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Green Finance – an Opportunity for Switzerland!
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The effects of climate change are more visible than ever before: The terms global warming or even climate crisis are being used everywhere. It is therefore not surprising that this also has consequences for the financial market. According to the Swiss National Bank (SNB), climate change is even considered to be the greatest challenge for the financial market. The following paper will briefly describe what exactly Green Finance is and what participants in the financial market will have to consider in the future.

At first, it must be stated that in this paper, it is assumed that climate change does exist. Apart from the fact that a large part of the scientific community takes this view, it should also be noted that the SNB and the Financial Market Supervisory Authority (FINMA) also do not doubt the existence of climate change in their papers and communications.

Green Finance is a term that is used in connection with sustainability in the financial markets. It can, for example, refer to how environmentally friendly a financial market participant invests or how sustainable their portfolios are. At the same time, it is also connected with the fact of how the risks of climate change, such as the rise in sea level, affect financial market participants. Both are discussed below.

To date, there is no legal obligation for financial market participants to invest sustainably. The Federal Council has stated that such an obligation will not exist in the future either, as it prefers voluntary action by the financial market. Such voluntary self-regulation is already evident today. Compliance therewith may well be worthwhile, as sustainable investments are increasingly in demand and it is therefore also in the economic interest of financial market participants to include them in their offers.

As a first example of self-regulation, the "ESG" criteria can be cited. ESG stands for environment, social and governance. ESG criteria are designed to ensure that for the relevant investments and portfolios attention is paid to the environment, social standards and appropriate corporate governance. A precise and binding list of which criteria qualify as ESG does not exist at the moment. Instead, each financial market participant must determine this for themselves. For example, in the area of environmental protection this may imply that only companies that stand for a decarbonised future are considered for investments. Taking ESG factors into account in the investment process can also pay off, as it may reduce certain risks and therefore increases the chances of positive returns. For example, it may be worthwhile to invest in companies that are designed for sustainability in order to reduce regulatory risks.

The standards of the Task Force on Climate-related Financial Disclosures (TCFD) represent another form of self-regulation. The TCFD is a task force set up by the G20 countries and it has been mandated to carry out research in order to develop standards that render it possible for companies to integrate climate change into their structure without great effort and thus become more sustainable. The task force has issued recommendations on governance, strategy, risk management and sustainability objectives for companies. Financial market participants can voluntarily subscribe to these standards. This may be advantageous, as the standards are designed to be very business-friendly and can additionally create a reputational advantage.

In addition to the standards mentioned as examples, numerous other self-regulatory measures exist nowadays, such as ratings and various sustainability labels.

It should also be noted that climate change further entails various risks for financial market participants. Such risks - like any other risks - must be managed appropriately. Although climate risks have not been explicitly mentioned in Swiss law to date, it is nonetheless undisputed that they cannot be ignored, as they are part of other risks defined by regulation. Anyone investing in coal-fired power plants, for example, must consider the market risk of significant fluctuations in value, as some countries are about to abolish coal-fired power. In addition, considering the background of the current political developments, the inclusion of climate change in the business strategy should become a matter of fact. These changes are associated with costs and thus represent an operational risk, especially if they have not been taken into account to date. It is therefore hardly conceivable to disregard climate risks within the framework of risk management. Although climate risks do not (yet) have their own risk category for regulatory purposes, they must, as shown above, be considered in the context of other risk categories that have to be observed by law. Indirectly, therefore, climate risks are also of importance with regard to the minimum requirements concerning capital and liquidity standards.

In conclusion, green finance will gain importance in the future. Even though there is currently no mandatory legal framework in Switzerland that must be observed in this regard, it is advisable to start addressing the risks and using the opportunities associated with climate change today. It should also be noted that for business activities abroad, particularly in the European Union, compliance with regulatory requirements in terms of climate protection is mandatory already today.

If you have any questions about Green Finance, we will be happy to advise you! Please contact us at jessica.gauch@leximpact.ch or lea.hungerbuehler@leximpact.ch!