Vereinigung Schweizerischer Assetmanagement- und Vermögensverwaltungsbanken
Association de Banques Suisses de Gestion
Associazione di Banche Svizzere di Gestione Patrimoniale ed Istituzionale
Association of Swiss Asset and Wealth Management Banks

VAV ABG

VAV

Sustainable Finance

as an Opportunity for Wealth Management Banks

We want to do our part to help achieve the objectives of the Paris Agreement.

Climate change is real. Scientifically speaking, there is now barely any doubt that humanity is the main cause of accelerated global warming. The effects of this on our society and economy are widespread; an historic process of transforming to a more protective way of handling our resources has only recently begun. The Paris Agreement on climate change shows us the path we need to take, and further specific milestones could be formulated at the UN Climate Change Conference (COP26) in November 2021.

We, Switzerland's wealth management banks, want to do our part to help achieve the objectives of the Paris Agreement, both as active members of society and as part of our duty of care towards our clients, because climate risks also represent investment risks that we all need to be aware of. Sustainability and sustainable finance have been at the top of our agenda for some time now. So much so that the topic of combatting the causes and damaging effects of climate change was at the heart of this year's Private Banking Day. Professor Johan Rockström, Director of the Potsdam Institute for Climate Impact Research, provided the audience with a graphic description of the effects of man-made global warming. "Temperature levels on our planet are increasing at a faster pace than at any time in the history of our civilisation." He underlined how important it is that we act now in order to achieve the objectives of the Paris Agreement.

Professor Rockström's call to arms demonstrates the urgent need for action. As players in the Swiss financial industry, we have the leverage to position Switzerland as a leading hub for sustainable investment. We are therefore delighted that the President of the Swiss Confederation Guy Parmelin recognised the pioneering role our sector is playing, and the efforts that wealth management banks are making, at the Private Banking Day. "Today, we need a clear focus on sustainable finance if we are to make any short- and medium-term progress in this area," stressed the President. The underlying conditions for this within our sector are ideal. We have quality expertise, unique experience of wealth management for institutional and private clients, and of course our clients' trust. We can also rely on a state that advocates suitable framework conditions, including at an international level.

This publication illustrates how and why the VAV and its members are following through on their commitment. Our members have agreed on 16 specific priorities in the areas of transparency and disclosure, products, advisory and offers, as well as reducing greenhouse gases, which they will be implementing within their companies. Looking ahead to COP26 in November 2021, we are aligning our ambitions and climate-related obligations with the objectives of the Paris Agreement. Further steps will follow. Sustainable finance is an opportunity for the wealth management banks and represents our contribution to the coming generations. It is now down to us to do our part and secure the future of our financial industry.

Philipp Rickenbacher
Chairman VAV

Zeno Staub
Vice-Chairman VAV

Sustainable architecture project, Japan

Dear wealth management banks,

Sustainable finance offers the Swiss financial centre an opportunity to further reinforce its competiveness. In its 2020 report on sustainable finance, the Federal Council expressed a lofty ambition: that Switzerland should be among the world's leading locations for sustainable financial services.

The federal administration is conducting an intensive dialogue with the sector and interested parties, and is advocating an optimal regulatory framework. The framework conditions should be designed to ensure that the competitiveness of Switzerland's financial centre is continuously improved and the financial sector can make an effective contribution to sustainability.

The Federal Council is aiming for lean, internationally compatible regulation that creates legal certainty and ensures a level playing field. This will involve binding rules on companies' climate reporting, as recommended by the Task Force on Climate-Related Financial Disclosures (TCFD). I urge you to seize this opportunity!

Switzerland should be among the world's leading locations for sustainable financial services.

Daniela Stoffel
State Secretary
for International Finance

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Finance FDF
State Secretariat for International Financial Matters SIF

Executive summary

Sustainable investment is becoming an increasingly important topic for private and institutional investors alike. The role of the financial industry in transforming the economy into a more sustainable system is a topic very much in the public eye. National and supranational institutions are increasingly introducing regulations in the field of sustainable finance. All sides agree that action needs to be taken now to ensure that we leave a habitable world behind for coming generations.

The Federal Council approved a report and set of guidelines on sustainability in the financial sector in June 2020, thereby underscoring its objective of turning the Swiss financial industry into a leading hub for sustainable financial services. To achieve this aim, the framework conditions need to be designed in such a way that the competitiveness of the Swiss financial industry is continuously improved, and that the sector can make an effective contribution to sustainability. The Federal Council therefore largely relies on the industry to establish standards rather than develop new regulations.

The wealth management banks have expressed their unequivocal commitment to helping shape the transformation process needed within the economy. Because ongoing success over the long term will be impossible without sustainable finance, both for the financial industry as a whole and for its individual stakeholders. The aim here is to offer solutions that make a measurable contribution to the objectives of the Paris Agreement on climate change.

Ongoing success over the long term will be impossible without sustainable finance.

So, what specific action is the wealth management sector taking? The VAV's Sustainable Finance working group prepared a series of concrete suggestions, from which **16 priorities** have been developed and approved. They cover the following three areas:

- **Transparency and disclosure:** Ensuring that recognised international standards (UN, G20, FSB, EU) are adopted and implemented at an early stage. VAV members are also performing climate-related stress tests.
- **Investment solutions and training:** Wealth management banks are educating and training their employees so that they can offer their clients sustainability-related support. They also offer clients a wide range of sustainable investment solutions.
- **Reducing greenhouse gas emissions:** This third area concerns reducing CO_2 emissions as drastically as possible at the level of the individual financial companies, in line with the Paris Agreement on climate change.

With its 16 priorities, the VAV is clearly communicating which steps are planned or are already in implementation within the Swiss wealth management sector in order to achieve an even stronger position with regard to the international competition. VAV members are demonstrating great determination to implement strategies and tackle the issues across all of these priorities. In this context, a monitoring system will be established for the sector and the blend of measures updated and improved on an ongoing basis.

How this brochure is structured: The brochure starts by presenting the 16 priorities in detail. It then moves on to explain the very dynamic regulatory environment in which wealth management banks are currently operating. Next, it describes the climate-related starting position and the potential field of impact of the Swiss financial industry in the overall context of national efforts on the path to achieving the net zero objective by 2050. Finally, based on this, it describes the strategy for the measures taken by the wealth management sector in detail. This includes the efforts that the VAV banks are making within the field of sustainable finance, and the implementation status of the measures being considered, bearing in mind that these will have to be continually adapted to ongoing developments.

Switzerland's wealth management banks can, must and will do their part to achieve the objectives of the Paris Agreement. The VAV will make every effort to support and motivate its members to take decisive steps in this direction.

Solar installation, China

Transparency and disclosure

1 Signing the UN's Principles for Responsible Investment (PRI) by the end of 2022.

2 Endorsing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) by the end of 2022.

3 Signing the UN's Principles for Responsible Banking (PRB).

4 Application of the EU taxonomy as far as appropriate to ensure a "common language".

5 Conducting a climate stress test by the end of 2022.

6 Conducting a scenario analysis in accordance with TCFD, where possible, by the end of 2022.

7 Transparent reporting on our own measures to continually reduce GHG emissions through our own operational and commercial activities (Scopes 1-3).

Training and investment solutions

8 Further integration of the ESG criteria into research, advisory and investment processes.

9 Increasing the share of sustainably invested assets (as per the SSF definition), particularly for funds and discretionary mandates.

10 Ensuring we actively discuss the opportunities and risks of sustainable investment with clients where appropriate.

11 Education and training of relationship managers on sustainable investment solutions (ESG solutions) by the end of 2022 at the latest.

12 Offering at least one investment solution that has a measurable impact on the environment (per the Paris Agreement and the 1.5 to 2.0 degree scenario) by the end of 2021.

Reduction of GHG emissions

13 Defining a CO_2 reduction path for our own operations by the end of 2021 that paves the way to reaching the net zero emissions target (Scope 1).

14 Defining a CO_2 reduction path for our own treasury book that aligns with the Paris Agreement and the 'Science Based Targets' (SBTs) by the end of 2022.

15 Proactively offering investment solutions aligned with on the Paris Agreement, where appropriate (Scope 3).

16 Defining specific engagement strategies (active ownership) by the end of 2022.

Youth and climate, South America

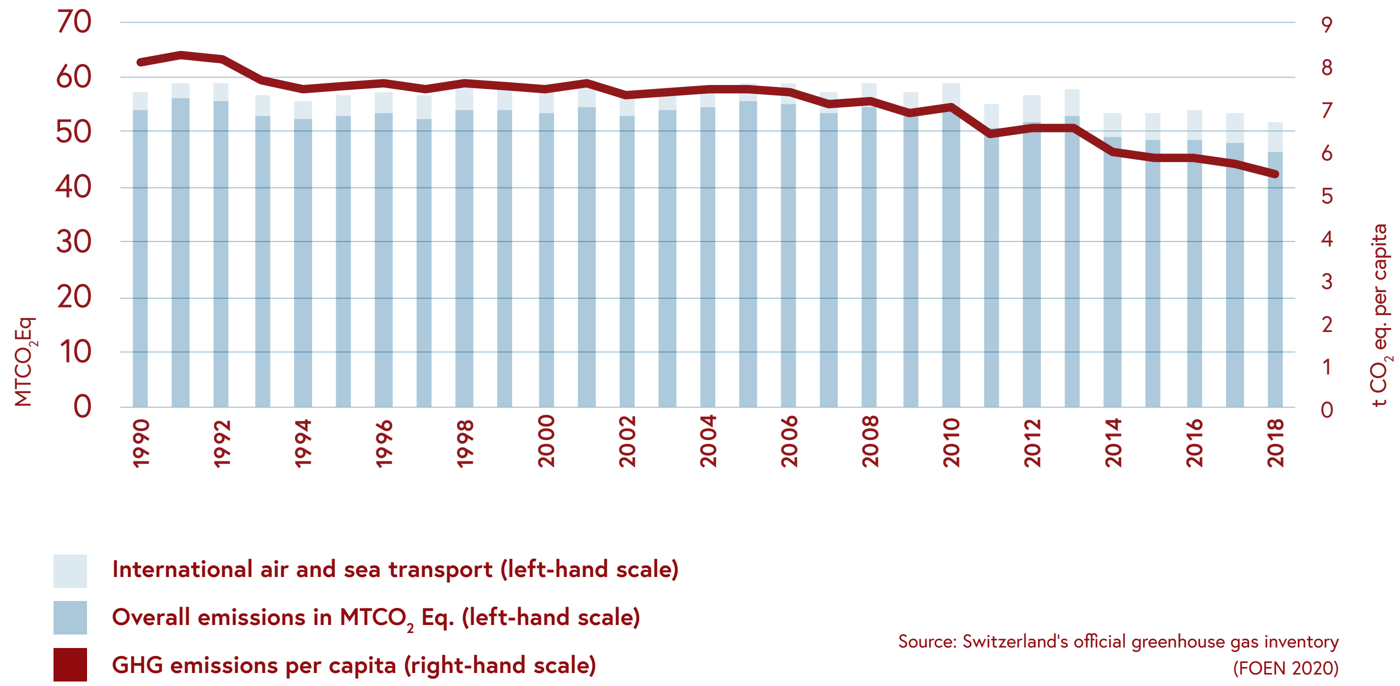
1. Overall context

The challenges that climate change is enacting on politics, the economy and society have become omnipresent, and its impact is tangible: environmental changes, extreme weather, impacts on biodiversity, flora and fauna, coupled with still all-too-intensive use of limited natural resources. These developments are increasingly leading to high economic and social costs all over the globe. Climate risks are therefore becoming investment risks, as the financial industry plays an important role as the link between investors and the real economy.

Switzerland has recorded a significant reduction in its per capita greenhouse gas emissions since 1990, but in absolute terms, the downward trend is sluggish (see Figure I). Were we to blindly continue with current policy, the goal of a CO_2-emission-free Switzerland would be extremely difficult to achieve within the foreseeable future. There is therefore no doubt that a transformation of our economy towards a more sustainable way of handling resources is absolutely essential. Indeed, many believe that we are not acting fast enough. A great number of people, for example from initiatives and interest groups, are demanding an ambitious implementation of the objectives of the Paris Agreement and beyond, not least as millions of young people demonstrated when they took to the world's streets to protest in favour of immediate and effective action.

Climate risks are also investment risks

Greenhouse gas emissions in Switzerland overall and per capita
Figure I



Source: Switzerland's official greenhouse gas inventory (FOEN 2020)

The public, politicians and regulators have assigned the financial sector – including banks, investment firms and asset managers – a crucial role in this: the role of steering the flow of finances towards sustainable growth. Over time, sustainable investment has become an important topic for almost all investors – institutional and private alike. The wealth management banks are very aware of their responsibility towards the environment, society and clients within this transformation process. They actively communicate with their clients about the challenges, opportunities and risks for investors that are associated with climate change and a move towards a more sustainable economy. The wealth management banks want to offer their clients investment solutions that make a measurable contribution towards achieving the objectives of the Paris Agreement. At the same time, they want to provide them with opportunities to participate in the transformation process as investors. As part of the responsibility they have, as entrepreneurs, to support the greater good, many wealth management banks are working on reducing their own carbon footprints in accordance with national climate objectives and reporting transparently on the process. The VAV engages itself for a Swiss financial centre that plays a world-leading role in the field of sustainability. As Winston Churchill said:

"There is nothing wrong with change, if it is in the right direction."

AQUILA Independent.

"Sustainable corporate governance and sustainable finance should become the norm."

For a long time, sustainability was a label that companies could use to positively distinguish themselves, but those days are over. The awareness of the public, regulators, customers, but also employees has changed massively and wherever we as a financial institution and employer can promote sustainable thinking and action, we want to do so. Sustainable corporate governance and sustainable finance should become the norm at Aquila. In order to fulfil our environmental, social and economic responsibilities, we need to look at the issue holistically. It would lack credibility and be inconsistent if, for example, ESG criteria became an integral part of our investment strategy, but at the same time client give-aways were not sustainable. Accordingly, we are currently in the process of defining a comprehensive strategy that is to be implemented promptly and, above all, "sustainably" - both at the operational company level and at the investment level. Our measures therefore range from the review of suppliers and the appointment of an ESG officer to the design of sustainable model portfolios on the investment side.

Vivien Jain
CEO – Aquila AG

"Investing in innovation will determine the prosperity of the next generation."

I believe that sustainability is all about choosing the right path to balance economic, environmental and social interests. The needs and expectations of the next generation can be met by actively steering capital flows: the targeted allocation of capital is crucial to contribute to the global sustainable development goals, since this determines which technologies receive support and financing.

Besides integrating ESG criteria into our investment process, we are constantly expanding our sustainable technologies and innovation offering, while reducing the allocation of capital to inefficient, non-transformative technologies.

I am convinced that the health and prosperity of future generations is dependent on our ability to redirect capital to technological developments that will drive the future value chain since the world can no longer afford to waste energy and other key resources.

EFG's commitment to sustainability goes beyond banking. We build our corporate responsibility by defining sustainability measures to contribute to the future, both as a business and as an employer of the next generation.

EFG Entrepreneurial thinking. Private banking.

Giorgio Pradelli
CEO – EFG International AG

Charging point for electric vehicle, Austria

2. Regulatory developments

The ever-increasing regulatory activity in the field of sustainable finance is not only being felt on a national level, but has long been tangible on the international stage too. As climate change has no regard for international borders and represents a global challenge, the topic is being taken on by various international organisations with many parties rightfully attempting to agree globally applicable standards. These are being developed by international financial bodies, in some cases with the involvement of the Swiss authorities. However, there is a real risk of fragmentation of these regulations due to the formation of competing blocks of large regional economic areas and the diverging directions of countries' respective national energy policies. A consistent national implementation of aligned international sustainable finance principles is therefore far from being achieved to this day. With its export-heavy nature, the Swiss financial industry has to be aware of these international differences as a large proportion of its clients are domiciled abroad and its investment products are distributed internationally. It is also foreseeable that there will one day be the question of the exportability of products and services with regard to sustainable finance, and therefore how Swiss regulation is equivalent to that of other nations and international bodies, particularly the EU.

Exportability of products and services is also an issue with regard to sustainable finance.

2.1. International development

In a global context – on the level of the **G20** and the **Financial Stability Board** (FSB) – the framework developed by the Task Force on Climate-Related Financial Disclosures (TCFD) has gained particular momentum due to its recognition as a global standard by the relevant stakeholders. The framework introduces consistent and transparent rules regarding the disclosure of the financial climate risks associated with economic players. This development should be welcomed as consistent rules are important for banks that operate internationally. Switzerland itself has also subscribed to the TCFD framework (see 'Development in Switzerland' below for further information). Another important factor to mention here are the **UN**-level initiatives. The UN Environment Programme (UNEP) and the UN Sustainable Development Goals (UN SDGs) form the foundations of achieving the climate objectives. Based on these, the UN Principles for Responsible Investing (PRI) and UN Principles for Responsible Banking (PRB) have been established for the financial sector. Many financial institutions in Switzerland and around the world have already signed up. In April, in the run-up to the UN Climate Change Conference (COP26) in November 2021, the UN Net-Zero Banking Alliance was launched. The Alliance is formed of 43 of the world's largest banks. Through collaboration and transparency, it aims to harmonise the ambitions of the banking sector and their climate-related obligations with the objectives of the Paris Agreement. Parallel to this, central banks and regulators in the EU, Great Britain, Switzerland, Singapore and Hong Kong are becoming more concerned about climate risks and are increasingly taking them into account in their existing stress tests.

As the concept of sustainable finance was not granted particular attention in the USA during the Trump era, the **EU** was able to take a clear leading role in this area. The implementation of the EU Action Plan was pushed forward and, together with the COVID-19 economic rescue package, the EU created a roadmap for a sustainable European economy (known as the 'Green Deal'). The Deal aims to establish the prerequisites for the EU to become climate-neutral by 2050. It indicates which measures and investments are crucial to this, and how these can be funded. On 6 July 2021, the European Commission provided further information as to the next steps for implementing the EU Action Plan. As well as a Green Bond Standard, there are also further regulatory changes for banks in the field of sustainable finance and a further development of the EU taxonomy. Furthermore, the Commission suggested the 'fit for 55' programme, a comprehensive package of measures that aim to reduce greenhouse gas emissions by at least 55% by 2030.

Even though the US has rejoined the Paris Agreement, the risk of fragmentation of the financial markets remains.

With the inauguration of President Biden and the USA rejoining the Paris Agreement, it is expected that the **USA** will play a more active role in the field of sustainable finance and will want to shape the regulations accordingly. This may lead to a further drive forward. However, the risk of fragmentation remains, as it is currently hard to believe that the USA will adopt the EU taxonomy as it stands. It is far more likely to develop its own standards.

China too has now come around to the topic of sustainability and aims to be carbon-neutral by 2060. At the same time, the country has also begun to work intensively with the EU in the field of taxonomy. Having China base its actions on international standards would be a very welcome development.

Finally, the **International Platform on Sustainable Finance** (IPSF), founded by the EU in 2019, has also gained several new members, amongst them Switzerland. Together, the 17 members of the IPSF represent some 55% of the world's greenhouse gas emissions, 50% of the global population and 55% of global GDP. Of the world's largest economies, only Brazil and the USA are yet to join. However, the latter may be set to sign up soon. The aim of the IPSF is to increasingly mobilise private capital for environmentally responsible investments. It therefore offers a multilateral forum to facilitate dialogue between the political decision-makers responsible for the development of regulatory measures for sustainable finance, in order to help investors to identify and take advantage of sustainable investment opportunities that make a real difference to achieving climate and environmental objectives.

scobag privatbank basel

«Nachhaltigkeit ist sehr individuell und hört nicht bei den Anlagen auf.»

Sustainable Finance ist aufgrund unserer Geschichte und Eigentümer Teil unserer DNA. Wurde dem Thema früher hauptsächlich über Ausschlusskriterien begegnet, verfügen wir heute über einen eigenen ESG-Rating Prozess für die Unternehmen, in welche wir investieren. Die Umwelt-Dimension findet darin die höchste Bedeutung. Aufgrund unseres Direktanlagen-Ansatzes können wir in der Portfoliokonstruktion individuelle Präferenzen oder Schwerpunkte unserer Kunden abbilden.

Das Thema ist vielschichtig und wird nicht zuletzt durch die regulatorischen Anforderungen an die Unternehmens- und Anlageberichterstattung anspruchsvoller und komplexer. Diese Informationen den Kundenbedürfnissen entsprechend zu übermitteln und zu destillieren, um Transparenz und somit eine solide Entscheidungsgrundlage in der Beratung zu gewährleisten, ist eine wichtige Aufgabe. Wir arbeiten an einem einfachen und klaren Informationskonzept und sensibilisieren unsere Berater für die Thematik.

Als Organisation bewegen wir uns durch energietechnische Verbesserungen an unserem Gebäude in einem ersten Schritt in den nächsten 12 Monaten zur Klimaneutralität hin.

Barbara Vannotti-Holzrichter
CEO – Scobag Privatbank AG

"Take responsibility and act."

Establishing the path towards a climate-neutral economy that also preserves precious resources is the most important challenge of our time. This historic transformation process will create many opportunities for investors, but it also harbours risks. As a global investment company, we have been engaging in an active dialogue on this subject with both our private and institutional clients. For them, it is crucial that the sustainable investment solutions we offer can achieve financial success and provide them with the possibility of orienting their investment decisions around their specific goals and personal values. Seen from a global perspective, our investment solutions are focused on companies whose products and services are successfully tackling such issues as scarcity of natural resources and climate change. This approach allows our clients to benefit from Vontobel's long-standing track record of success in sustainable investment solutions, which is based on active asset management achieved by the effective collaboration between independent competence centres, highly specialised investment teams, and dedicated ESG analysts.

In the bank's own operational processes as well, the sustainable utilisation of resources is a guiding principle; they have already been climate-neutral since 2009. In addition, we have also undertaken to align our own investments with the 1.5 degree target of the Paris Climate Agreement.

Vontobel

Dr Zeno Staub
CEO – Bank Vontobel AG

EDMOND
DE ROTHSCHILD

"Making wealth the starting point to build the world of tomorrow."

At Edmond de Rothschild, we take action and build ideas and new approaches to combine both returns and sustainability in everything we do. Our ambition is to be a driving force of sustainable development.

Our list of priorities is long, because our conviction is that sustainable development is anchored in a global approach that concerns all aspects of our bank. Our current reflections therefore include the service we provide to our clients and the investment solutions we offer them, the engagement of our employees, our impact on the environment as well as the place of human capital in our growth models.

In terms of investment, we are convinced that extra-financial criteria are a key performance driver over the long-term. We also approach financial innovation as a source of progress for the real economy, remaining constantly focused on the future generations.

We define ourselves as the bold builders of a more sustainable world.

François Pauly
CEO – Edmond de Rothschild (Suisse) SA

2.2. Development in Switzerland

Sustainability within the financial sector is also becoming increasingly important on a national level. In June 2020, the **Federal Council** approved a report and a set of guidelines on sustainability in the financial sector, thereby underscoring its objective of turning the Swiss financial industry into a leading hub for sustainable financial services. To achieve this aim, the framework conditions need to be designed in such a way that the competitiveness of the Swiss financial industry is continuously improved, and that the sector can make an effective contribution to sustainability. The Federal Council's primary objective is therefore to develop industry standards rather than regulations. Several different associations have become active in this direction and have developed recommendations for the effective implementation of a sustainable investment process (Swiss Sustainable Finance, SSF) and a set of guidelines for integrating ESG (Environmental, Social and Governance) criteria into the advisory process for private clients (Swiss Bankers Association, SBA).

In early 2021, the **State Secretariat for International Financial Matters** (SIF) carried out a survey on the need for adaptations to financial market law due to regulatory developments on sustainable finance in the EU, and to avoid greenwashing. In its general statement, the SBA rightly concluded that there are differences between the investment and financing sides of banking. Furthermore, any Swiss regulation should focus on the areas for which equivalence with EU laws is required for export reasons. From a Swiss point of view, a staggered approach would also be sensible as there are still many uncertainties with regard to regulation within the EU and how it aligns with other international initiatives in the field. Ultimately, in order to end the greenwashing problem, transparent information and high-quality, comparable raw data is needed from the companies in the real economy. Without this as a basis, confusion in the analysis of their sustainability will continue.

There are also further regulatory developments currently ongoing, some of which are relevant to the financial sector. In this context, one of the changes worth highlighting is the **CO_2 Act** that was passed by the Swiss Parliament, but rejected by the country's citizens during a referendum in June 2021. The aim of this comprehensive revision of the country's law was to help Switzerland make a contribution to keeping any rise in the average temperature of the Earth (compared to a pre-industrial level) below 2 degrees Celsius, and to make efforts to limit temperature increases to 1.5 degrees. The law proposed measures across a range of areas: a gradual increase in CO_2 levies, the introduction of a levy on flight tickets, stricter benchmark values for buildings and new vehicles, etc. With regard to the financial sector, the revised law envisaged **FINMA** and the SNB assessing the micro- and macro-prudential financial risks of climate change. In this context, it is important to note that FINMA is planning to introduce an obligation to disclose climate risks on the basis of the TCFD framework for systemically relevant banks in categories 1 and 2. The new CO_2 Act also aimed to see financial streams become aligned with climate objectives. Like the SBA, the VAV also strongly supported the planned measures and the revised CO_2 Act. Politicians now need to analyse the reasons behind the nation's rejection of the Act and quickly propose and implement new measures so that Switzerland does not lose sight of the objectives of the Paris Agreement or forfeit its claim to being an international hub for sustainable finance.

Finally, in 2020 the **Federal Office for the Environment** (FOEN) carried out a sector-wide test to assess the climate compatibility of the portfolios of Swiss pension funds, insurance companies and banks. The test aimed to show to what extent the portfolios were contributing to the country's achievement of the Paris Agreement objectives. Although a great number of financial institutions took part in this test, the validity and comparability of the results is currently very limited, which means that further development of the test's parameters in collaboration with the financial sector is necessary. However, we can be certain of one conclusion from the results of this climate stress test: banks cannot achieve improvements that benefit our climate on their own. They need to work together with the real economy, consumers and the authorities.

To end the greenwashing problem, transparent information as well as high-quality, comparable raw data is needed from the real economy.

Another development was the rejection of the Responsible Business Initiative in November 2020, which paved the way for an indirect counterproposal by the Federal Council and Parliament. Amongst other things, this envisages an annual reporting obligation on areas such as human rights, environmental impact and corruption.

We can already see that the need for regulation, or at least the desire for additional regulation of financial players regarding sustainability, is not going to let up. New political proposals are continually being launched on a national level. On the left in particular, there seems to be a will to do more than was originally intended under the CO_2 Act. Two good examples of this are the Green Party of Switzerland's Climate Plan 2021 and the Green Finance Strategy announced by the Social Democratic Party of Switzerland (SP), both of which are geared towards strict regulation. The proposals under the SP's Green Finance Strategy include measures to align financial streams across the Swiss financial industry "with the objective of limiting global net emissions of greenhouse gases to zero by 2050 at the latest".

enable

Offshore wind farm in the North Sea

3. Starting position of the industry

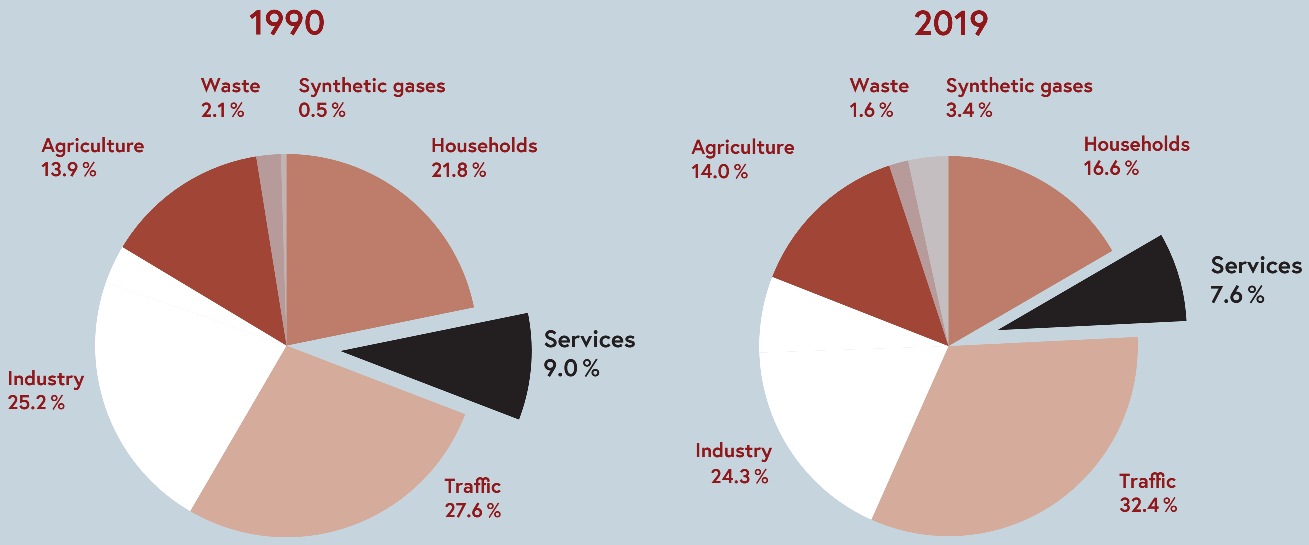
In light of the current international and national regulatory developments, we now have to clarify how good the starting position is for the Swiss financial industry, and particularly its wealth management sector, in terms of making an appropriate contribution to combatting the climate crisis and successfully completing the necessary transformation process within the real economy.

Net zero by 2050

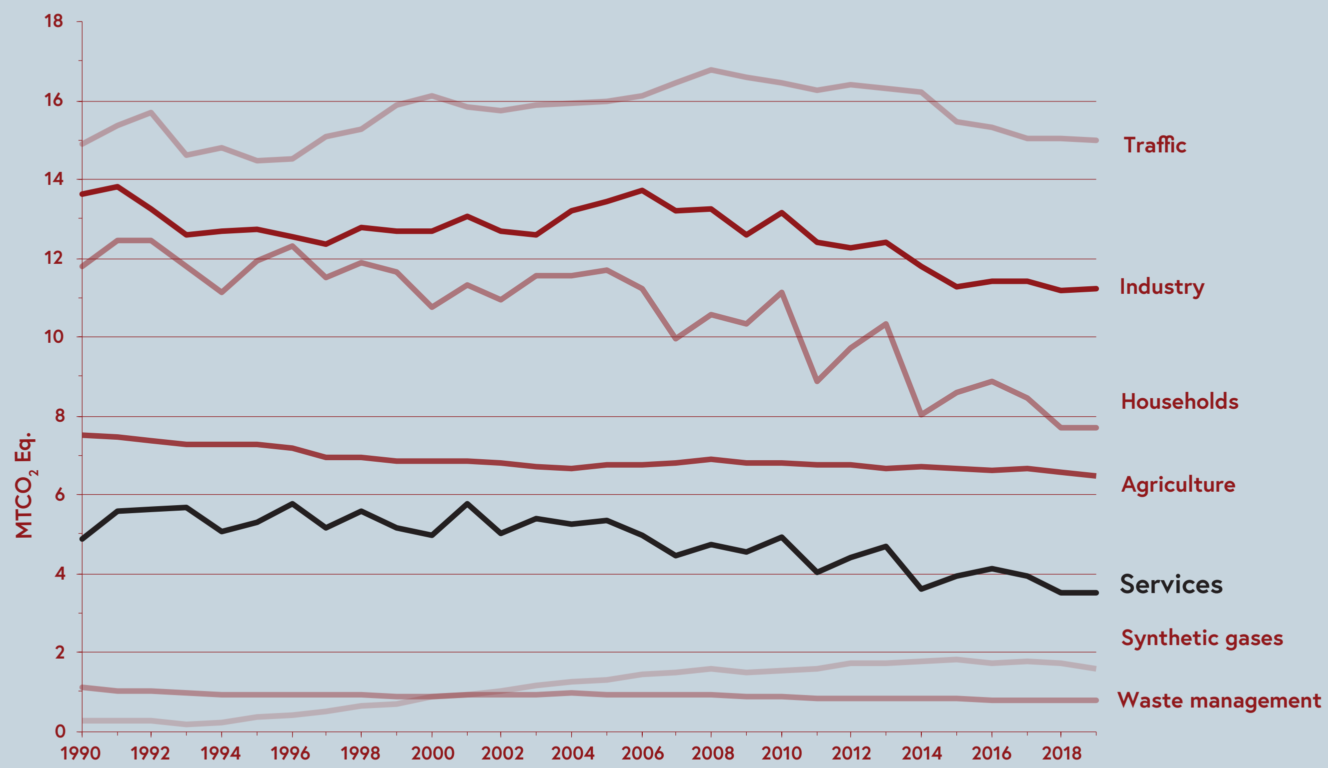
The Federal Council presented Switzerland's **long-term climate strategy** in early 2021. This provides transparency as to which sectors are responsible for what volume of greenhouse gas emissions and assesses their previous reduction efforts. Looking to the future, the Federal Council has set out basic principles and listed possible sectoral measures to ensure that Switzerland produces net zero greenhouse gas emissions by 2050. The development of emissions volumes overall can be visualised as follows (see Figure I, page 11): according to the **FOEN's Greenhouse Gas Inventory,** greenhouse gas emissions in Switzerland totalled 46.4 million tonnes of CO_2 equivalent in 2018. This does not include international air and sea transport. Compared to the base year of 1990, it represents a drop of around 14 %. Emissions have been trending lower and lower since around 2005 – despite continuous population growth. According to the sectoral classifications set by the Kyoto Protocol, the lion's share of greenhouse gas emissions in Switzerland are caused by transport (32.4 %) and industry (24.3 %), which together account for 56 % of all emissions (see Figure II). The proportion generated by private households sits at almost 16.6 %, while agriculture is comparatively high at 14.0 %. The proportion generated by the service industries – under which the financial services industry is counted – is relatively moderate at 7.6 %.

Development of emissions by sectors

Figure II



Source: statistics on the development of greenhouse gas emissions in Switzerland



Source: statistics on the development of greenhouse gas emissions in Switzerland, April 2021

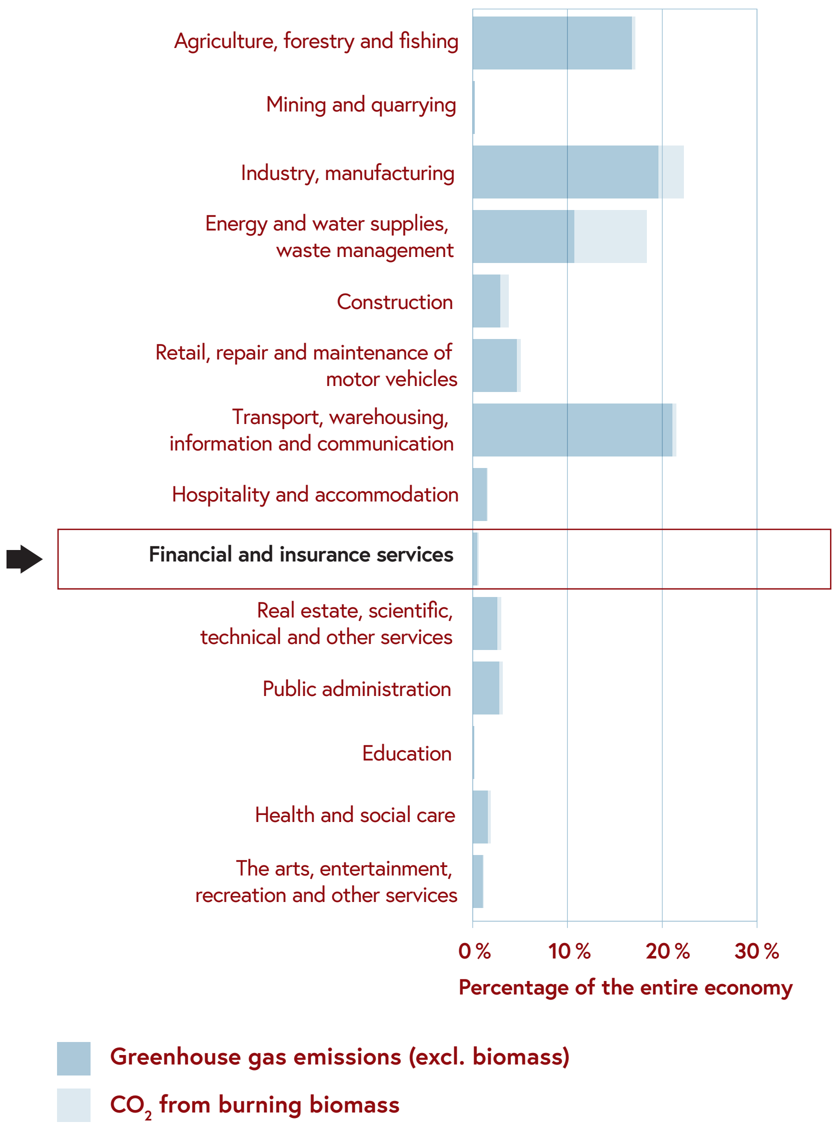
Observations of the sectoral developments show that greenhouse gas emissions have been most significantly reduced amongst private households and the services industries over the last thirty years. In the same time frame, the proportions generated by industry and agriculture have remained stable, while that of the transport sector has risen dramatically.

Only 0.5 % of all Swiss emissions are assigned to the financial sector.

The **environmental accounts produced by the Federal Statistical Office** (FSO), which consistently build on the national accounts and thereby ensure a coherent connection between economic and environmental data, enable us to gain a more accurate estimation of the level of greenhouse gas emissions produced directly by the Swiss financial industry. According to this data, a moderate 0.3 million tonnes of CO_2 equivalent was assigned to the financial and insurance services sector in 2018. This equates to 0.7 % of the emissions produced by the Swiss economy as a whole as per the General Classification of Economic Activities 'NOGA' (see Figure III) and 0.5 % of all Swiss emissions (i.e. including private households).

Greenhouse gas emissions by economic sector 2018

Figure III



Source: FSO – environmental accounts

"Cooperation with partners creates credibility in the area of sustainable investing."

The topic of sustainability is omnipresent in the advisory work performed by Maerki Baumann every day. Moreover, this is true with respect to both private clients of all ages as well as institutional clients. We consider it our corporate responsibility to provide clients with transparency in terms of the impact of their investment on the environment and society. It is for this reason that we intend to further expand our cooperation with Globalance Bank – a pioneer in the area of sustainable investing. Working together with a specialist partner company creates credibility and allows us to focus on our core competencies in the area of long-term, independent asset management. Our Modular Investment Solution provides the ideal framework for consistently combining individual client needs, the bank's own investment strategy and selected sustainability criteria.

MAERKI BAUMANN & CO. AG
PRIVATBANK

Dr Stephan A. Zwahlen
CEO – Maerki Baumann & Co. AG

"Sustainable finance is our responsibility."

I consider it our responsibility as financial intermediaries to play an active role in helping solve the world's major environmental and societal issues. Our main lever in this effort is channelling our clients' investments towards solutions that tackle those challenges. With this in mind, and in line with the 16 priorities set by the ABG/VAV, we have therefore designed an e-learning programme on sustainability for our employees, and developed a wide range of responsible investment strategies, including a franchise of impact funds. As a signatory to the UN PRI since 2012, we have also confirmed our commitment to climate issues by supporting the Task Force on Climate-Related Financial Disclosures (TCFD), being convinced that increased transparency combined with a harmonisation of sustainable financial products is more crucial than ever. Our Bank is equally mindful of its own effect on the environment and we have set ourselves the goal of reducing its carbon footprint by 25 % by 2025.

UBP
UNION BANCAIRE PRIVÉE

Guy de Picciotto
CEO – Union Bancaire Privée, UBP SA

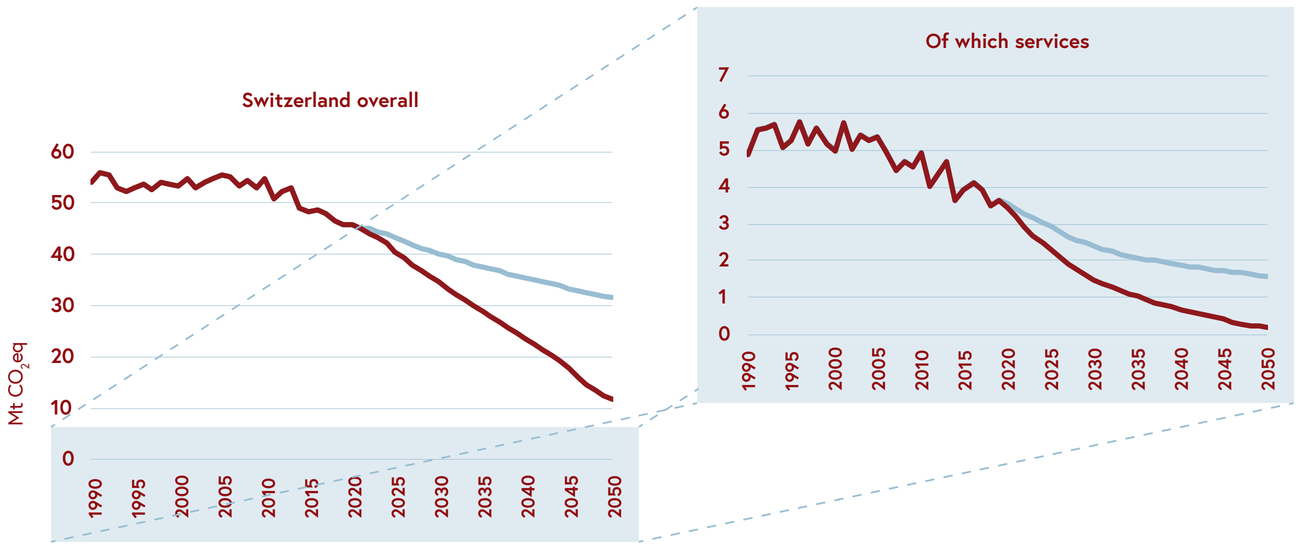
Taking the entire supply chain into account (greenhouse gas footprint), Switzerland is responsible for double the amount of greenhouse gas emissions.

Switzerland's official greenhouse gas inventory is based on the internationally recognised classification set by the Kyoto Protocol and therefore only takes into account emissions that are generated within Switzerland ('territory principle'). Were the focus extended and viewed from an 'end-consumer perspective' of a person or company resident in Switzerland, it would not only include the greenhouse gases that are emitted within the country's borders, but also the emissions associated with imported goods and services (known as 'grey emissions'). Export-related emissions are therefore deducted. This perspective gives you a **greenhouse gas footprint for Switzerland** that takes the entire supply chain into account. In 2018, the country's greenhouse gas footprint was 114 million tonnes of CO_2 equivalent, of which 65% was generated abroad. Under this method of calculation, Switzerland is responsible for double the amount of greenhouse gas emissions that the internationally recognised Kyoto Protocol classification suggests. However, when it comes to assessing the financial sector, this shift in perspective does not change the results.

We can therefore draw the **interim conclusion** that the banking sector is already extremely climate-friendly when compared to other sectors and is in a good position to make a contribution to further climate-related improvements. Figure IV shows the emission reduction path that the Federal Council is following for Switzerland as a whole (and the expected proportional contribution for the services sector), which it believes will lead to the achievement of its net zero objective by 2050. According to the Federal Council, the first step on this path would have been the revised CO_2 Act – with an estimated 50% reduction in greenhouse gas emissions by 2030 – followed by the implementation of a comprehensive longer-term blend of measures for all sectors in line with the Federal Council's climate strategy. Following the rejection of the CO_2 Act, the Federal Council and politicians are quickly having to present new solutions and approaches that are both acceptable to the majority and feasible, in order to gradually reach the net zero objective by 2050.

Greenhouse gas emissions reduction path by 2050

Figure IV



'Continuing as we are' scenario

'Net zero' scenario

Source: Federal Council, Switzerland's long-term climate strategy, 2021 – Prognos/TEP Energy/Infras/Ecoplan 2020

CO_2-capturing facility, Switzerland

In comparison to other sectors, reaching **climate-neutrality in terms of direct business activity** (Scope 1 of the Greenhouse Gas (GHG) Protocol) is within touching distance for the entire financial sector. The sector is therefore fulfilling its primary task. Looking beyond this, however, the financial industry and its banks can,

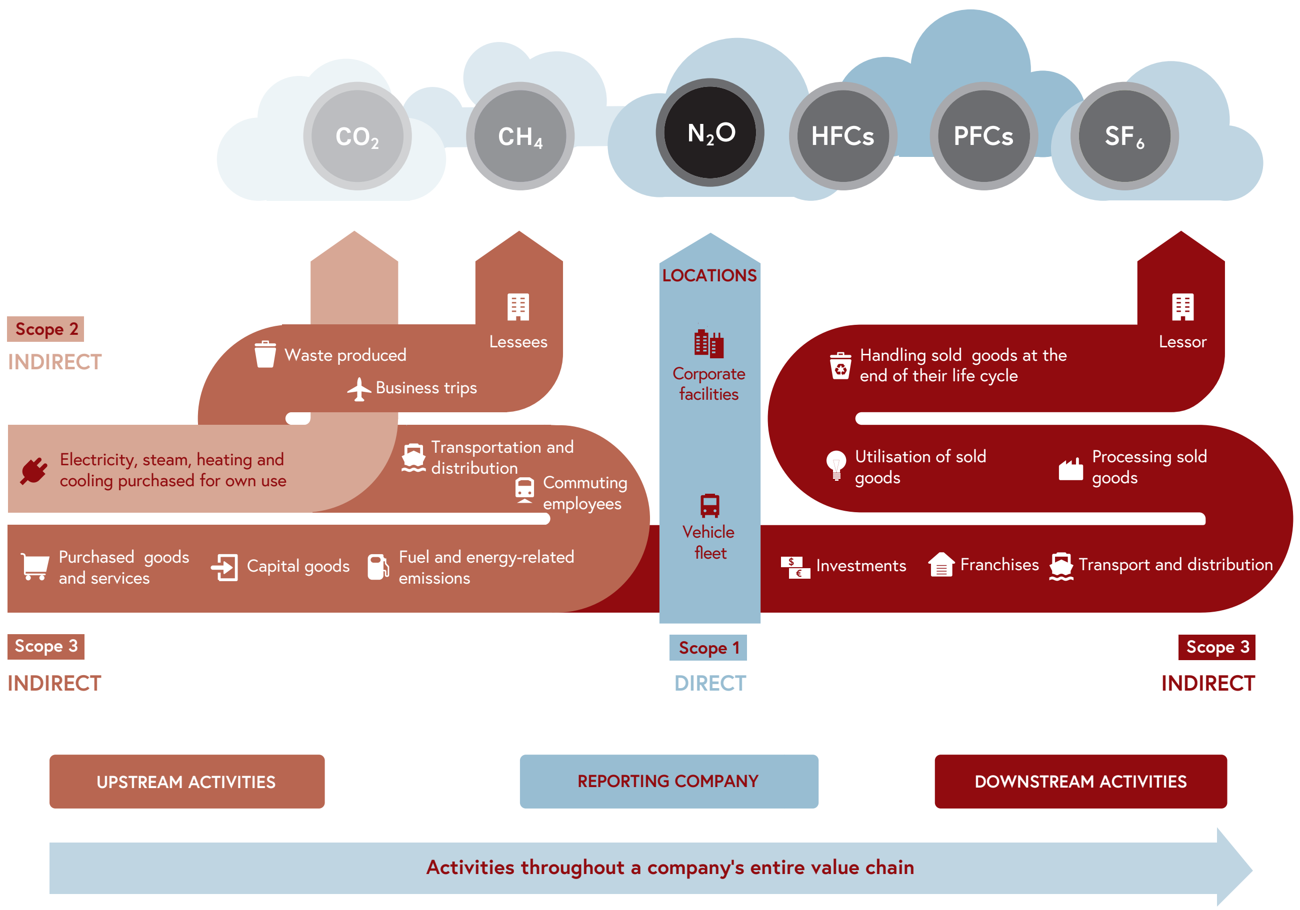
1 as with other sectors, also make a further contribution through measures relating to the **quality of its energy purchasing** (Scope 2 of the GHG Protocol) and its **up- and downstream corporate activities** (Scope 3 of the GHG Protocol: supply chain, business trips/commuting, waste disposal, assets under management, etc.)

2 as well as – due its specific **economic function** – make a further significant contribution to the benefit of other sectors.

Due to their economic function, banks can make a significant contribution to the benefit of other sectors.

Greenhouse Gas Protocol (GHG Protocol) Scopes

Figure V



Source: GHG Protocol, WWF Deutschland, CDP (Carbon Disclosure Project)

Figure V provides an overview of the **direct and indirect impact opportunities** (Scopes 1, 2 and 3) for companies in general along their entire value chains. When considering the specific additional contribution the financial sector can provide for other industries mentioned above, a differentiated view based on the exact business model is required in order to determine to what extent a bank can contribute. The sustainable finance concept starts from the three core functions of the banking business: investing, credit and financing, and the capital market and issuing securities. Due to the different roles a bank plays in each of these functions, specific instruments must be used to ensure sustainability. This is because it makes a difference if it is a commercial bank dealing with companies or a private bank servicing private clients. We also need to take into account whether the bank is solely active as an intermediary and therefore plays an advisory role towards third parties, if it manages third parties' funds as a fiduciary, or if it invests its own money (treasury, granting credit) and is therefore subject to increased liability or risk. Finally, we can also draw a line between the primary market and the secondary market. Banks within the primary market give new companies and new or expansion projects access to the financial markets, or the necessary financial means, and therefore have a more direct influence on CO_2 emissions, while in the secondary market they only assist with changes in ownership of securities and therefore have no comparable direct CO_2-relevant impact.

It makes a difference whether it is a commercial bank dealing with companies or a private bank servicing private clients.

In summary, we can conclude that a typical private bank that specialises in acting as an intermediary in wealth management for private clients – and therefore carries out little lending and dealings for its own account – would tend to have a lower climate exposure and less leverage than a traditional commercial bank. If we compare the structure of the entire Swiss banking centre on an international level, we can see that due to its above-average heavy orientation towards wealth management for private clients, it is less likely to be participating in commercial activities with companies that are potentially harmful to the climate than other leading global financial centres. Due to its world-leading position in international wealth management, the Swiss financial industry, however, can act as a relevant positive multiplier in the field of climate change, and is perfectly positioned to establish itself as an internationally credible and world-leading location for sustainable finance on a lasting basis.

Julius Bär

"We want to empower our clients to make a positive impact."

Julius Baer's purpose is to create value beyond wealth, and I believe this greatly supports us in our ambition to empower clients, employees and wider stakeholders to make a positive and measurable impact on the world. We pursue a holistic sustainability approach that brings together responsible wealth management and our own corporate activities.

In responsible wealth management, our thematic focus is on addressing the overuse of natural resources, and the underuse of human resources. Looking at these two global challenges, we have developed an ecosystem of services, designed to accompany our clients on every step of their sustainability journey.

To further implement and develop our sustainability strategy, we are currently creating a new training curriculum, enhancing our reporting capabilities, and further developing our climate strategy. The new priorities defined by VAV likewise include education and training, transparent reporting as well as a path to reducing carbon emissions. The financial industry has an important role to play in sustainability, and so I am convinced that these priorities represent an important next step for private banking.

Philipp Rickenbacher
CEO – Julius Bär Gruppe AG

"Sustainable development as part of a family business tradition."

As a family business now in the hands of its third generation, we at Cornèr Bank have shared a corporate culture of responsible value creation for almost 70 years. We have devoted particular attention to our relationship with our territory and our role in society, all while maintaining the future-oriented vision that has always defined us.

The value we place on protecting the future generations of our clients and colleagues forms an integral part of our identity, which is a vital element in the sustainable approach we pursue both inside and outside the investment world.

Over the years, we have increasingly favoured investments in family-owned companies, both because of the similarities they share with our own story and because we are convinced that families pay greater attention to social, environmental and corporate governance (ESG) issues. We also actively manage our portfolios on a regular basis to favour companies with the best ESG credentials in order to minimise risks arising from climate threats.

We firmly believe that, in order to create long-term value for our clients, we will have to continue to rely on a responsible family business culture, which has always been our distinctive feature.

cornèr

Vittorio Cornaro
CEO – Cornèr Bank Ltd.

4. Specific priorities for action

Sustainable finance represents both a challenge and an opportunity for the wealth management sector. There is no doubt that the Swiss financial industry has the potential to assume a world-leading role in the area of sustainable finance, and the conditions for this are in place in terms of quality expertise, unique experience of wealth management for institutional and private clients, and a state that advocates suitable framework conditions, including at an international level. But we have to remember that ongoing success over the long term will be impossible without addressing sustainable finance, both for the financial industry as a whole and for its individual players.

Sustainable finance represents both a challenge and an opportunity for the wealth management sector.

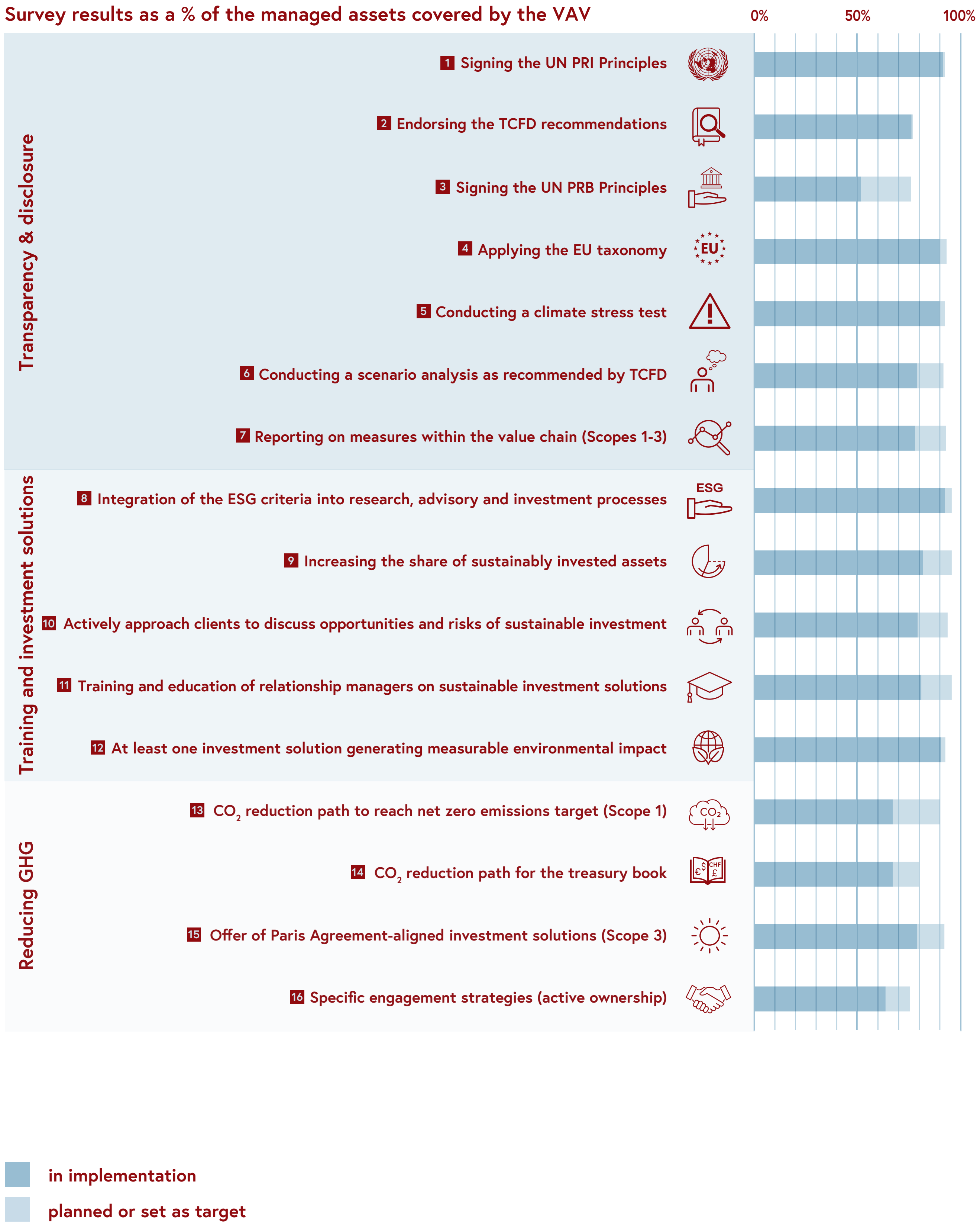
So, what specific action is the wealth management sector taking now? This chapter explains the strategic direction of the measures being taken within the industry. It describes precisely what action the VAV banks are taking in the area of sustainable finance and what the status of the implementation of the measures being considered looks like on a consolidated basis, taking into account that these will be continually assessed and adapted in light of dynamic developments.

The SBA published its basic policies and a set of guidelines on sustainable finance in June 2020, thereby manifesting the financial industry's ambition to take a world-leading role in this area. Based on this development, the VAV has created its own Sustainable Finance working group. The VAV banks know that they have a responsibility towards their banking clients and society to further solidify their activities and ambitions in the field of sustainability. Accordingly, the Sustainable Finance working group has developed specific suggestions for possible next steps the sector could take. It produced **16 priorities** (see detailed explanation on page 9 and Figure VI) and submitted them to the VAV Board for further coordination with the member institutions and implementation. To summarise, these priorities can be divided into the **three key areas** of 'Transparency and disclosure', 'Investment solutions and training' and 'Reducing greenhouse gas emissions', and look like this:

The measures in the first area of **transparency and disclosure** primarily relate to adopting and implementing recognised international standards (UN, G20, FSB, EU) at an early stage and performing climate-related stress tests. In the second area of **interaction with clients,** measures are on the one hand about ensuring that employees get appropriate training and education in order to provide their clients with very competent and proactive advice with regard to sustainability, and to manage their portfolios accordingly. On the other, they ensure that clients are offered as diverse a range of sustainable investment solutions that have a measurable impact on the environment as possible, and at the same time do not necessarily have any effect on the profitability of the investment – but in fact quite the opposite. The third area concerns **reducing CO_2 emissions** as drastically as possible in line with the Paris Agreement on climate change. This predominantly includes measures relating to the banks' own commercial operations, the management of their own funds and where they make an impact through their financial positions.

Priorities for wealth management banks

Figure VI



These priorities clearly communicate which steps are planned or are already being implemented within the wealth management sector in order to achieve a strong position with regard to international competition. This is intended to both quench the heavily increasing demand in the sustainable finance sector and for us as responsible entrepreneurs to make a concrete contribution towards developing a more sustainable economy and society. The current **implementation status** of the 16 priorities is visualised in Figure VI based on data gained from a survey carried out amongst all of the VAV's member banks in spring 2021. In order to better assess the possible impact, the results have been weighted according to the scale of the assets under management of the individual institutions. In almost all of the priorities, there appears to be a great deal of commitment to implementing the measures and tackling the issues. In light of the regulatory developments outlined above, however, we can expect a certain amount of variation within the sector, whether in terms of the degree of implementation or in the form of new measures. In this context, a monitoring system will be established for the sector and the blend of measures updated and improved on an ongoing basis.

The transformation can only be achieved together

The results presented are encouraging and show that many players within the sector are actively pushing forward with the concept of sustainable finance. Investment solutions, client advisory services and internal operational processes at banks are being strongly aligned with sustainability measures.

To summarise, the players in our sector are aware that due to the diversity of the wealth management banks in terms of size, business model and resources, effective implementation will only take place at differing speeds and cannot be demanded from all parties at the same time. In this context, it is not planned economy approaches but rather innovation, quality of training, how sound offers are when compared on an international level, and competition in the highly competitive wealth management market that are the key drivers behind the sector making a tangible, positive impact on combatting climate change. This is due to one simple reason: because our clients expect it from us. Swiss wealth management banks can, must and will make a difference. Solutions that can accelerate the transition exist, as this analysis shows. Wealth management banks are willing to support the transformation of the economy and provide effective guidance to their clients along the way. The transition can only be actively driven forward, and innovative solutions developed, in conjunction with the companies affected. This transformation into a low-emission economy and society will only be successful if we all work together.

Reforestation project, US

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