Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

The Federal Council

Berne, 8th December 2023

Swiss Climate Scores Update

Best practice transparency on the Paris Alignment of investments

Introduction

Switzerland and its financial market are committed to transitioning to net zero greenhouse gas emissions by 2050. This is needed to meet its obligations under the Paris Agreement of holding the increase in the global average temperature to well below 2°C and pursuing efforts to limit it to 1.5°C. Current science indicates that global warming beyond 1.5°C has potentially catastrophic impacts on the natural world and human society.

The Swiss Climate Scores are intended to provide institutional and private investors in Switzerland with comparable and meaningful information on the extent to which their financial investments are compatible with the climate goals of the Paris Agreement.

The Swiss Climate Scores contain indicators that not only reflect the current situation of financial products or portfolios (actual situation), but also show where they are currently positioned in relation to the Paris Agreement (in particular, the net zero target by 2050). Net zero means that global emissions of greenhouse gases may not exceed the amount that can be absorbed by natural and technical sinks.

The voluntary use of the Swiss Climate Scores is intended to provide climate related information in a standardised and decision-ready manner to clients. These clients can benefit from economic opportunities in the transition to net zero and at the same time better contribute to achieving climate goals.

Target Audience

The Federal Council recommends that all financial institutions offering investment solutions to clients should provide their clients with transparency based on the Swiss Climate Scores, where applicable, for all investment products and investment management mandates. This primarily concerns offerings by asset managers, banks and insurance companies to their institutional and private clients at point of sale. In the course of regular product-level reporting, the Swiss Climate Scores should be updated at least annually.

Scope / Eligible Assets

It is intentionally left to the financial institutions offering investment solutions to clients to decide where applying the Swiss Climate Scores makes sense. However, they are particularly suited to diversified long only equity and corporate bond funds/portfolios in asset management depending on current data availability and quality. In their current form, the Swiss Climate Scores appear less suited by nature for positions in cash, sovereign bonds, real estate, as well as for portfolios that rely significantly on non-linear derivatives. Also, due to current data constraints, the Swiss Climate Scores appear less suited for hedge funds and private debt and private equity at present.

Display

The combined set of indicators of the Swiss Climate Scores, their display, and their respective minimum criteria are considered by the Federal Council as current best practice to establish transparency on the alignment with the climate goals of the Paris Agreement. Climate transparency may only be indicated in accordance with the 'Swiss Climate Scores' if the following requirements are adhered to:

- The indicators of the Swiss Climate Scores are displayed together and should be separated from other indicators (either as a group of indicators forming part of a more comprehensive report, or as a separate report) and clearly marketed as Swiss Climate Scores;
- No further indicator is added to the group of indicators marketed as Swiss Climate Scores;

- The indicators of the Swiss Climate Scores are accompanied by their respective descriptions (either by text or by providing a link to the text), as well as by the degree of estimation uncertainty provided below the respective indicator;
- At a minimum, all non-optional indicators are provided;
- The calculation of the indicators follows the respective minimum criteria listed in this document. As a general principle, if multiple practical options of implementation happen to be identified, the most conservative one shall be applied.

Updates

In order to ensure that the Swiss Climate Scores continue to represent best practice in terms of climate transparency in the future, they are to be regularly reviewed and, if need be, adapted to the latest scientific findings on climate change and insights gained from the application of the Swiss Climate Scores. Changes to the previous version of the Swiss Climate Scores, in accordance with this document, must be implemented by 1st January 2025. After this date the previous version of the Swiss Climate Scores is no longer valid.


SWISS CLIMATE SCORES
Best practice transparency for Paris aligned investing
Greenhouse Gas Emissions
Greenhouse gas emissions intensity & footprint of portfolio
Global warming potential
The level of global warming that would occur if the global economy acted with the same ambition as the companies in the portfolio.
Exposures to fossil fuel & renewable energy
Proportion of portfolio with activities in coal and other fossil fuels.
Portfolio revenues in renewable energy
Verified commitments to net-zero
Proportion of portfolio with public commitments to net-zero and verified credible interim targets.
Management to net-zero
Investment strategy with a goal to reduce the carbon emissions of its underlying investments.
Credible climate stewardship
Proportion of portfolio currently under active climate engagement.
Climate votes supported in line with net-zero.
Membership in a climate engagement initiative.
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SWISS CLIMATE SCORES

The Swiss Climate Scores

General

Overall investment objectives with regard to climate (optional)

- Do you consider this portfolio to be aligned with the goal of the Paris Agreement of holding the increase in the global average temperature to well below 2°C and pursuing efforts to limit it to 1.5°C.? **NO/YES**
  - What is the basis for this assessment?
- Do you consider that investing in this portfolio contributes to the mitigation of climate change? **NO/YES**
  - What is the basis for this assessment?

Minimum criteria and explanations for implementation

- For the question on alignment:
  - As an example, the portfolio can be considered as being aligned with the Paris Agreement if companies in the portfolio have publicly communicated a pledge to reach net zero until 2050 and have near-term targets certified by an external provider. Similarly, this is the case, if the companies have already transitioned their activities to net zero emissions.
  - Financial institutions are free to describe how they reach their conclusion, for example by referencing all or individual Swiss Climate Scores indicators.
- For the question on contributing to the mitigation of climate change:
  - As an example, investing in the portfolio can be considered as contributing to the mitigation of climate change if financial institutions actively engage with companies in the portfolio to promote the introduction of net zero pledges and near-term climate targets certified by an external provider. Similarly, this is the case if investing in the portfolio directly leads to additional funding for climate solutions or projects.
  - Financial institutions are free to describe how they reach their conclusion, for example by referencing all or individual Swiss Climate Scores indicators.

Coverage

- Proportion of eligible portfolio covered by the Swiss Climate Scores: **X%**
- Proportion of eligible vs total portfolio (suggested minimum threshold is 50%)**: X%**
- Reasons for proportion of portfolio not covered by the Swiss Climate Scores (if any): **[Explanation (a) for eligible assets where the Swiss Climate Scores are not applied and (b) for ineligible assets]**
- Benchmark: **[relevant benchmark name]**

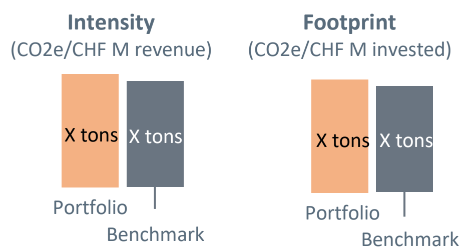
Minimum criteria and explanations for implementation

- The eligible portfolio coverage rate reflects the proportion of portfolio/benchmark assets where the Swiss Climate Scores are applied and where relevant (reported and estimated) data is available vs. the total portfolio/benchmark assets that are eligible.
- In case the portfolio has no benchmarks, a suitable benchmark or reference universe can be applied as a proxy. A new benchmark or reference universe shall only be applied if it represents the investment universe of the portfolio more accurately than any conventional benchmark. In the case a portfolio has multiple benchmarks, the most suitable benchmark (or combination of multiple benchmarks) shall be applied.

Current State Indicators

Greenhouse Gas Emissions

Description: Encompasses all sources of greenhouse gas emissions from invested companies (scope 1-3), including relevant emissions of their suppliers and products.



- Proportion of eligible portfolio covered by assessment: **X%** (benchmark: **X%**)
- Data provider: **[provider name]**

! **Medium** estimation uncertainty

Minimum criteria and explanations for implementation

- Inclusion of scope 1, 2, and relevant scope 3 emissions.
- Inclusion of scope 3 emissions must at a minimum be aligned to the schedule described in the EU benchmark regulation 2019/2089.
- For both intensity and footprint indicators: positions where the Swiss Climate Scores are not applied are excluded from the numerator and denominator, i.e. do not count as 0 emissions.
- Depiction of scope 1+2 emissions are to be separated from scope 3 emissions (i.e. in a stacked bar chart).
- Regarding the coverage rate, the lower coverage rate of the two metrics (intensity and footprint) should be shown, separately for a) scope 1 and 2 emissions, and b) for scope 3 emissions.
- Output metrics should be expressed in the reference currency of the portfolio. If input data are sourced in foreign currency, the conversion should be made using end of period exchange rate.

Exposure to Fossil Fuel Activities and Renewable Energy

Description: There is scientific consensus regarding the need to phase-out coal and more generally fossil fuels as well as regarding the need to invest in renewable energy to enable the transition to net zero.

Proportion of portfolio with exposure to coal: **X%** (benchmark: **X%**)

Proportion of portfolio with exposure to other fossil fuel activities: **X%** (benchmark: **X%**)

Proportion of portfolio revenues related to renewable energy: **X%** (benchmark: **X%**)

! **Low** estimation uncertainty

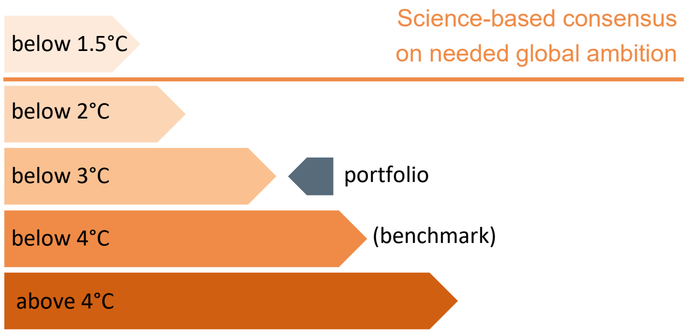
Minimum criteria and explanations for implementation

- For 'Coal' and 'Other fossil fuels' indicators:
  - The threshold of 0% of revenues (PAI4 under EU SFDR regulation 2019/2088) applies both to activities directly linked with the exploration and production of fossil fuels and, if data is readily available, activities financing such production (for coal, according to the global coal exit list or similar).
  - The scope of activities includes the whole value chain, ranging from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade (in line with EU SFDR regulation 2019/2088)..
  - Where a company is part of a group, the assessment for exposure should include the company as well as any subsidiaries and affiliates to the extent possible, where data is available.
  - If a company is found to have exposure, the full company value in the portfolio must be reported.
- For 'Renewable energy':
  - Renewable energy is a type of energy that comes from natural sources or processes that are constantly replenished. The most popular types are wind energy, solar energy, geothermal power, hydropower energy, and biomass.
  - If a company is found to have revenues related to renewable energy (e.g. products, services, infrastructure projects supporting the development, delivery or the generation of renewable energy), the aggregation methodology should apply a market value weighted average based on the revenues of the companies in the portfolio that meet the criteria.

Transition to Net Zero Indicators

Global Warming Alignment (optional)

Description: This is the level of global warming that would occur if the global economy acted with the same ambition as the companies in the portfolio. Some portfolios with climate objectives may intentionally include investments in companies that are not yet on track to limit warming to 1.5°C, but seek to contribute actively to climate goals by improving the alignment of investee companies to bring a larger share of the real economy into alignment over time.



- Proportion of eligible portfolio covered by assessment: **X%** (benchmark: **X%**)
- Climate scenarios used: **[original source]**
- Data provider: **[provider name]**

High estimation uncertainty

Hard minimum criteria and explanations for data providers

- Be guided by the goal to achieve net zero emissions by 2050, consistent with the 1.5°C warming limit of the Paris Agreement and in line with the latest IPCC findings.
- Comply with the technical considerations of the TCFD 2021 PAT report "Measuring Portfolio Alignment – technical considerations". In particular, comply with:
  - Select a 1.5°C scenario that complies, at a minimum, with the scenario selection criteria set out by the Science Based Targets initiative (SBTi) in their document Foundations of Science-Based Target Setting (Consideration 7).
  - Prioritize granular benchmarks when they meaningfully capture material differences in decarbonization feasibility across industries or regions (Consideration 8).
  - Include Scope 3 emissions for the sectors for which they are most material and for which benchmarks can be easily extracted from existing scenarios (fossil fuels, mining, automotive) (Consideration 11).
- Allow the Swiss government to disclose aggregate implied temperature scores based on your methodology on the following indices, to compare them with other providers: SMI, MSCI World, MSCI World Materials, MSCI World Industrials, MSCI World Utilities, MSCI World Real Estate.

Important, but not hard minimum criteria and explanations for data providers

- At a minimum, a sub-industry level approach based on external, replicable, scientific sources to benchmarking should be used for high-emitting sectors, with companies allocated a 'fair share' of the global carbon budget based on their mix of activities.
- Climate solutions, especially for the electricity sector should also be covered and compared with the respective scenario, as the scale up of renewable power is a key factor to transition according to the IEA.

Company long-term targets, near-term action and data sources:

- Assess the credibility of companies' emission reduction plans and take into account whether they are externally validated (such as by SBTi) to be science-based, in line with the goal of achieving net zero by 2050.
- Include near-term CapEx plans and validate, if the long-term commitments match with the short-term action.
- Use third-party validated data on asset level base where possible. Be as transparent as possible on data sources.
- Inclusion of scope 3 emissions must at a minimum be aligned to the schedule described in the EU benchmark regulation 2019/2089.

- Do not allow for avoided emissions data at corporate level, given the lack of standards around corporate level avoided emissions reporting and the technical challenges and issues related to such calculation. Instead, allow for climate solutions, at minimum for renewable power.

To calculate portfolio alignment:

- Implied temperature scores should be calculated using a confidence level of 66%, rather than 50%.
- Calculate warming scores on a cumulative-emissions basis until 2050, in order to accommodate appropriately the physical relationship between cumulative emissions and warming outcomes.

Verified Commitments to Net Zero

Description: Companies are increasingly committing voluntarily to transitioning to net zero and setting interim targets. The effectiveness of such commitments depends on whether interim emissions reduction targets applied are credible, science-based, transparent, and supported by credible action to cut emissions.

- Proportion of portfolio subject to public commitments to net zero and verified credible interim targets: **X%** (benchmark: **X%**)

! **Low** estimation uncertainty

Minimum criteria and explanations for implementation

- Companies must have publicly communicated a pledge to reach net zero until 2050, or be legally mandated to do so, and have near-term targets be certified by an external provider, such as: Science Based Targets initiative (SBTi).

Credible Climate Stewardship

Description: Financial institutions can contribute to the transition to net zero, notably by utilising their shareholder voting rights at general meetings of investee companies and bringing climate-resolutions into being, as well as by engaging with invested companies on third-party verified, science-based net zero aligned transition plans until 2050.

- Are companies in the portfolio subject to credible stewardship on climate transition? **NO/YES**
  - [If YES:] Proportion of portfolio currently under active climate engagement: **X%**
  - [IF YES:] Share of votes, over the last year, on climate resolutions voted in a manner consistent with the ambition of reaching net zero by 2050: X%
  - [If YES:] **Link climate stewardship strategy and report**
- Is the financial institution a member of a climate engagement initiative? **NO/YES**
  - [If YES:], **Name of initiative**

! **Medium** estimation uncertainty

Minimum criteria and explanations for implementation

- Credible Climate stewardship should be consistent with and be directed towards the ambition of reaching net zero until 2050.
- For share of votes, over the last year, on climate resolutions voted in a manner consistent with the ambition of reaching net zero by 2050, use the proportion of all board-proposed and shareholder-proposed climate resolutions of portfolio companies brought to a shareholder vote. For consistency with the ambition of reaching net zero by 2050, count all votes in favor of resolutions compatible with the net zero goal and all votes against resolutions incompatible with the net zero goal.
- If a company is currently under active climate engagement, the full company value in the portfolio should be used to calculate the proportion.
- Any linked climate stewardship strategy and report should be consistent with the ambition of reaching net zero by 2050 and include a clearly defined escalation procedure.
- An example for a climate engagement initiative is Climate Action 100+

Management to Net Zero

Description: Financial institutions can align their investment strategy with a consistent 1.5°C decarbonisation pathway.

- Is the portfolio part of a third-party verified commitment to net zero by the financial institution, including credible interim targets? **NO/YES**
- Does the investment strategy include a goal to reduce the greenhouse gas emissions of its underlying investments through concrete short (1-3 years) or mid-term (4-7 years) targets? **NO/YES**
  - [if YES:] Average annual reduction path: **X% (state if this includes relevant Scope 3 emissions)**

<u>Minimum criteria and explanations for implementation</u>

- To include portfolios as being part of a third-party verified commitment to net zero, they must have publicly communicated net zero targets under one of the sector-specific alliances of the Glasgow Financial Alliance for Net Zero (GFANZ).
- If the claim is made that the investment strategy includes a goal to reduce the portfolio's greenhouse gas emissions, or those of its underlying investments, included scope 3 emissions must at a minimum be aligned to the schedule described in the EU benchmark regulation 2019/2089.