



# Swiss Climate Scores – Questions and answers

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## Context in Swiss activities

### Why do we need the Swiss Climate Scores?

Climate change is threatening nature, society and the economy. Financial decisions can help to achieve climate goals. The Swiss Climate Scores are a set of criteria, based on the latest international findings that private and institutional investors can use to assess how climate-friendly investment products actually are.

### Why is the creation of climate transparency at product level important and beneficial?

In order for investors to be able to contribute to climate goals, they need meaningful and comparable information as to how compatible various investment products are with international climate goals. A set of multiple indicators is needed for this to be meaningful. The Swiss Climate Scores promote comparability by setting concrete minimum requirements on how the indicators are derived.

### Why are there only indicators for climate transparency, and not for other sustainability indicators?

The Federal Council considers all sustainability issues to be important. But in terms of the climate, the targets and benchmarks for meaningful transparency are the most advanced.

### How are the Swiss Climate Scores linked to the ongoing work of the Confederation, especially on the TCFD (Task Force on Climate-related Financial Disclosures) and net-zero alliances?

The work on the TCFD and net-zero alliances creates comparable climate-related disclosures at the corporate level, which are an important basis for the Swiss Climate Scores.

### How do the Swiss Climate Scores relate to the PACTA Climate Test 2022, with which all Swiss financial market players can test their portfolios for climate compatibility as part of an initiative by the Federal Office for the Environment (FOEN) and the State Secretariat for International Finance (SIF)?

Both initiatives pursue the goal of transparency with regard to the climate compatibility of financial flows. The particular aim of the Confederation's PACTA Climate Test, which is being conducted for the third time this year, is to measure the progress of the market as a whole. Therefore, the FOEN publishes only a report with aggregated, anonymised data of the financial sector, not the individual results. However, all participants receive an individual, automatically generated test report, which also shows the Climate Score indicators per portfolio, as far as possible.

### Why is the Confederation proposing such scores?

The principles of the Federal Council's policy remain the primacy of market-based solutions and the subsidiarity of state intervention. The Swiss Climate Scores are a voluntary instrument that was developed in close cooperation with the financial sector and NGOs.

## **International positioning**

### **What are the advantages of the Swiss Climate Scores compared to the EU taxonomy?**

The taxonomy provides a snapshot of the current sustainability of economic activities. The Climate Scores create forward-looking transparency about the future achievement of climate goals. They avoid merely distinguishing between "sustainable" and "non-sustainable", but rather capture the extent to which companies are positioned for the necessary transition to net-zero. Furthermore, the scores are specifically oriented towards financial investments and portfolios.

### **Why should Switzerland go it alone here?**

The Swiss Climate Scores are not unique to Switzerland, rather they draw heavily on existing international work, particularly within the framework of the Glasgow Financial Alliance for Net-Zero (GFANZ) and the Taskforce for Climate-related Financial Disclosures (TCFD). They distinguish themselves in their combination of indicators that enable statements to be made regarding compatibility with international climate goals, as well as in their minimum criteria that promote comparably high quality. In this way, Switzerland can adopt a leading role without generating the duplications and additional costs for companies or financial market players that would arise if it created its own indicators.

### **How can the Scores gain international acceptance?**

In international bodies such as the G20, the Organisation for Economic Co-operation and Development (OECD), the International Platform for Sustainable Finance (IPSF) as well as in bilateral financial dialogues, Switzerland is working to ensure that the indicators of the Swiss Climate Scores enjoy a high degree of international compatibility and offer an ideal basis for transparency with regard to climate compatibility, in accordance with the Paris Agreement. The Swiss Climate Scores approach has been met with interest in the above-mentioned bodies and bilateral discussions.

### **Are any other countries developing similar climate scores?**

As the individual indicators of the Swiss Climate Scores are largely based on existing international work, particularly within the framework of the Glasgow Financial Alliance for Net-Zero (GFANZ) and Task Force on Climate-related Financial Disclosures (TCFD), they are also used in many other countries. However, Switzerland is the first country to use a combination of indicators to create focused transparency on climate impact in line with the Paris Agreement.

### **Why doesn't Switzerland wait until an international climate score tool is available?**

Due to the urgency posed by climate change and the international nature of the Swiss financial centre, it makes sense for Switzerland to play a pioneering role in financial climate transparency.

## **About the Swiss Climate Scores**

### **How is the impact of the portfolio on global warming measured?**

As investment decisions are forward-looking, they also require forward-looking data. The measurement is made by comparing the production and transition plans of the companies included in the portfolios with a trend that is necessary to limit maximum warming to 1.5° Celsius.

### **Why are the Swiss Climate Scores not mandatory for all portfolios and merely recommended? Is there not a danger of greenwashing whereby only 'good' portfolios show the Climate Scores?**

The Federal Council's recommendation is to use meaningful, forward-looking indicators for all financial investments and client portfolios. The Swiss Climate Scores should be applied where

appropriate. By the end of 2023 at the latest, the Confederation will examine how the scores have been applied, how comparable the different approaches are and what climate incentive effect they have. The Scores will be further developed on this basis if necessary.

**Why is the "global warming potential" indicator optional, given that all the scores are voluntary? In this case, can only some of the six indicators be listed, with the remark "according to Swiss Climate Scores"?**

The 'Global Warming Potential' indicator is the latest on the market and therefore still associated with the greatest uncertainties in terms of methodology. It was therefore decided to introduce this as an option. However, in all other cases, the following applies: climate transparency may only be indicated in accordance with the 'Swiss Climate Scores' if all indicators are provided.

**What are the consequences if banks do not apply the voluntary scores?**

The Confederation is convinced that by playing a pioneering role in the field of sustainable finance, the Swiss financial centre can expand its competitiveness, create new jobs and generate value added. It is up to the individual financial institutions whether they seize this opportunity and take a leading role in climate transparency by widely applying the Swiss Climate Scores.

**Do the Swiss Climate Scores automatically mean that the climate targets will be achieved?**

No, but they make an important contribution to comparing financial investments and portfolios in terms of climate compatibility. The Scores focus on climate compatibility, not on contributions to climate targets. In general, it remains difficult to make a measurable climate target contribution via financial investments in liquid asset classes. Therefore, the combination of indicators in the scores is key: optimising a single indicator alone is not sufficient.

**How the Swiss Climate Scores were developed**

**What role does the Confederation play in the Swiss Climate Scores?**

The Swiss Climate Scores are used by the Confederation to communicate its assessment of the most suitable combination of indicators for identifying the compatibility of financial investments with international climate goals. This assessment is based on close cooperation with experts from the financial sector, methodology providers, NGOs and academia, and is to be regularly adapted in order to reflect the strong dynamics in the climate arena. It recommends that financial market players ensure transparency on climate compatibility vis-à-vis their investment clients, based on the Swiss Climate Scores, for all financial products and client portfolios where this makes sense. Furthermore, the Confederation plans to review the introduction of the Swiss Climate Scores among Swiss financial market players on an ongoing basis.

**Who participated in the working group that supported the Confederation in developing the Swiss Climate Scores?**

The participants were experts from the Confederation (SIF, FOEN, SFOE), the financial sector (SBA; AMAS; SIA represented by Swiss Re; ASPB represented by Pictet; SSF; UBS), methodology providers (Lombard Odier, MSCI-Carbon Delta, 2° Investing Initiative), NGOs (WWF, Greenpeace), and academia (CSP Institute, University of Zurich). The participants of the working group provided inputs, but have not formally endorsed the final form of the scores.

**Implementation in the market**

**For which investment products and portfolios do the Swiss Climate Scores make sense? Who comes into contact with them?**

It is intentionally left to the financial institutions to decide where applying the Swiss Climate Scores makes sense. However, they are particularly suited to diversified equity and bond funds/portfolios in asset management.

### **Who should use the Swiss Climate Scores? Banks? Insurance companies? Asset managers? Pension funds? All companies?**

The Federal Council recommends applying them to all investment products and client portfolios, where appropriate. This primarily concerns products offered by asset managers, banks and insurance companies to their institutional and private clients.

### **When will financial institutions be able to use the Swiss Climate Scores for their products?**

Financial institutions can use the Swiss Climate Scores for their products with immediate effect. However, it is expected that financial institutions will gradually introduce them over a certain period of time.

### **How are the industry associations supporting the implementation of the Swiss Climate Scores in the market?**

In close cooperation with the Confederation, the industry associations are planning to develop a template for financial institutions by autumn 2022 that will facilitate implementation, especially for smaller financial institutions, and promote quality and comparability.

### **How much effort does it take for a company to apply the Swiss Climate Scores?**

Since the Swiss Climate Scores consist of indicators that are well established internationally, the necessary data collection is usually covered by standard data providers. The template planned by industry associations is intended to reduce further the effort required for implementation.

### **Who checks whether companies are applying the Swiss Climate Scores correctly?**

Since the use of the Swiss Climate Scores is voluntary, no formal checks are planned. The sector-wide use of the planned template should, however, promote uniform application. Nevertheless, the Federal Council has already instructed SIF and the FOEN to review the application by the end of 2023 at the latest.

### **How can a financial service provider even know what CO2 emissions are caused by its suppliers (scope 3) or all the companies in a fund?**

It is true that this data is not yet robustly available for all companies, and in certain cases estimates have to be relied on. Therefore, this requirement should be introduced gradually in line with the same requirements in the EU.

## **Further development**

### **Why should the work on the Swiss Climate Scores continue and when are the next developments planned for the Swiss Climate Scores?**

In order to ensure that the Swiss Climate Scores continue to represent best practice in terms of climate transparency in the future, the composition of the indicators is to be regularly reviewed by the FDF in close cooperation with DETEC and adapted as necessary, initially by the end of 2023 at the latest.

### **What will be the focus of further work?**

It will include initial empirical values from the voluntary introduction in the field, especially with regard to comparability and the incentive effect, as well as current developments in indicators on global warming potential and climate solutions.