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Sustainable Finance

SBA position paper



Sustainable Finance

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

Swiss Bankers Association (SBA) position

- Swiss banks prioritise a series of **own initiatives** focused on sustainable finance:
 - **Transparency:** The number of banks participating in international transparency initiatives on risks resulting from ESG factors is steadily increasing.
 - **Investment:** The SBA produces recommendations for the integration of sustainability principles into various areas of the banking business. Many banks have expanded their range of sustainable products and services and are aligning their business practices with the principles of corresponding international initiatives.
 - **Credit and financing:** Various banks have integrated ESG criteria into their lending practices; they are also participating in voluntary climate compatibility tests and aligning their business practices with corresponding international initiatives.
 - **Capital market and issuance:** Swiss financial institutions have expanded their offering of green bonds and sustainability bonds,¹ as well as other ESG instruments, in line with corresponding international initiatives in each case.
- The **political framework conditions** must give the Swiss financial centre enough flexibility to be able to turn sustainable finance into a competitive advantage:
 - **Transparency:** Banks advocate greater transparency concerning the risks associated with ESG factors. These transparency rules must be internationally coordinated, include the entire economy and be commensurate with the size of the financial institution.
 - **Investment:** To promote the uptake of sustainable investments, the financial centre is reliant on better market access, up-to-date investment rules for institutional investors and tax relief on trading operations. External factors must be directly priced into real economy activities in a market-based approach (e.g. through incentive taxes combined with market-oriented measures to encourage the reduction of negative external factors).

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

- **Credit and financing:** In lending business, there must be no interference between ESG criteria and capital adequacy requirements. The SBA clearly rejects restrictions or bans on the financing of activities that are perfectly legal.
- **Capital market and issuance:** The issue of financial instruments – including those compatible with ESG criteria – must be granted tax relief.

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

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

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

SwissBanking

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

Commitment to transparency on ESG factors

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

Investment

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

Credit and financing

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

Capital market and issuance

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

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

• SwissBanking

Greater transparency on the opportunities and risks related to ESG factors

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

Improving framework conditions for investment

- **Expand market access:** Swiss financial institutions require adequate international market access to be able to export services and financial instruments in the field of sustainable finance. This is the only way to develop the full potential of the vast pool of sustainability expertise built up over the years by Swiss financial institutions.
- **Up-to-date regulations in occupational pension provision:** The investment regulations for pension funds in the area of occupational pensions must be brought up to date. The SBA calls for the «Prudent Investor Rule» to be consistently applied.² This is essential for ensuring that sustainable investment by pension funds is no longer complicated by unnecessarily restrictive conditions.
- **Tax relief on the trading of sustainable financial instruments:** The SBA advocates the removal of fiscal and bureaucratic obstacles to sustainable financial instruments and sustainable investment, so as to encourage supportive framework conditions. In particular, stamp duty places the trading of sustainable financial instruments in Switzerland at a disadvantage. The SBA calls for the general dismantling of stamp duty, in order to make sustainable products and services more attractive for international investors too.
- **Pricing external factors into real economy activities:** Measures that influence the conduct of economic players should follow market-based principles and tackle the root of the problem. This avoids a potential investment dilemma created by inadequate pricing of external factors. The SBA advocates targeted pricing of external factors into real economy activities, for example in the form of selective incentive fees combined with market-oriented incentives to encourage the reduction of negative external factors.

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

CO₂ levy improves the incentive structure for financial investments

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

No counterproductive interventions in lending business

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

Stronger capital market

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

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

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