Banks already provide SME clients with know-how on topics such as energy saving and useful tools, e.g. heatmaps or discounts for EnAW checks [46]. However, industry associations may suggest and provide access to more such tools which help to manage sustainability data (e.g. Swiss Triple Impact, Toolbox Agenda 2030, B-lab, Levo, Rose, Pelt8, Ecovadis etc.). Selected intermediaries could be responsible for data verification. Collected data could be centrally administered by respective industry associations, or be harmonized with NZPDU and ESAP. Market participants confirm limited SME resources in conflict with overwhelming power of large consulting firms in the area of sustainability reporting, who present the topic purposefully "complex" (interviewee quote) to get hired. Rather than expecting SMEs to pay incumbent consultants, experienced NGOs and innovative start-ups could be promoted via official accreditation and recommendation by federal regulators and industry associations.

27 One interviewee questioned the choice of title, suggesting that "Swiss Climate Indicators" would be much clearer.

indicator, which most clearly shows how the respective financial product contributes to the 2030 and 2050 goals, is optional and criticized for methodological shortcomings.[28] Only 1/3 of Swiss financial market participants initially planned to implement the Swiss Climate Scores [1]. Globalance became the first Swiss bank to publish scores for all its assets, including investment funds, while UBS released Swiss Climate Scores for 60 funds in November 2023 [49] [50].[29] Hope lies in the role model function of incumbents such as the latter, besides international interest in simplifying complex disclosure regulation to provide an understandable break-down in particular for retail investors.[30,31]

Market actors highlighted that while enhanced disclosures might be sufficient for professional investors, retail investors would benefit from sustainability labels. Interviewees confirmed that the Swiss Climate Scores are a Swiss intent to provide best-practice indicators for climate-disclosures, in addition to existing international ones. But the introduction does not (yet) result in harmonization and the creation of a common understanding (Section 3.3.3). The initiative could ultimately turn into a reader-friendly set of comparable indicators for retail investors, illustrating product alignment or contribution towards climate goals.

The Swiss Climate Scores could potentially evolve into an environmentally focused product label. Data selection to calculate the scores should be in line with certain transition or impact criteria (Section 3.2). The Federal Council recently announced that a SCS update for 2025 will go into that direction [31]. Furthermore, the indicators might be expanded to cover not only the financial market but all types of Swiss corporations, thus enhance cross-industry harmonization. If successful, an interviewee feels that "there is nothing that would speak against the discussion on, for example, the Swiss Natures Scores", which could summarize existing best-practices from biodiversity reporting as guidance for small financial market actors and retail investors, e.g. TNFD inspired datapoints on GHG, forests, wetlands, waste and water. As long as Swiss Climate and Nature Scores help promote a common understanding of sustainable investment opportunities (Section 3.3.3), they might become a meaningful transparency and classification tool with the potential to inspire investment decisions and change in capital allocation.

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28 One interviewee's financial institution has "started to show the Implied Temperature Rise (ITR) and the average ESG rating in the annual asset statement. This has been shown over many years to be the most tangible and important thing, the average rating and then a climate indicator [inspite of known methodological difficulties]."

29 Other actors, such as e.g. Switzerland's largest pension fund Publica based its 2022 sustainability report on the Swiss Climate Scores, in addition to "the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), and the ESG reporting recommendations laid down by the Swiss Pension Funds Association ASIP" [51].

30 One interviewee stated that "the greater the alignment [between disclosures], the better for the moment, just because there is so much room for interpretation at certain times within the sustainable investing sphere that I think it's at the moment more important to maybe have not ideal indicators, but at least everyone's reporting on the same one."

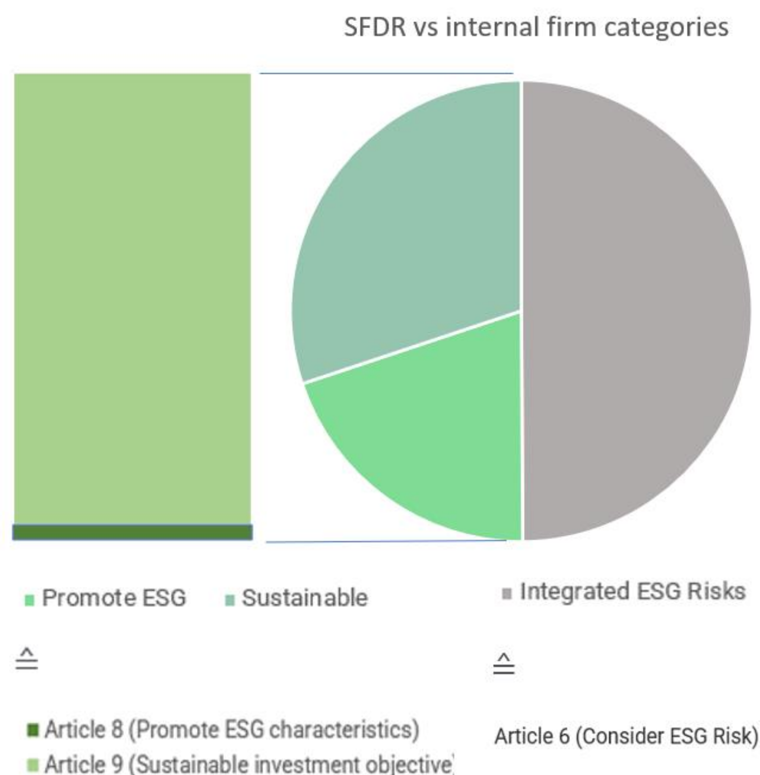
31 If sustainability disclosures are not readable by retail investors, professional investors may ultimately define what is considered sustainable. In that regard, it is interesting to highlight that the SEC rules for fund names, which require detailed explanations on sustainability strategies specify that greenwashing is ultimately defined by "plain English meaning or established industry use" [41]. But it is in particular professional investors who digest the respective sustainability explanations, and whose perception of "plain English meaning" may count in the end.

Figure 5: Summary of discussion of preliminary recommendations from Section 2.1

Category	Reported Issues	Preliminary Recommendations	Interview insights
Enhancing financial-product transparency via sustainability disclosures	Unsustainable administrative burden for financial institutions to navigate corporate and financial-market disclosures, specifically for CH, EU, UK and US	Switzerland should officially accept EU disclosures and provide support for further harmonization of datapoints across sectors and supply chains	**Agreed;** avoid double reporting requirements, maximize use of data systems for SFDR compliance, and align corporate and financial market specific reporting.
	EU reporting requirements for financial institutions (SFRD) and companies (CSRD) phased in at different times with different scope of compulsory indicators & lack of supply chain data, in particular on PAIs	NZPDU and ESAP should connect and harmonize publicly available sustainability data to replace estimations and reliance on fragmented indicators from for-profit providers & more support for SMEs is necessary	**Agreed;** Interviewees in particular highlighted the challenges around proxy data from data providers and reliance on imperfect, subjective for-profit ratings.
	SMEs lack capacities & expertise to meet complex requirements on disclosure data	Switzerland could adopt a local disclosure standard for SMEs & further enhance interoperability with international regulation, such as SFDR and CSRD	**Partially agreed;** SMEs approach sustainability data and strategy differently – risk-adjusted approach with proportional enforcement rather than introducing a local disclosure standard.
	Investors lack decision-useful information to finance an environmentally friendly transition; the voluntary Swiss Climate Scores shed light on climate-alignment of portfolios, though are less developed than foreign binding regulations	Switzerland should further develop the Swiss Climate Scores & enhance comparability of e.g. data from external providers or long-term temperature predictions	**Partially agreed;** Decision-useful information reportedly requires the inclusion of SMEs, to "walk the talk", i.e. transition purpose of disclosures (beyond marketing). SCS to help retail investors with decision-making, rather than serving only professional investors
	Current Swiss reporting requirements and self-regulation, e.g. by AMAS, SBA and ASIP, are less detailed/strict than EU regulation; Lack of more stringent disclosure requirements on (non-financial) positive and negative environmental impacts for financial products which claim to be sustainable; Market freedom and lack of alignment with EU regulations (the Swiss Federal Council rejected the adoption of the environmental EU taxonomy at least until 2025)	Self-regulation could be further enhanced and recognized by FINMA in order to apply to the whole financial sector; Sustainability-related disclosure requirements for all products and providers could impose bureaucratic effort on laggers rather than frontrunners, thus reverse the burden of proof; Swiss regulation should provide more guidance to avoid further fragmentation and clarify which environmental activities and financial products count as sustainable	**Partially agreed;** Interviewees preferred an all-economy solution for clarity around sustainable products over financial-market specific FINMA recognition. Towards double materiality, Swiss regulation could prevent unintended harm and request basic sustainability disclosures for all products, incl. financially uninteresting negative environmental impacts, in addition to alignment between product and provider characteristics.

Source: Authors. For details on the methodology see Section 2 and Annex.

Figure 6: Matching internal sustainability classifications with SFDR categories



Note: This Figure illustrates the 2022 classification of investment solutions that incorporate ESG criteria (pie chart) as opposed to SFDR categories (bar chart). These investments – representing 107.6 bn CHF - make up half of the respective firm's AUM. This example was chosen independently of the interview series, to illustrate the difficulty of aligning SFDR disclosure categories with internal product classifications for transparency at point of sale (further discussed in Section 3).

Source: Vontobel Sustainability Report [53].

3.2 CLASSIFYING FINANCIAL PRODUCTS BASED ON THEIR SUSTAINABILITY CHARACTERISTICS

The increasing availability of comparable sustainability information via standardized disclosures opens a window to look thoroughly at sustainability characteristics of underlying financial products, and set minimum criteria, e.g. for fossil fuel exposure, where necessary.[32] We previously highlighted that market actors have erroneously interpreted the SFDR articles as classification scheme (Section 2). In the absence of an official taxonomy which defines sustainable economic activities (cf. EU environmental taxonomy – Section 1), Swiss market actors apply a combination of sustainable finance strategies, namely best-in-class, climate-alignment, ESG Engagement, ESG Integration, Exclusions, Impact Investing, Norms-based Screening, Sustainable Thematic Investments and ESG Voting.[33] Financial institutions also established their own classification systems for sustainable products and services, which are aligned with, but are not equal to,

32 So far, funds with different levels of fossil fuel exposure can disclose under Art. 8 of the SFDR (see DNSH/PAI, minimum safeguards & transition potential; [4]).

33 In the 2023 Sustainable Investment Market Study [1] Swiss Sustainable Finance explicitly states that applying one sustainable investment strategy is not enough, instead referring to Busch et al. (2022) [52].

SFDR disclosure categories (see Box 1, Section 3.1.3 and 3.3). Figure 6 shows that while information on funds which integrate basic ESG risk can be disclosed under Art. 6 SFDR (see exact match in grey), it seems more difficult to align what counts as sustainable financial product and thus requires enhanced disclosures under SFDR Article 8 and 9 respectively (different shades of green). Figure 6 represents a financial market actor's share of products defined internally as sustainable, only few of which match the "sustainable investment objective" criteria for disclosure under SFDR Art. 9.

In this section, we discuss market participants' ideas and feedback on classifications for sustainable financial products, such as labels and funds' names, (outlined in Section 2.1.2) and in line with the preliminary definition of the Swiss Federal Council (cf. Box 1). First, we discuss the path from disclosures to labels with the example of the Swiss Climate Scores (Section 3.2.1). Then we dive deeper into avoiding externalities (Section 3.2.2) and focus on funds' names and labels (Section 3.2.3).

3.2.1 Walking the talk: From disclosure guidance to robust content-alignment

Interviewees disagree on how much guidance is needed to reduce confusion as to which financial products are actually sustainable. Most of the financial market participants we interviewed already undergo due diligence on sustainability matters when selecting investee firms, e.g. when composing portfolios or recommending certain products to clients with a specific risk appetite. Some say that financial institutions' due diligence processes identify best what can be considered sustainable, based on available data, and that disagreement is necessary for competition, similar to varying financial valuations in identifying traditional investment opportunities. Others highlight that rather than laying in the eye of the beholder, climate and biodiversity investments must follow a harmonized labelling scheme, to co-create a sustainable future, not only based on what investors value but what is valuable for all.

The Swiss Climate Scores (SCS) are an attempt to provide more clarity around which portfolios are in line with the Paris Agreement. The SCS indicators cover transparency on transition plans, stewardship and the reduction of fossil fuels, which interviewees approve as priority topics. In our white paper series, we suggested that the Swiss Climate Scores (Box 2) were a science-based attempt to offer a Swiss alternative to the EU taxonomy-related Paris Agreement-aligned indicators and thresholds, or to the SEC ESG Focused Fund requirements (Section 2.1.1).[34] In contrast to more developed rules on funds' names, such as in the US, the UK or the EU (Section 3.2.3), market participants highlight that the SCS are so far voluntary, not reviewed by any external actor, and published mainly by leading financial institutions with stated sustainability ambition.[35] In parallel, Swiss self-regulations such as the AMAS' and ASIP' guidance help mainstream the integration of sustainability risk into financial decision making, but some interviewees stated that they do not really provide anything new and regard them rather as "a cherry on top".

To improve the SCS, interviewees endorsed additional disclosures on engagement policy and results, in particular for financial products with transition objective (Section 2.1.1). To avoid active ownership becoming a greenwashing strategy to justify the avoidance of divestment, disclosures on escalation strategy and voting mandates (including the outsourcing of

34 More clarification on US side might follow with the SEC climate disclosure rules expected in April 2024 [54].

35 Research insights were collected before the SCS update was published [31].

such) are indispensable. The Swiss Stewardship Code, which was launched at Building Bridges in September [55], intents to build upon the SCS. However, interviewees state that the UK Stewardship Code [56], on which the Swiss one is based, is already widely applied by Swiss market actors [7]. For example, disclosures on "unexpected investments" in line with the UK SDR proposal could have provided further clarity around engagement, but were ultimately rejected since the lack of a threshold for what counts as unexpected might pose another risk of greenwashing.[36]

3.2.2 Avoiding negative externalities

Interviewees agreed that the definition by the Federal Council of sustainable-finance products could be enhanced by clarifying environmental and social priorities and setting minimum standards. We mentioned in Section 1 that in the eyes of the Federal Council, a credible definition of sustainable financial products must go in hand with a "description of sustainability approaches applied, accountability, verification by an independent third party, binding nature, enforceability of rights and access to legal recourse for customers" [5]. Interviewees did not necessarily agree that third-party verification and legal enforceability make sense in the short term, since regulatory unclarity persists and harmonization requires experimentation. However, in all conversations with market participants, individuals agreed that a product targeting a certain sustainability goal should not backfire and harm others in parallel (Section 2.1.2), and suggested high-risk checks, i.e. avoiding global harm based on the OECD guidance for multinational enterprises, the UN Global Compact, the Paris and Montreal agreements (Section 2.1.2).

In parallel, implementation challenges around the complex EU approach on DNSH persist (Box 3). This concerns in particular, data challenges concerning PAI (Section 3.1.2), on which the EU's DNSH test depends. Furthermore, market participants are confused about the lack of threshold for compliance with the DNSH principle [57], leaving the ultimate control for negative externalities up to the discretion of individual firms.

Market opinions differ on whether further clarifications on either Do No Significant Harm (DNSH) or minimum safeguards are necessary. Some financial market participants are confident that ESG specialists are already performing profound screenings concerning the risk attached to the sustainability profile of the respective products, and client advisors anyways need to justify that funds do not include anything "dirty" (see 'good' investments in Section 3.2.1). But interviewees also acknowledged that the reputation of the financial market is not the best, i.e. regarding the morality of work ethic, and that «black sheep», i.e. individuals or financial market actors who do not anyways dutifully exclude irresponsible investments, might need a regulatory push. One interviewee remarked that

> "DNSH, in particular with transition-enabling companies is very, very difficult. The most obvious example is probably rare earths or minerals and metals that we need when we build alternative sources of energy, windmills and the solar panels. We need all those resources in order to build them, but then at the same time while getting those resources, we don't want to destroy the environment in one place, but the greater goal, the overarching one is that we need alternative sources of energy."

36 The UK Financial Conduct Authority (FCA) has clarified that the [label] rules do not prescribe the form in which stewardship should take place or whether the strategy should be at the firm or product level [39]. "There is no longer a separate category of 'unexpected investments', but the disclosure must include, under the sustainability approach, details of any types of assets held for reasons other than to pursue the sustainability objective and why these are held" [37].

BOX 3: SPOTLIGHT ON DNSH IN THE EU– HOW TO AVOID NEGATIVE EXTERNALITIES?

This box explains one of the main bottlenecks around evolving sustainable finance regulation: the extent to which negative effects on other sustainability goals must be disclosed and mitigated, in addition to a products' stated sustainability characteristics. For example, an *environmentally*-focused fund must nonetheless report and reduce harm to a range of *social* sustainability objectives, according to SFDR. The European SFDR Article 2 (17) outlines that good governance, Do No Significant Harm (DNSH) and a sustainable investment objective are expected from a so-called "sustainable investment" (see below) [17], [58]. While it is not specified in detail how the DNSH must be conducted under SFDR (lack of thresholds), it is clear that a DNSH test, based on a list of principle adverse impacts (PAIs) outlined in Annex 1 of the Regulatory Technical Standards (RTS) must be conducted. These PAIs cover climate[37] and environment, social and employee matters, human rights[38], and anti-corruption and anti-bribery [57]. PAIs must not only be declared at entity (Art. 7) and fond level (Art. 4), but a profound analysis of significant negative impacts of investment must be conducted. ESMA has clarified that although the requirement of "taking into account" PAIs remains undefined, criteria could be quantitative, qualitative, or a mix of both. Thresholds, such as for companies performing environmentally sustainable economic activities above a certain level, could be applied. For example, the EU environmental taxonomy defines much more precisely than the SFDR what DNSH means for economic activities respecting certain environmental goals, according to thresholds laid out in the respective appendices (A-D) [17], [58].

Financial market actors must apply DNSH tests respectively:

- Article 8 financial product[s]: explain how the adverse social and environmental impact indicators in Table 1 of Annex I of SFDR Final Draft Level 2 and any relevant indicators from Tables 2 and 3 are taken into account,
- Article 9 financial product: ensure the alignment of Sustainable Investments with Article 18 of the Taxonomy Regulation on minimum safeguards,[57]
- At entity level above 500 FTE: declaration of "taking into account" PAI (see lack of definition outlined above; need of explanation and timeline if not taken into account),
- At fonds level: Art. 8 > DNSH optional but recommended; Art. 9 > DNSH unavoidable [58]

According to Art. 2 (17) SFDR, 2019/2088, **"Sustainable investment" means** an investment in **an economic activity that contributes to** an environmental objective, as measured, for example by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, **provided that such investments do not significantly harm any of those objectives** and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

37 e.g. GHG scope 1, 2, 3 and total emissions and GHG intensity of investee companies

38 e.g. share of investments in investee companies that have been involved in violations of the UN Global Compact principle or the OECD Guidelines for Multinational Enterprises; share of those that have policies to monitor compliance and have established corresponding escalation strategies.

3.2.3 Classification via funds' names and labels

Market participants confirmed evolving foreign fund names and labels as a way towards a common understanding of what sustainability means. In particular, we previously criticized the requirements on funds' names developed in the US for not setting any minimum standards to avoid that other sustainability goals are negatively affected by so-called sustainable products (Section 2.1.2, see Box 3). Financial-market participants approve of the flexibility under US rules, but agree that without further defining rules for the composition of sustainable products, the ones who benefit are in particular professional investors who can understand the disclosed data (Section 3.1.3). Further clarification on the application of fund names is expected from the European ESMA in 2024 (Box 4). We previously stated that labels might serve for comparison and provide more credibility but are harder to implement (Section 2.1.2). Financial-market actors who we interviewed seem interested in labels, and highlighted in particular the accountability-potential for retail investors who do not possess the expertise to compare complex information disclosed under fund name rules. But we observed uncertainty about the right method or criteria. In particular, the European Green Bond Standard is closely observed, but criticized as too bureaucratic (Section 3.3).

BOX 4: SPOTLIGHT ON ESMA'S DELAYED FUND NAME RULES

The EU also pushes ahead with content-aligned fund names. ESMA has announced the publication of fund name rules for Q2 2024, which would apply to new funds three months after publication, with a 6-month buffer for existing funds [59]: Instead of the previously announced 50% threshold, ESMA further aligns with US regulations in requiring 80% of investments to meet the sustainability characteristics or objectives. Furthermore, ESMA expects application of Paris-aligned Benchmark exclusions and meaningful investments as defined in Article 2(17) SFDR, "reflecting the expectation investors may have based on the fund's name (cf. US SEC fund names reflecting "plain English meaning" – see footnote 31.

In particular, ESMA further defines the meaning of "transition" and "environmental transition" European "transition-related" fund names require consideration of Climate Transition Benchmark (CTB) exclusions,[39] combined with PAB for "environmental transition". ESMA conceded that environmental, social and governance goals are separated so that fossil fuel rules, i.e. under PAB, do not become too restrictive.

Furthermore, the proposed ESMA rules require a double-bottom line approach with measurability. "Transition" or "impact" related funds that the 80% of investments "are made with the intention to generate positive, measurable social or environmental impact alongside a financial return or are on a clear and measurable path to social or environmental transition [59].

39 Exclusions for EU Climate Transition Benchmarks are those contained in Article 12(1)(a)-(c) of Commission Delegated Regulation (EU) 2020/1818, namely companies with exposure to controversial weapons, cultivation and production of tobacco, or those violating the UN Global Compact or the OECD Guidelines for Multinational Enterprises, in the eyes of benchmark administrators.

3.2.3.1 *Focusing on transition and impact*

Market participants remark the need for harmonization around transition and impact terms. In Section 2.1.2 we highlighted the need for a uniform understanding, with focus on sustainability interpretations around transition and impact. In particular, we stressed the need for clearly measurable, internationally aligned classifications, with potentially additional disclosures covering the theory of change as well as an escalation plan for engagement. Interviewees confirmed the greenwashing risk around impact statements, since public conceptions of impact investments differ from market interpretations of nuanced impacts on the market. We previously framed impact in relation to international regulations such as the EU SFDR Article 9, the US ESG impact funds, or the UK Sustainability Impact label[40] (Section 2.1.2). For example, activists might perceive the term "impact investment" inadequate for portfolios including fossil-fuel producers as investee companies, while investors highlight the transition potential with strategic engagement, in light of the need for more energy companies transitioning towards renewables, and refrain from divestment. But under which conditions is the impact potential in case of successful engagement larger than the additional emissions averted by immediate divestment? Participants agree that sustainability terms should apply to different asset classes, but different thresholds may apply in different contexts.

Interviewees find that market actors could benefit from a deeper analysis of how international regulations can be interpreted to benefit the economic transition. They voiced interest in ongoing developments in particular in the US, UK and EU. We previously highlighted the proposed UK Sustainability Improvers category, but also the "potential for becoming a 'catch-all for ESG funds, with a related risk of greenwashing' if no extended guidance is provided for the disclosure of active ownership actions, escalation process and results" [33] (Section 2.1.2). In particular, Switzerland could seek to harmonize the internally developed sustainable product categories, which Swiss financial market actors reportedly apply in line with SFDR, from a transition angle (Figure 6; see different investment universes in Section 3.3.1). This includes exploring the full transition potential of Art. 7, thus enriching the discussion around Art. 6, 8 and 9 (Box 1) meaningfully - as one interview participant recommended:

> "You have 6 for risk, basically single materiality perspective. You have 7, nobody talks about [...]. It will be I think perhaps one of the most important provisions in SFDR going forward. And then 8 - I say it's a catch-all-anti-greenwashing provision, so as soon as you mention something about ESG or green they say "tell me more". And then 9 is for products with an ambition to do sustainable investment. [...] So, 8 you basically can use for anything. Your investments in sustainable assets can range from zero to 100 under 8. And so you can do transition, you can do anything. But you know, for [...] sales purposes it would be nice to have something as a transition label."

3.2.3.2 *Sustainability-related bonds*

Last but not least, interviewees consider sustainability-related bonds a good tool for supporting the transition and scaling up impact. In Section 2.1.2, we highlighted

40 The UK published the final Policy Statement on Sustainability Disclosure Requirements and Investment Labels end of 2023 [37]. Notably, the proposed three "sustainable" labels are now called "sustainability focus" sustainability improver" and "sustainability impact", with the addition of a fourth "sustainability mixed goals" label. A 70% threshold applies for all labels (cf. ESMA & US fund name rules 80%). The labels can be applied from 31.07.2024 – funds which chose not to apply any label, need to refrain from using "sustainable" "sustainability" or "impact"-related terms in fund names for retail use, and must explain to clients why no label was chosen. These naming and marketing rules enter into force in December 2024, and were relaxed to avoid greenhushing. Last but not least, a general anti-greenwashing rule covering environmental and social characteristics is further updated and will enter into force on 31.05.2024. Notably, the SDR will progressively apply also to smaller entities, and will neither apply to portfolio management and service firms nor to foreign entities and funds, for the time being. In addition, stewardship and independent assessment requirements have been rephrased to allow for more flexibility [39].

that widely-established market practice relies on the GBP and CBI's guidance. We repeated that also for green bonds one sustainability aspect may not excuse a harmful trait (Section 3.2.2), i.e. the issuer's sustainability characteristics should not be in conflict with the use of proceeds.[41] One participant stated that "the use of proceeds [and its measurement] should be very, very clear and should be comparable across Switzerland and the EU." In that context, interviewees acknowledged the Federal Council's issuances of green bonds as a good example of guidance. Participants also confirmed that the use of proceeds could be further regulated and that a common-ground taxonomy would be desirable (Section 2.1.2), although unlikely due to political dissent. An emerging Swiss definition for sustainable financial products and services (Box 1), could also specify the use-of-proceeds for bonds, and further (self-)regulation could demand alignment of "objective, pre- and post-issuance review and consistency with issuers' sustainability strategy[, i.e. an issuer's transition plan]". Finally, one interviewee voiced doubts about sustainability-linked bonds ("badly structured", "risk-transfer to stakeholders"), warning that by extracting clean projects traditional bonds become dirtier.

Interviewees are aware that the European Green Bond Standard (EUGBS) sets a new, complex standard. We previously wrote that

> "in addition to having to contribute to an environmental objective, the eligible economic activities must respect the Do No Significant Harm (DNSH) Principle, the Technical Screening Criteria, and minimal safeguards. However, the EUGBS is a complex framework and difficult to apply".

Interviewees seem to prefer flexible principle-based regulation instead, but disagree on whether the market should have the freedom to decide on what is considered green and social via its control and allocation function.

For a more detailed analysis of green bonds, see the E4S white paper "The Swiss Market of Green Bonds: Breaking Down the Barriers to Scale" [60].

41 Compare above examples on energy-friendly retrofitting for a building which provides indoor skiing; or a coal plant with excellent social conditions.

Figure 7: Summary of discussion of preliminary recommendations from Section 2.1

Category	Reported Issues	Preliminary Recommendations	Interview insights
Classifying financial products based on their sustainability characteristics	Financial institutions disclose their climate-engagement policies in inhomogeneous ways, carrying greenwashing risk because engagement can be an excuse to avoid divestment	The Swiss regulator should make it compulsory for financial institutions to disclose the escalation process, to proof the existence of clear rules in case engagement is unsuccessful	**Agreed;** (collective) engagement as powerful tool to support companies in their transition rather than divesting, and strict engagement policies increase credibility, e.g. of transition labels.(Self-)regulation should harmonize escalation strategies, leaving space to take account for individual circumstances.
	Swiss financial-market actors are impacted by foreign classifications, in particular that developed in the UK, the US and the EU	Swiss regulators should internationally align the definition of sustainable financial products and services, e.g. on fund's names, benchmarks and labels, contributing in particular to a common understanding of "transition" and "impact".	**Agreed**; in the absence of a taxonomy, financial market actors analyze economic activities themselves and respectively sort investments into individual sustainability categories, based on foreign regulation.
	Name rules such as in the US, leave a lot of freedom in terms of how sustainability is defined	Regulators should introduce minimum safeguards to avoid environmental and social harm, e.g. in line with the UN Global Compact and the OECD Guidelines for Multinational Enterprises	**Agreed**; Swiss (self-)regulators should provide more guidance on what counts as sustainable, and which minimum safeguards should be applied for sustainable products. Market actors request cross-sector and international alignment, while minimizing complexity. Interviewees confirmed unclarity around the terms "transition" and "impact". Also on the financing side, harmonized sustainability guidelines are necessary.
	Green bonds are issued in line with the market-based Green Bond Principles, and the Climate Bond Initiative, which provide for flexibility	The Swiss Sovereign Green Bond Framework should inspire rigorous green bond issuance, with strict rules for the use of proceeds, observing the EUGBS and the Common Ground Taxonomy	**Partially agreed;** Rather than implementing complex green bond regulation, i.e. EUGBS, Swiss regulators should further incentivize green bond issuance, with strict rules for the use of proceeds and the alignment of sustainability characteristics between project and issuer; Common Ground Taxonomy ideal global harmonization framework, but politically difficult

Source: Authors. For details on the methodology see Section 2 and Annex.

3.3 Clarifying sustainability conceptions and responsibilities at point of sale

In this section we discuss interviewees' concerns, in particular around retail investors' understanding of sustainable finance. Financial advisors now have to explicitly ask investors for their sustainability preferences, in line with the EU's MiFID II regulation and the Swiss SBA's self-regulation (see previously reported issues - Section 2.1.3). We focus in particular on the assessment of clients' sustainability profiles via questionnaires and conversations, observing increasing interest (Section 3.3.1), along with a need for general education on sustainable finance (Section 3.3.2), and clarification of responsibilities at point of sale (Section 3.3.3).

3.3.1 Do clients care? - The explicit request of client preferences

Interviewees report increasing interest from clients in sustainable investments and financing, in particular for energy and retiree-friendly retrofitting, and have established internal classifications for access to varying investment universes. So far, in Switzerland, FinSA does not explicitly require the consideration of clients' sustainability preferences, but self-regulation has mainstreamed the topic in client advisory (Section 2.1.3). In the course of the interviews, we received an overview of the way in which Swiss banks currently base investment decisions on client preferences. Accordingly, basic exclusions have become standard, but advanced sustainable products and in particular impact products are still only available to few (high-income) investors.

For example, imagine a bank advisor assessing a client's general risk profile. The advisor asks her about the extent to which sustainability risk and impact matters to her as well as whether capital shall be allocated for 5, 10 or more years. Depending on the time horizon and the amount of capital available for allocation, the client advisor might recommend more or less sophisticated sustainable products. The offered product range depends on the assessed sustainability profile, e.g. starting with "basic", focusing mostly on traditional investments, such as corporate shares with high ESG rating - excluding only child labor, critical weapons and tobacco. In contrast, a more sophisticated investment universe might include riskier or less liquid products e.g. supporting carbon removal start-ups or global education projects.

Interviewees agreed that the integration of basic sustainability risk is now part of fiduciary duty, but the scope of interpretation varies. Sustainability risk may include i.e. impacts of climate change over the next decades, which is difficult to predict precisely. However, opinions differed as to the extent to which this margin of appreciation allows for more advanced sustainable-investment strategies. One interviewee explained how the financial institution justifies a certain sustainability baseline for all pension plans by officially stating that proclaimed sustainable investments delivered more value in the long run, thus acting coherently in the name of fiduciary duty. A participant confirmed that new sustainable finance categories changed the internal organization, but do not necessarily change the business orientation, e.g. cantonal banks with particular social service mandate already take non-profit considerations into account.

3.3.2 Employee training and public education for fiduciary duty and informed choices

Interviewees account for client interest in sustainable finance decisions, but call for more education amongst client advisors and via public media formats. Our preliminary recommendations (Section 2.1.3) called for harmonized requirements for client advisory to include the explicit request of sustainability preferences, combined with educational efforts for employees and the general public. Indeed, interviewees confirmed that in particular advisor trainings have been widely implemented, and that public media formats are increasing, e.g. newspaper articles or webinars

explaining different sustainable investment strategies.

However, responsibilities might need to be further clarified, since client advisors are not sustainability consultants, but rather gatekeepers and contact points. Interviewees stressed that the value creation of banks depends on the outsourcing of financial decisions, and that the delegation of such decisions must remain possible. Interviewees highlight their strength in creating value by "choosing the right ones", in light of profitability concerns regarding sustainable investments. Similarly, individual financial advisors and especially smaller banks cannot be expected to provide the whole range of sustainable investment opportunities. But trusted bank advisors may serve as contact points to spark sustainability interest (see financing for SMEs Section 3.1.3) and facilitate delegation to actors with respective expertise or e.g. specific thematic funds.[42]

3.3.3 *The need for a common understanding of sustainable finance and clarification on responsibilities*

The interview series thus finds the need for a common understanding of sustainability along the financial value chain, covering professional and retail investors alike (Sections 3.1 and 3.2). Interviewees highlighted in particular the above-mentioned widely accepted SSF definition [1], [52] of sustainable investment strategies as basis for a common understanding of sustainable investment in Switzerland. On the financing side, a common understanding seems to be less developed. One interviewee compared the process to the emergence of a common understanding for organic food throughout the last decades, including the willingness to pay more, and the move from the left political spectrum and bias of respective narratives towards the mainstream.

Figure 8: Summary of discussion of preliminary recommendations from Section 2.1

Category	Reported Issues	Preliminary Recommendation	NEW: Interview insight
Integrating the sustainability preferences of clients	Financial market actors struggle to set strict sustainability policies on what to offer to clients, in light of the fiduciary duty to maximize returns	Top-down regulation can further empower clients on whether/to what extent they want to invest sustainably	**Suggestion:** Regulation should further focus on general harmonization and clarification of sustainability notions and responsibilities, i.e. supportive tools distributed through industry associations. In particular, categories and labels with comparable and clearly explained sustainability characteristics can help retail investors to voice sustainability preferences.
	Limited visibility on sustainability characteristics of financial products; retail investors lack sustainable finance education	Swiss regulation could further harmonize the explicit request of client preferences, aligned with product categories and general education on sustainable finance	**Agreed;** client advisor training and general education formats such as via public media are necessary to enhance public knowledge on sustainable finance. Banks may function as a trusted point of contact rather than consultant for sustainability.

Source: Authors. For details on the methodology see Section 2 and Annex.

42 A Swiss cantonal banks described an existing partnership with a large Swiss private bank to expand the sustainable finance product range.

4 SWISS AMBITION: WHAT IS THE PLAN?

Urgent action is needed for Switzerland to become a "leading sustainable financial center" [61]. Work remains to be done to solve the "mismatch between the stated ambitions of the financial center and the perception of its actions by pressure groups", while navigating the tradition of "Swiss authorities displaying little appetite to set legally binding standards" [62]. A recent UN report finds that the world will heat up by 2.5 – 2.9 degree Celsius if countries implement the promised Nationally Determined Contributions (NDCs), which is still far from the 1.5-degree limit agreed in Paris [63]. And the climate crisis is only one part of the problem, as immense loss of biodiversity and pollution are materializing, and global disparities are severe. Amidst these challenges, the Swiss people have confirmed that the power of the financial sector shall be channeled to help solving these challenges.[43] The Climate and Innovation Act highlights clearly that Swiss firms shall develop realistic transition plans (Sections 3.1. and 3.2). But voluntary measures might not suffice as some market actors with different priorities show reduced interest in engaging in sustainable finance practices.[44]

Switzerland has a unique opportunity to move from fragmentation towards more harmonization. Impacted by complex European sustainability regulations, the Swiss industry enjoys space for experimentation to reflect upon challenges encountered during the EU taxonomy and SFDR implementation. It also has the potential to build upon existing regulation and pass down practical learnings to smaller market actors in Switzerland. However, the fragmentation of Swiss self-regulatory guidance and the lack of a detailed Swiss regulatory framework, such as the Action Plan in the EU, have arguably led to fragmentation rather than maximal cooperation between different market actors. Thus, harmonization between industry associations, regulators and civil society should be prioritized and aligned across the whole economy. Frontrunning market actors in Switzerland are already applying best practices. Swiss regulators should also consider learnings from established local actors with a long tradition of supporting society and innovation. Rather than developing further parallel initiatives, Switzerland should synthesize and harmonize what is already there with guidance and support.

Based on our analysis of the market and the interviews, we suggest five key takeaways for evolving Swiss (self-)regulation:

(1) (Self-)regulation could further harmonize notions of transition and impact, specifying the interpretation of words such as "aligned with" or "contributing to". Swiss financial market actors are moving from sustainability risk integration to scaling up transition and impact investments, but a common understanding of where Switzerland positions itself in line with existing international frameworks is lacking. Without transition and impact priorities for the financial sector, a clear implementation path towards sustainability is missing.

(2) In the absence of a common sustainability vision, regulation risks to be limited to negative prescriptions rather than positive encouragements. In addition to investments in child labor and weapons, illegal environmental

43 **Where do we stand? - Interview quote:** "It would make life easier if we would have clarity on the level of the general economy on which activity is qualified as green, [or we would] just prohibit non-sustainable activities. To everyone who criticizes [centralized taxonomies and] all these indirect approaches, going through [the] financial system and trying to affect the real economy, I'm just saying: what is the alternative? […] every firm would have to do it for itself. Imagine. So, you would have to basically go through all the global economic activities and then somehow create your own [classifications]."

44 Between 2022 and 2023, the proportion of Swiss institutions which joined a net zero initiative (GFANZ) or intend to do so, sank from 90 to 70% [48]. But firms can also opt for SBTi-aligned transition plans without joining GFANZ.

activities with particular harm potential could be blacklisted and excluded per se.[45] Consistency shall be required for sustainability characteristics across provider and product level. Clearer rules, e.g. on fossil fuel investments in line with national targets, could help avoid a case-by-case evaluation.[46]

(3) **Firms and financial institutions should better explain to end investors how positive and negative externalities are taken into consideration in the respective product**. Such clarity would substitute for processing excessively large amounts of data so that also retail investors can make informed investment decisions. It remains uncertain to what extent informed retail clients would invest in risky sustainability areas and impact the pricing of externalities (Sections 2.1.1 and 3.1.3). A main struggle and difference between the rigor of international regulations (e.g. US vs EU fund names, Box 4) resides in the extent to which negative impacts on *other* sustainability goals are prevented (DNSH/PAI; Box 3). Available best-practices, such as selected climate and biodiversity-impact indicators in form of what one interviewee called a "hygiene check", or sustainable-development-coherency check",[47] could be requested from all economic actors and across financial products. Questionable investments would need to come with a justification and trackable transition pathway. Client advisors could make decisions taken under fiduciary duty more explicit for retail clients, such as the composition of investment universes and exclusions. For example, a bank could clarify to what extent funds focus on a just transition (rich countries' assets vs emerging markets). Clients might also want to know to what extent funds invest in slowly transitioning incumbents, versus novel energy utilities via diversified strategies for speculating on disruption.

(4) **Regulation could widen the range of rigorous sustainable financial products and labels**. This can be achieved through the endorsement of a selection of high-quality labels, e.g. EUGBS and UK SDR labels, and the creation of new product categories which allow e.g. impactful retail investments and financing offers in line with individual client values (Section 3.2 and 3.3.1).

(5) **The regulatory process should reduce fragmentation and foster progressive cooperation across broader circles**, respecting the Swiss regulatory tradition, but acknowledging its shortcomings. For example, roundtables and working groups in the regulatory process could be subject to a quota for political opponents, marginalized voices, and academia e.g. cross-sector and cross-cantons, aiming at exchange of perspectives and proportional burden for those with limited capacities or expertise, to maximize best-practice sharing and leave no one behind in the spirit of 'building bridges' (Section 3.1.3).

45 Europol's « Environmental Crime » report might serve as inspiration [64].

46 See financing for energetic retrofitting of indoor ski hall and lack of fossil fuel threshold under SFDR Art. 8.

47 Social impacts are harder to quantify, thus may be more difficult to compare and standardize by regulation, but in regard of global value chains social impact considerations and human rights due diligence needs to go in line with climate and biodiversity-focused efforts.

5 ABBREVIATIONS

AMAS – Asset Management Association Switzerland

ASEAN – Association of Southeast Asian Nations

ASIP – Swiss Pension Fund Association

CBI – Climate Bond Initiative

CO – Code of Obligations

CSDDD – proposed Directive on Corporate Sustainability Due Diligence (EU)

CSRD – Corporate Social Responsibility Directive (EU)

CTB – Climate Transition Benchmark (EU)

DDTrO – Due Diligence and Transparency Ordinance

DNSH – Do No Significant Harm – Principle (EU)

EnAW – Energy Agency of the Economy (CH)

ESG – Environmental, Social and Governance

ESAP – European Single Access Point

ESMA – European Securities and Markets Authority

ESRS – European Sustainability Reporting Standards

FC – Federal Council

FCA – Financial Conduct Authority (UK)

FINMA – Swiss Financial Market Supervisory Authority

FinSA – Swiss Financial Services Act

GBP – Green bond Principles

GFANZ – Glasgow Financial Alliance for Net Zero

GHG – Greenhouse Gas Emissions

ITR – Implied Temperature Rise

MIFID II – Financial Instruments Directive of the European Union (2014/65/EU)

NDC – Nationally Determined Contributions under the Paris Agreement

NFRD – Non-Financial Reporting Directive

NZPDU – Net Zero Public Data Utility

OECD – Organisation for Economic Co-operation and Development

PAB – Paris Aligned Benchmark (EU)

PACTA – Paris Agreement Capital Transition Assessments administered by the Swiss Federal Office for the Environment (FOEN) and the Secretariat for International Finance (SIF)

PAI – Principle Adverse Impacts

RTS – Regulatory Technical Standards

SBA – Swiss Bankers Association

SCS – Swiss Climate Scores

SDGs – Sustainable Development Goals (UN)

SDR – Sustainability Disclosure Regulation (UK)

SEC – Securities and Exchange Commission (US)

SFDR – Sustainable Finance Disclosure Regulation (EU)

SMEs – Small and Medium Enterprises

SSF - Swiss Sustainable Finance

TCFD – Taskforce on Climate-Related Financial Disclosures

TNFD – Taskforce on Nature-Related Financial Disclosures

TR – Taxonomy Regulation of the European Union

TSC – Technical Screening Criteria

UN - United Nation

6 Glossary

Double materiality refers to impacts of business activities on the environment and society besides financially relevant environmental and social risks to a firm, i.e. financial materiality (inside out vs outside in).

End-investors are institutional investors or retail investors that invest in financial products.

ESG risk integration means taking into account environmental, social and governance risk to businesses. It does not measure a company's effect on environment and society, and is therefore increasingly considered insufficient under evolving definitions of 'sustainability'.

European Directive: Legislative act that proclaims a goal for all EU countries. However, each Member State must adjust their own laws to reach these goals (it must be transposed into national law).

European Regulation: Binding legislative act that must be applied in all EU jurisdictions. As soon as the regulation is adopted, it becomes automatically enforceable in each Member State.

Financial market participants create or sell financial products or services.

Firms are issuing equity, bonds and/or loans that are being bought (on primary or secondary markets) by financial market participants when managing their financial products.

Integrated reporting refers to the integration of sustainability data with financial data, thus influencing economic decision-making.

Investee companies are the companies which asset or fund managers select for the composition of a portfolio or fund.

Non-financial disclosures are now called sustainability disclosures, e.g. in the EU, since the goal is no longer to report on sustainability matters separately from financial data, but rather integrate it with financial data to price externalities while not neglecting impacts on society and environment which are not financially material.

Safeguards refer to precautionary requirements as part of disclosure regulations so that entities or products with sustainability ambition do not harm other sustainability goals.

(Self-)regulators are a combination of people or organizations that produce both, centralized legislation (hard law) and decentralized market-based guidance, e.g. issued by NGOs or industry associations. While self-regulation can quickly adapt, thus mainstream up-to-date best-practices, provide clarifications, support and incentivize experimentation, hard regulation may serve in particular to enforce a minimum standard or common interpretation across stakeholders.

Substituted compliance and equivalence address the challenge of interoperability, but have different legal implications; equivalence in the EU refers to a decision by the Commission to officially accept foreign legislation as equivalent.

Supply chain refers to a corporate organisation from headquarters to suppliers.

Sustainable financial products are portfolios/funds promoted as having sustainability characteristics. They can be composed of sustainable investments as well as (sometimes) non-sustainable investments.

Sustainable financial services can be in the form of expertise on financial investment opportunities within planetary boundaries or analytic capacities for ESG performance measurement etc.

Sustainable investments – Previously defined as “any investment approach integrating environmental, social and governance (ESG) factors into the selection and management of investments.” (SSF, 2022, cf. lack of definition 2023) Such investments can adopt different investment approaches, including best-in-class exclusion, ESG engagement, ESG integration, sustainable investment themes, ESG voting and others. Sustainable investments are equity, bonds or loans with sustainability characteristics. Either because they are issued by a firm that has relatively high sustainability standards or objectives or because they finance sustainable projects within a firm.

Value chain refers to the financial market value chain from corporations to the end consumer of financial products, such as investors or private bank consumers.

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