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Business guidelines – financial flows and a sustainable economy (sustainable finance)

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Executive summary

According to a survey by Swiss Sustainable Finance (SSF), the volume of sustainable investments grew again by about 30 per cent year-on-year to more than 1.9 trillion Swiss francs in 2021. At the sustainable fund level, the volume rose to about 800 billion Swiss francs and now accounts for 53 per cent of the entire Swiss fund market. Almost half of respondents also stated that sustainable investments now account for more than 90 per cent of their assets under management (AuM). [1]

Although sustainable finance can only complement adequate framework conditions and sustainable behaviour in business and society, there is great potential to strengthen sustainable economic activity through specific financial flows and to raise the general awareness of the economy to bring about market-driven sustainability. At the same time, however, this process also poses significant challenges, such as the availability, quality and transparency of sustainable finance and investment opportunities, inflationary transaction costs, and administrative expenses related to monitoring, reporting and reviewing business activities according to tax requirements. Moreover, sustainable finance is often associated primarily with the financial sector, but the interactions and effects within the overall economy are also of great relevance. This is particularly true for Switzerland as a strong financial and real economy location. [2]

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Positions of economiesuisse

In order to best take advantage of sustainable finance while also addressing any challenges, the Swiss economy sets itself the following guidelines:

1. Consider ecological, economic and social sustainability holistically.
2. Take a market and evidence-based approach; no prohibitive mindset.
3. Improve transparency and comparability in an efficient and streamlined manner and minimise transaction costs.
4. Improve framework conditions for assets and investments.
5. Be internationally ambitious and coordinated, while remaining confident and independent.
6. Strengthen cooperation between the financial and real economy.

Sustainable finance: Definition and reference to sustainability discourse

What is sustainable finance?

Sustainable finance is the term for a holistic approach to ecological, economic and social sustainability both in general and in terms of financial sector services in particular, thus leading to a channelling of financial flows and to sustainable management and projects. [3]

The 17 global Sustainable Development Goals (SDGs) of Agenda 2030, to which Switzerland has also committed itself, form the reference framework set out in the Sustainable Development Strategy 2030. Switzerland has also set itself the target of zero greenhouse gas emissions by 2050. [4] The Federal Council considers sustainable finance to be an excellent opportunity for the Swiss financial centre and a relevant competitive factor on the path to sustainable growth.

Some examples of ecological goals are climate protection and the preservation of biodiversity; examples of economic goals include, in addition to general economic growth, specific topics such as the promotion of innovation; examples of social goals include the promotion of health and equality. The three components of sustainability are not in competition with each other, nor are they ranked in order of importance; rather, they are mutually dependent. This concept can be illustrated by taking climate change as an example: climate change not only threatens habitats and livelihoods, but also up to 18 per cent of global GDP by 2050. Without an efficient and innovative economy that generates new technology and the funds for decarbonisation and the required resilience measures, climate goals will not be achieved, which would lead to unacceptable social consequences. However, the holistic sustainability approach of sustainable finance as a whole does not mean that individual financial flows or products cannot have a focal theme or give particular weight to individual dimensions or goals.

Instruments of sustainable financial flows are understood to be financing, assets and investments that are explicitly linked to one or more of the sustainability criteria. These include sustainable funds, green bonds, impact investing, microfinance and loans for sustainable projects, to name just a few. Various investment approaches are pursued that are classified as sustainable, from exclusion of certain investments, to selection of best-in-class investments, to active engagement as an investor and impact investing, where the goal is to have a direct impact on a situation.

The relevant players in terms of sustainable finance within the financial sector are institutional investors, which own or manage significant assets (asset owners), intermediaries that advise institutional and private clients (banks) and manage their assets (asset managers), insurers and banks as mortgage and corporate lenders, and capital market businesses. In addition to these players within the financial sector, the real economy is particularly important: it implements the transformation to a sustainable economy and offers appropriate financing options for sustainable products. However, legislators, regulators, NGOs and civil society organisations (CSOs) are also key players in the field of sustainable finance.

Despite all efforts, sustainable finance is not a magic bullet for sustainability. Rather, it is an essential component of sustainable economic activity that works alongside adequate and conducive framework conditions, a sustainable real economy and sustainable consumer behaviour. The federal government’s Sustainable Development Strategy 2030 sets out how the various sectors can drive forward and advance the goals and the framework conditions necessary to help strengthen Switzerland as a business location. The strategy is focused on balancing supply and sustainability-driven demand in a market economy. Regulation is supplementary to these measures, as was also explicitly emphasised by the government in terms of sustainable finance.

Definitions of sustainable investment approaches

Best-in-Class	Approach in which a company or issuer's ESG performance is compared with that of its peers based on a sustainability rating. All companies or issuers with a rating above a defined threshold are considered as investable.
ESG Engagement	Activity performed by shareholders with the goal of convincing management to take into account ESG criteria so as to improve ESG performance and reduce risks.
ESG Integration	The explicit inclusion by investors of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
ESG Voting	This refers to investors addressing concerns of ESG issues by actively exercising their voting rights based on ESG principles or an ESG policy.
Impact Investing	Investments intended to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to above-market rates, depending upon the circumstances.
Norms-Based Screening	Screening of investments against minimum standards of business practice based on national or international standards and norms.
Sustainable Thematic Investments	Investment in businesses contributing to sustainable solutions, both in environmental or socialtopics.
Exclusions	An approach excluding companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer to product categories (e.g. weapons, tobacco), activities (e.g. animal testing), or business practices (e.g. severe violation of human rights, corruption).

Source: Swiss Sustainable Finance, Swiss Sustainable Investment Market Study 2022
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Opportunities and challenges of sustainable finance

Why opt for sustainable finance?

Sustainable finance has great potential to strengthen sustainable business through specific financial flows and to raise general business awareness of market-driven sustainability. [5] This applies in particular to Switzerland, which is a globally important business centre and home to key players in both the financial and real economy: Switzerland is a leading financial centre with more than 9 trillion Swiss francs in the custody accounts of Swiss banks and loans. Switzerland manages about a quarter of the world's cross-border assets. [6] Switzerland is also a globally important location for the real economy, home to numerous leading domestic and international companies that can offer sustainable investment opportunities. The study Klimastandort Schweiz by McKinsey & Company, in which economiesuisse participated, showed that in the context of environmental sustainability, Switzerland's strong real and financial economy has at least an indirect influence on emissions of up to two gigatonnes of CO2 equivalents. In comparison, Switzerland emits less than 50 megatonnes domestically.

Sustainable finance is therefore a key topic for Switzerland as a business centre. It is rapidly gaining in importance and has profound implications for the financial and real economy. Sustainable investment already represents a significant volume of the Swiss financial centre – almost 2 trillion Swiss francs – and this volume is continuing to grow rapidly at an annual rate of almost 50 per cent over the last decade, is increasingly becoming a key client need. Sustainable finance is important for the financial sector for three reasons: financial performance (risk and return), value alignment with its stakeholders, and the drive to bring about positive change. [7] Switzerland has the opportunity to become a leading centre of sustainable finance, but in order to do so, the financial centre needs optimal political framework conditions so that competitiveness is continuously improved and the financial sector is able to make an effective contribution to sustainability.

The real economy contributes proactively to the achievement of sustainability goals and there is an interaction with sustainable finance in its business and financing activities. For example, if companies fail to convince investors that they are 'investable' based on sustainability criteria, this can lead to higher capital costs and thus a market disadvantage. Conversely, companies that contribute to the achievement of sustainability goals increasingly have competitive advantages.

However, sustainable finance also brings with it considerable challenges. For the financial sector, the availability of valid, high-quality financing, asset and investment opportunities, and transparency are central factors (keyword: greenwashing). For the real economy, the high transaction costs and bureaucracy (e.g. for measurement and reporting) threaten to become a major burden. Moreover, financial institutions are also subject to disclosure obligations. Large banks and insurance companies are already required to disclose their climate risks to FINMA in accordance with the Task Force on Climate-Related Financial

Disclosure (TCFD).

Due to the increasing importance of sustainability, non-sustainable business models run the risk of losing capital (stranded assets). Finally, sustainable finance is an extremely rapidly developing area at national and international level, which leads to a need for action in both the financial and the real economy and requires a high level of flexibility and adaptability. This may mean some sub-standard interim solutions. Ultimately, the increasing importance of sustainable finance also harbours the danger of arousing political ambition. Indirectly, massive interventions in the economic system may occur that call into question fundamental requirements of the free market, such as technological neutrality and the prevention of industrial policy.

Why implement guidelines?

The purpose of these guidelines for the Swiss economy is to provide an initial, macroeconomic foundation that will serve as a collectively developed ‘north star’ to follow in the rapidly evolving environment and enable proactive, dynamic positioning in individual businesses. More specifically:

Differentiation of the guidelines

The guidelines...	The guidelines are not...
... are based on the statutory purpose of economiesuisse to advocate for ‘a liberal and sustainable market economy in which economic, social and ecological goals are considered in a holistic manner’ [Art. 1 para. 3, economiesuisse Articles of Association];	... a **realignment or reorientation of the business community’s position** on financial flows and services; a **prioritisation of certain aspects of sustainability;**
... recognise the importance of sustainable finance for the transition to a consistently sustainable economy, Switzerland’s role as a leading financial and real economy location in this transition and, conversely, the importance of sustainable finance for Switzerland as a business location;	... an **assignment of responsibility or accountability** or a reduction or focus of sustainable management on financial flows or services of the financial sector;
... aim to provide a macroeconomic foundation in order to assess current developments and the engagement of the economy as a whole in the area of sustainable finance, and aim for a high level of operation. They are adapted over time and concretised for specific issues.	... a one-off pitch or a stance on specific business, submissions or developments.

Source: own illustration
www.economiesuisse.ch

Framework conditions for successful sustainable finance

In order to take advantage of the opportunities offered by sustainable finance and also address challenges, the economy as a whole has set itself the following guidelines:

The six guidelines for the economy

	The Swiss economy promotes...
Approach	1 Thinking about sustainability in holistic ecological, economic and social terms. 2 A market-based, evidence-based approach; no prohibitive mindset.
Priorities	3 Improving transparency and comparability in an efficient and streamlined manner and minimising transaction costs. 4 Improving framework conditions for assets and investment.
Collaboration	5 Being internationally ambitious and coordinated, while remaining confident and independent. 6 Strengthening cooperation between the financial and real economy.

Source: own illustration
www.economiesuisse.ch

1. Consider ecological, economic and social sustainability holistically

The umbrella organisation of the business community, economiesuisse, is committed (see also Art. 1 para. 3 Articles of Association) to a liberal and sustainable market economy in which ecological, economic and social goals are taken into account holistically. A liberal, sustainable market economy places free, autonomous individuals at the centre. It relies on individual responsibility and innovation and only secondarily on regulation and the state. A liberal, sustainable market economy improves competitiveness, preserves natural resources, strengthens social cohesion and thus enables future generations to have a future worth living. In the context of today's debates on climate targets, sustainability is often wrongly reduced to its ecological dimension, which does not do justice to the comprehensive nature of sustainability. The Swiss business community understands sustainability and sustainable financing to mean all levels of sustainability and considers the ecological, economic and social goals to be mutually dependent.

2. Take a market and evidence-based approach; no prohibitive mindset

The Swiss business community demands that the sustainability efforts of all companies are taken into account and that all companies are given the opportunity to adapt their business model.

This cannot be achieved by delimiting individual economic activities in a rigid black-and-white system. Sustainable financing must enable innovation and is an opportunity to provide targeted support in reaching their goals to companies that are making a transition to greater sustainability. This applies in particular to emission-intensive sectors, as it is precisely in the sectors that have a lower standard but a high transformation potential that the incremental benefits of sustainable investments are high. A lack of differentiation in the audit requirements also means that investments to gradually improve sustainability performance are often unlikely to prove worthwhile in practice, which would subsequently slow them down. Regulatory financing restrictions and prohibition of legally permissible business models and products under the guise of sustainable finance should therefore be strictly rejected. Such an approach prevents innovation and does not support goals, leading only to a shift to other financial centres not subject to the rules.

Investors and the private banking sector should continue to be able to use their discretion with regard to corporate financing to determine which companies or technologies they consider particularly promising. Legal requirements are to be used on a secondary basis where they significantly accelerate the process without massively impairing economic performance. Incentive is always preferable to prohibition; for example, innovation and technical upgrades are the primary means to reduce environmental impact or energy demand.

3. Improve transparency and comparability in an efficient and streamlined manner and minimise transaction costs

The Swiss business community supports increased transparency regarding the sustainability-related impacts and opportunities and risks of financial flows, provided that this is proportionate, practicable and comprehensible for both the financial and real economy. The creation of transparency enables access to sustainability criteria and allows companies to understand the effects and risks of their activities in relation to sustainability.

In principle, the obligation to publish information on activities classified as sustainable in the context of non-financial reporting must be based on the principles of financial reporting and in an internationally agreed context. In terms of the 'comply or explain' concept, flexibility is preferable to rigid regulation. In addition to the need for transparency, long-term focus and comparability of information are necessary in order to consider the effects and risks of financing decisions. Where measurability and comparability are not possible, the necessity and possibility of metrics must be critically analysed.

Lean solutions that do not lead to ecological, economic or socially unacceptable transaction costs must be found. It is important to bear in mind that companies in Switzerland are structured and sized differently and do not have equal resources. Transparency requirements must be structured in such a way that even smaller companies can implement them. Conditions should therefore take into account the varied nature of the Swiss corporate landscape.

4. Improve framework conditions for assets and investment

The Swiss business community calls for the reduction of tax and administrative hurdles for sustainable financial instruments and offers (in particular where they effectively make certain investments impossible), which conversely should not result in a better position – a level playing field is required. In addition, the business community calls for the promotion of sustainable investment through appropriate framework conditions. Swiss financial institutions and companies need adequate international market access so that sustainable financial services and instruments can be exported. There are currently signs of excess demand in the area of sustainable finance. In order to boost the dissemination of sustainable products and services, the financial centre depends on a favourable environment. In the interaction with the different economic players in particular, a differentiated approach tailored to the various banking transactions is important. [8]

Above all, the regulatory framework must be designed in such a way that corporate profits are invested in research and development as far as possible and do not have to be paid in the form of taxes. The state must create the conditions for an innovative economy, not restrict it. This includes limiting government debt in order not to diminish the innovative power of companies via taxes or a monetarily unstable environment.

5. Be internationally ambitious and coordinated, while remaining confident and independent

Easily available and, above all, comparable information is an important prerequisite for a functioning market. Switzerland needs to develop its position as an innovative and progressive business centre. International developments must be taken into account in a pragmatic and proportionate manner where necessary and appropriate, and a connection to the international environment must be ensured. In case of doubt, a ‘Swiss Finish’ should be avoided. At the same time, the business community is opposed to ‘anticipatory obedience’ and asks for a gradual adaptation to ambitious international standards, if and when these have been proven and established, and following an evidence-based approach. The incorporation of international recommendations into Swiss legislation should be principle-based.

6. Strengthen cooperation between the financial and real economy

Sustainable finance results from the demand for a sustainable real economy; conversely, sustainable finance can also be a means to provide incentives. Sustainable finance and the real economy are thus closely linked. For this reason, both the real and financial economy must be involved in sustainable finance at an early stage and considered comprehensively in terms of all developments. Forums and mechanisms for exchange and collaboration must be strengthened. Market-driven coordination on possible areas of action and self-regulation along the lines of technical developments and modern scientific teaching is preferable to a restrictive, rule-based approach or specifications such as taxonomies. The latter are often politicised, reactive and unable to do justice to the dynamics of the market.

1. https://marketstudy2022.sustainablefinance.ch/downloads/SSF_2022_MarketStudy.pd
2. See Chapter 2 of the SBA’s position: https://www.swissbanking.ch/_Resources/Persistent/3/3/e/7/33e7c9a474c72717e1cd1
3. See https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_enand https://www.sustainablefinance.ch/en/what-is-sustainable-finance-_content---1--1055.html
4. https://www.weforum.org/agenda/2021/06/impact-climate-change-global-gdp/#:~:text=The%20largest%20impact%20of%20climate,the%20Swiss%20Re%20In
5. https://extension.harvard.edu/blog/what-is-sustainable-finance-and-why-is-it-important/; see also SBA’s 2021 transition study. The majority of the financing required to achieve net zero in Switzerland can be achieved by the financial centre.
6. https://www.eda.admin.ch/aboutswitzerland/en/home/wirtschaft/finanzplatz.html
7. https://marketstudy2022.sustainablefinance.ch/downloads/SSF_2022_MarketStudy.pd
8. See p. 15 on sustainability in banking business (assets and investments, loans and financing, capital market).