Switzerland

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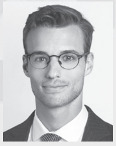

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1 Setting the Scene – Sources and Overview

1.1 What are the main substantive ESG-related regulations?

The Swiss legislature and government's focus on ESG has intensified over the recent past:

Environment / Climate Change

- ***Swiss CO_2 Act***: Switzerland ratified the Paris Accord on climate change on October 6, 2017. In the wake of the ratification, the Swiss parliament revised the Swiss Act on greenhouse gas of December 23, 2011 ("Swiss CO_2 Act"). The revision was adopted by the Swiss parliament in September 2020 with the primary objective of laying the foundation for Swiss climate policy for the next decades. While one of the goals of the new law was to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient developments, it did not integrate sustainability-related disclosures and regulations for climate-compatible investments. The parliament-adopted revision was rejected by the Swiss population in June 2021. In September 2021, the Swiss government announced that it planned to release a new bill by the end of 2021. In parallel, it initiated the preparation of binding disclosure requirements in line with the Task Force on Climate-related Financial Disclosures ("TCFD"). The elaboration of these binding disclosure requirements is further discussed in question 1.4 below.
- ***Climate Change and Prudential Supervision***: The Swiss prudential regulator – the Financial Market Supervisory Authority ("FINMA") – monitors climate-related financial risks to which regulated financial institutions are exposed as part of its supervisory remit. Under the Swiss Federal Act on Banks and Savings Banks of November 8, 1934, regulated financial institutions are required to identify, assess and adequately deal with risks, including significant climate-related financial risks and, where necessary, to develop instruments and processes to address these risks. In May 2021, FINMA updated the reporting obligations of supervised financial institutions by amending its "Disclosure – banks" and "Disclosure – insurers" circulars in line with the TCFD. Please see question 1.2 below.
- ***Consumer Protection***: On the basis of the recently enacted Swiss Financial Services Act of June 15, 2018 ("FinSA") and the Swiss Code of Obligations governing advisory and asset management contracts, assets managers are duty-bound to inform their clients about financial risks, conduct a suitability analysis and manage the assets of their clients with due care. While FinSA is still in its infancy, legal commentators consider that such duties encompass an obligation to explain climate-related risks to clients (the scope of that obligation depends on the sophistication of the client) and to consider climate-related risks in the investment-making process, with potential liability exposure in case of negligent management. However, Swiss legal commentators generally do not yet recognise a duty of financial services providers to explore the client's preference in terms of sustainable investments.
- ***Public Pension Funds Investment Mandates***: A number of Swiss Cantons require their public pension funds to integrate ESG criteria in their investment decision-making. At the federal level, it is now admitted that the scope of the fiduciary duties set out in the Federal Law on Occupational Old Age, Survivors' and Invalidity Pension Provision of December 20, 1946 allows for consideration of ESG factors.

Corporate Responsibility

- ***Due Diligence Duties and Corporate Responsibility of Multinationals***: Switzerland signed up to the UN Guiding Principles on Business and Human Rights in 2011, and this led the Swiss government to adopt a four-year "National Action Plan" in 2016, a set of guiding principles on business and human rights, which was most recently updated in January 2020. The plan was heavily criticised by a coalition of non-governmental organisations, which submitted a popular initiative on corporate responsibility. This initiative was rejected by the Swiss people in November 2020, paving the way for the counterproject adopted by the Swiss parliament to become effective.
- ***New Law on Non-financial Disclosure and Supply Chain Due Diligence***: The counterproject introduced reporting obligations for large, public interest companies on environmental and social matters ("non-financial disclosure") that mirror EU Directive 2014/95/EU. Under the new provisions included in the Swiss Code of Obligations, covered companies are required to publish annual reports on environmental, social and employee matters, respect for human rights and the fight against corruption. Please see question 1.2 below for further details. In addition, the counterproject introduced due diligence and transparency rules applicable to all companies (and not only large public interest entities) (subject to available carve-outs) that import into or smelt, refine, etc., in Switzerland ores or metals containing one of the "3TG" (tin/cassiterite, tantalum/coltan, tungsten/wolframite, and gold) originating from conflict zones or high-risk areas or that offer goods or services for which

it can legitimately be suspected that child labour may have been involved. These due diligence and transparency rules are modelled on the EU Conflict Minerals Regulation (EU 2017/821). Both planks of the counterproject are expected to become effective on January 1, 2022, subject to a one-year conformance period.

Corporate Governance

- ***Executive Compensation***: In 2013, the Swiss people adopted a popular initiative (the so-called "Minder initiative") in an effort to curb the perceived excesses in board and executive compensation. The Swiss government gave effect to the initiative by way of regulation (the Ordinance against Excessive Compensation in Listed Companies, or "OaEC", effective January 1, 2014) pending the adoption of the corporate law reform in June 2020. The provisions of the ordinance will be rolled into the Swiss Code of Obligations without substantial modifications once the corporate reform becomes effective (in 2022 or 2023). These provisions have come to represent the pivot of corporate governance for listed companies in Switzerland. They apply to corporations organised under Swiss law with stock listed on a Swiss or non-Swiss stock exchange. The hallmark of the initiative is a binding say-on-pay regime.
- ***Governance and Electoral Process***: The OaEC regulates many corporate governance aspects of listed companies, setting the maximum term in office of board members and management (board members are up for re-election every year), banning golden parachutes, golden hellos and specified types of transaction bonuses, establishing the authority of the general meeting of the shareholders to elect each director individually (rather than *en bloc*) and to elect the chairman of the board, as well as the members of the compensation committee (displacing the authority of the board in this respect). The OaEC also requires Swiss pension funds to vote on specified corporate governance matters, including the election of directors, and to report annually as to how they exercise their voting rights.
- ***Gender Equality***: In an effort to promote gender equality in large public companies, the corporate law reform adopted in June 2020 introduced minimum target gender quotas under a "comply or explain" model. Specifically, the reform provides that women should account for at least 30% of the board of directors and at least 20% of executive management for large, publicly traded companies. Any such company that does not meet these provisions will be required to state in its remuneration report the reasons for such shortfall, and the actions that are being taken to improve the situation. The introduction of the quotas is subject to multi-year conformance periods. In addition, as further described in question 1.2 below, the Federal Act on Gender Equality of March 24, 1995 has been modified to include statistical reporting obligations on wages.

1.2 What are the main ESG disclosure regulations?

A comprehensive disclosure and transparency framework is emerging in Switzerland:

Corporate Responsibility Transparency

- ***Non-financial Disclosure***: As outlined in question 1.1 above, large firms of public interest will be required to report annually on non-financial matters. Covered companies will be required to report on their business model, policies and due diligence procedures, the measures taken in application of these policies and their evaluation system to assess the efficiency of these measures, the principal risks in relation to non-financial matters, whether arising from the company's own operations or, when relevant and proportionate, those arising from the company's business relationships, products or services, as well as key performance indicators ("KPIs") that are relevant to their particular business. Reports on non-financial questions will have to be approved and signed by the board of directors and submitted to the annual general meeting of the shareholders for approval. The board of directors will then be required to ensure that the reports be published electronically immediately after their approval and remain accessible to the public for 10 years.
- ***Conflict Mineral and Child Labour Transparency***: Companies having due diligence obligations in respect of their supply chain as outlined in question 1.1 will also be required to publish an annual report to ensure proper transparency. This report has to contain information relating to the implementation of the covered company's oversight system and risk management plan and thus compliance with its due diligence obligations. As in the case of non-financial disclosure, this report will have to be approved by the board of directors, be published electronically and remain accessible for 10 years. However, it will not be subject to the approval of the general meeting of the shareholders.
- ***Transparency Obligations for Resources Extraction Companies***: Under the reform of Swiss corporate law adopted in June 2020, Swiss companies that are subject to a full audit and, directly or indirectly, extract minerals, oil, natural gas or primary forest wood, will be required to publish annually a special report disclosing each payment or series of payments made to government authorities (including government-controlled enterprises) in the aggregate amount of CHF 100,000 or more per financial year. This requirement applies for the first time in respect of the financial year starting one year after January 1, 2021.
- ***Wage Equality***: In July 2020, the Federal Act on Gender Equality of March 24, 1995 was modified to include reporting obligations on wage inequality. In broad terms, companies with 100 or more employees are required to complete an equal-pay analysis every four years (the first analysis had to be completed by the end of June 2021). The analysis must be audited by an independent, approved third party (the first analysis has to be audited by the end of June 2022). The results of the analysis must be shared with the workforce and, if the company is listed, with its shareholders (in the appendix to the annual report).
- ***Sustainability Report***: Since 2017, SIX has made available to listed issuers an elective regime for the publication of an annual sustainability report. Issuers that decide to opt in are then required to compile a sustainability report in accordance with an internationally recognised standard. Permissible standards include (i) the Global Reporting Initiative, (ii) the Sustainability Accounting Standards, (iii) the UN Global Compact, and (iv) the European Public Real Estate Sustainability Best Practices Recommendations. SIX reviews the conformance of the annual sustainability reports with the chosen standards. Out of more than 250 listed companies, approximately 30 companies have opted in.

Corporate Governance Disclosure

- ***Corporate Governance Disclosure***: SIX-listed companies must comply with the Directive on Information relating to Corporate Governance ("DCG") and related guidance. The DCG mandates the inclusion of a "corporate governance section" in the annual report containing important information on management and control mechanisms at the highest corporate level.

- ***Executive Compensation Disclosure***: Among other categories of information, the DCG mandates the inclusion of disclosure on compensation of board members and management. The corporate governance section must include basic principles and elements of compensation and shareholding programmes, together with a description of the authorities and procedures for setting board and executive compensation.
- ***Remuneration Report***: The DCG is supplemented by the OaEC, which mandates the annual publication of a remuneration report presenting statistical information on the compensation of board members and management. This disclosure must be verified by an external auditor. Required to be disclosed are not only the aggregate amounts but also the comprehensive compensation packages of each of the board's members, as well as the highest total compensation package among the members of senior management. The DCG extends these disclosure requirements to all issuers with a primary listing on SIX, whether incorporated in Switzerland or not.

General Disclosure Obligations

- ***General Disclosure Obligations***: The recently enacted FinSA and its implementing ordinance regulate the content of prospectuses for primary and secondary offerings, as well as listings in Switzerland. In general terms, ESG risks, which are typically conceived as either physical or transition risks, should be disclosed insofar as they have an effect on the risk profile of an investment.

Transparency for Financial Institutions

- ***Climate-related Financial Disclosure***: In May 2021, FINMA introduced reporting obligations for supervised financial institutions in line with the TCFD by amending its "Disclosure – banks" and "Disclosure – insurers" circulars. The revised circulars became effective on July 1, 2021. In an initial phase, only large banks and insurance companies will be subject to the transparency obligations.

1.3 What voluntary ESG disclosures, beyond those required by law or regulation, are customary?

As indicated above, a comprehensive framework for ESG disclosure is now emerging in Switzerland. Not all aspects of this framework are effective yet, however. As of the date of this publication, SIX-listed companies remain essentially free to omit any ESG disclosure (other than on corporate governance). Alternatively, they may include sustainability topics in their annual report, publish a separate sustainability report on their own without SIX review or opt into the elective SIX regime.

Among the SIX-listed companies that have not opted in, there is a large variance in reporting practice, although the trend points towards a reduction in the number of SIX-listed companies with no reporting on sustainability and an increase in companies reporting on CO_2 reduction objectives and achievements, corporate responsibility or other sustainability topics in their annual report disclosure.

1.4 Are there significant laws or regulations currently in the proposal process?

In June 2020, the Swiss government published a report on sustainable finance in Switzerland taking position on a range of ongoing EU initiatives. In December 2020, the Swiss government then delineated the next steps in its strategy to make the Swiss financial centre more sustainable by adopting a package of measures:

- ***TCFD-based Reporting***: The Swiss government tasked various departments and offices with preparing binding implementation of the TCFD recommendations by Swiss companies across all industries. In August 2021, the Swiss government fleshed out the contours of the new binding disclosure regime:
  - Public companies, banks and insurance companies with 500 or more employees, more than CHF 20 million in total assets or more than CHF 40 million in turnover will be required to report publicly on climate issues (please see question 1.2 above on the TCFD-based transparency requirements already introduced by FINMA for covered financial institutions).
  - Public reporting will not only address the financial risks that a company faces as a result of its climate-related activities, but will also describe the impact of the company's business activities on climate and the environment under a "double materiality" standard (in line with the European Union's approach).
  - The disclosure regime will specify minimum content requirements.
  - Binding implementation of the TCFD recommendations is expected to become effective in 2024 (in respect of the 2023 financial year).
- ***Greenwashing***: The Swiss State Secretariat for International Finance ("SIF"), in close cooperation with the Federal Office for the Environment, has been tasked with proposing, by the third quarter of 2021, recommendations to amend financial market regulation in an effort to prevent greenwashing.
- ***Investment Methodology Transparency***: The Swiss government issued guidance to the effect that asset managers should publish their methodology and strategies for weighing climate and environmental risks when managing their clients' assets, consistent with their duties of loyalty and diligence. The SIF will have to report to the Swiss government by the end of 2022 whether and how the market has adhered to its recommendation on a voluntary basis.

1.5 What significant private sector initiatives relating to ESG are there?

Switzerland has seen a multiplication and acceleration of private sector initiatives, in particular in the financial sector, a key contributor to the Swiss economy:

- ***Support for Sustainable Finance by Industry Groups***: Among other initiatives, in September 2018, the Swiss Bankers Association announced that sustainable finance was one of its strategic priorities. The Swiss Bankers Association published its first ESG position paper in September 2019, which was then updated in June 2020. Together with the members of the Swiss Sustainable Finance ("SSF") working group, the Swiss Bankers Association also developed guidelines for the advisory process for private clients. In parallel, the Swiss Funds & Asset Management Association, together with the SSF, published key messages and recommendations for its members in an effort to actively support asset managers when incorporating sustainability criteria into their investment process. Furthermore, a report published by the Swiss Insurance Association in June 2020 showed that private insurers apply sustainability criteria to an estimated 86% of their capital investments. In mid-2018, the Swiss Pension Fund Association incorporated sustainability factors into its Guidelines for Pension Fund Investments, a voluntary stewardship code.

- ***Voting Guidelines of Proxy Advisors***: Homegrown proxy advisors, such as Ethos, have developed corporate governance and responsibility voting guidelines.
- ***Guidelines for Institutional Investors Governing the Exercise of Shareholder Rights in Swiss Listed Companies***: These guidelines were published in January 2013 by Swiss trade associations and proxy advisers. These non-binding guidelines are aimed at institutional investors and intend to enhance good corporate governance by describing best practices for the exercise of shareholders' rights by institutional investors.

2 Principal Sources of ESG Pressure

2.1 What are the views and perspectives of investors and asset managers toward ESG, and how do they exert influence in support of those views?

The Swiss Sustainable Investment Market Study 2021 issued by the SSF reports a rapid growth in sustainable investments and an increased sophistication among investors pursuing sustainable investments:

- ***Substantial Growth in Sustainable Investments***: In 2020, Swiss funds adopting sustainable investment approaches (estimated at CHF 694.5 billion) exceeded conventional investment funds for the first time. Among "asset owners" (*i.e.*, pension funds and insurance companies), sustainable investments represented approximately 33% of total assets in 2020, similarly exhibiting significant growth (estimated at 31%). A similar trend has been identified among private investors (historically less prominently represented in the sustainable investment space), with an estimated growth rate of 72% in 2020.
- ***General Approaches for Sustainable Investments***: The SSF distinguishes among eight different approaches in sustainable investments: (1) best-in-class (*i.e.*, peer comparison among investable companies based on sustainability ratings); (2) ESG engagement (*i.e.*, engagement with management of investee companies); (3) ESG integration (*i.e.*, the explicit inclusion of ESG risks and opportunities into the investor's traditional financial analysis and investment decisions); (4) ESG voting; (5) exclusions (with exclusion criteria referring to product categories, activities or business practices); (6) impact investing (*i.e.*, investment in an effort to generate a measurable, beneficial impact alongside a financial return); (7) norm-based screening (*e.g.*, against the UN Guiding Principles on Business and Human Rights); and (8) sustainable thematic investments (*i.e.*, investments in businesses contributing to sustainable solutions).
- ***Ranking of Sustainable Investment Categories***: In 2020, ESG integration was still the leading approach among Swiss investors. ESG engagement ranked a close second. This represented an inflexion point: previously, investors tended to rely on exclusion when an investee company violated ESG norms (the investor would divest from the company or exclude it from the investment universe). In 2020, asset managers and asset owners, however, resorted to engagement more often than exclusion. In addition, ESG investment practices have become multi-pronged. Most often, investors combine two or more sustainable investment strategies.

2.2 What are the views of other stakeholders toward ESG, and how do they exert influence in support of those views?

One key stakeholder in Switzerland is the banking industry. As the umbrella organisation of the Swiss banks, the Swiss Bankers Association lobbies for the removal of existing regulatory hurdles in Switzerland and levelling the playing field for sustainable investment products.

In its two-prong strategy, the Swiss banking industry group first encourages its members to sign up to international transparency efforts on risks resulting from ESG factors (which FINMA has now imposed by way of circular; please see question 1.2 above), to integrate sustainability principles into various areas of the banking business (including lending practices), to participate in voluntary climate compatibility tests, and to expand the offering of green, sustainability and other ESG instruments. Second, the Swiss Bankers Association lobbies for framework conditions intended to promote sustainable investments via improved transparency, better market access, up-to-date investment rules for institutional investors, and tax reliefs.

2.3 What are the principal regulators with respect to ESG issues, and what issues are being pressed by those regulators?

Impetus for ESG initiatives originates from the Swiss government (please see question 1.4 above), the Swiss population (via popular initiatives) and regulators such as FINMA (please see questions 1.1 and 1.2 above).

FINMA monitors climate-related financial risks as part of its prudential supervisory remit and is imposing climate change transparency obligations on supervised financial institutions. Governance of regulated financial institutions is also subject to strict scrutiny by FINMA from a regulatory perspective.

2.4 Have there been material enforcement actions with respect to ESG issues?

FINMA can open investigations and enforcement proceedings to remedy failings from a regulatory point of view. Enforcement proceedings, however, are confidential unless FINMA determines that public information is necessary from a prudential point of view. There is thus little publicity around enforcement actions.

2.5 What are the principal ESG-related litigation risks, and has there been material litigation with respect to ESG issues, other than enforcement actions?

In broad terms, Switzerland does not have a litigious culture. Swiss law favours shareholder accountability of the board of directors to address agency issues over liability claims (there are virtually no cases of directors' individual liability claims outside the bankruptcy context). Furthermore, Swiss law does not recognise the concept of class actions, often making it uneconomical for shareholders, clients or other stakeholders to bear the cost of a lawsuit.

By way of example, in 2019, the Zurich commercial court dismissed claims for damages linked to the emissions-rigging scandal initiated by a consumer group against the German car manufacturer Volkswagen and Swiss importer AMAG. The Zurich commercial court had already refused to hear a separate collective action by the same consumer group seeking to establish that Volkswagen and AMAG had misled buyers and violated Swiss law.

2.6 What are current key issues of concern for the proponents of ESG?

Corporate governance has been front and centre of the ESG debate for many years in Switzerland. Over the recent past, climate change has emerged as the next key topic and one of the main areas of concern. The Swiss government is devoting significant time and resources in the preparation of a framework for sustainable investments that is geared towards climate change.

3 Integration of ESG into Business Operations and Planning

3.1 Who has principal responsibility for addressing ESG issues? What is the role of the management body in setting and changing the strategy of the corporate entity with respect to these issues?

In the governance framework of Swiss listed companies, the board of directors has the core duty of setting the overall strategy and organisation of the company (fulfilment of that duty cannot be delegated to management), while management have primary responsibility for the day-to-day implementation:

- In practice, given the critical importance of ESG matters, including in terms of reputation, the board's duty to set the overall strategy of the company will often also encompass the duty to develop the long-term ESG strategy of the company. The board is usually responsible for adopting the relevant policies to achieve its strategies, working with management to identify which ESG issues are most pertinent to the company's business and key stakeholders, to oversee the development of appropriate goals, and to monitor the implementation of policies and processes.
- It is not unusual for ESG monitoring and planification tasks to be allocated to a special committee of the board. Such a committee typically ensures that the board is well informed as to ESG considerations and gives advice on sustainability measures and emerging ESG trends. It can also monitor the company's performance against select indices and review material, non-financial issues affecting the company's financial performance, as well as the material interests of the company's shareholder base and other significant stakeholders.
- Management usually set the objectives to be achieved in order to implement the board's overall strategy, monitor their achievement and generally report to the board on these issues. In turn, management of large companies often have their own committees dedicated to overseeing ESG issues (*e.g.*, on global sustainability, roundtable issues, the World Health Organization's code of compliance, and group compliance).

3.2 What governance mechanisms are in place to supervise management of ESG issues? What is the role of the board and board committees?

Swiss listed companies with a developed ESG policy typically have in place a combination of governance mechanisms. These include bottom-up reporting protocols, clear lines of duties and allocation of responsibilities, as well as tailored KPIs. In line with the Swiss model of corporate governance, the board fulfils a supervisory role, especially concerning material risks that may affect the financial performance of the company, and is often aided by a nomination and governance or sustainability committee in that role.

3.3 What compensation or remuneration approaches are used to align incentives with respect to ESG?

There is still a wide variety of approaches. A number of listed companies ostensibly do not take into account ESG achievements when setting executive compensation. At the other end of the spectrum, some companies allocate a numerical weight to ESG topics in the executives' pay-for-performance scorecards (for example, achievement of non-financial strategic goals could represent 40% of overall performance-based compensation and ESG topics could be 20% of that), although what these ESG topics are can be broadly defined. Some other companies report a qualitative approach. For example, a number of companies indicate that ESG topics are considered at various stages of the compensation determination process, whether that is the setting of objectives, the funding of a performance award pool, performance assessment or compensation decisions, or that the compensation committee factors in ESG objectives when proposing bonuses.

3.4 What are some common examples of how companies have integrated ESG into their day-to-day operations?

Increasingly, companies are setting and disclosing (scope 1, 2 and 3) short- and medium-term CO_2 reduction targets, the concrete initiatives taken to achieve these targets and the aim of becoming carbon neutral or positive by 2050. Companies often seek to set their target emission reductions on a science basis.

Furthermore, common examples of integration of ESG in the day-to-day operations include sensitising employees on sustainability strategy and rewarding employees on good work, due diligencing contracting parties, including suppliers or services providers (across the board), sounding key investors on ESG topics, adopting ESG-related policies, creating internal committees, hiring consultants, and enhancing transparency with key stakeholders.

4 Finance

4.1 To what extent do providers of debt and equity finance rely on internally or externally developed ESG ratings?

Market participants that offer sustainable financial products in Switzerland usually rely on internally developed or external ESG ratings in an effort to evaluate the ESG impact of their financial products or services. However, it should be noted that there are no generally accepted standards or best practice methods in Switzerland for ESG ratings.

An external ESG rating is necessary for bonds listed on SIX to be classified as green or sustainable bonds. The ESG aspects of such bonds have to be reviewed by an external auditor. Furthermore, bonds issued by the Swiss Confederation are externally rated with regard to sustainability aspects.

4.2 Do green bonds or social bonds play a significant role in the market?

There are no official definitions of the terms "green bond", "social bond" or "sustainability bond" in Switzerland. In practice, issuers often adopt the terminology of the International Capital Market Association ("ICMA") Guidelines. Under said terminology, "green bonds" are bonds that (re-)finance environmental projects in accordance with the Green Bond Principles by ICMA, while "social bonds" (re-)finance social projects in accordance with the Social Bond Principles by ICMA. If a bond finances both green and social projects in accordance with the Sustainability Bond Principles by ICMA, it qualifies as a "sustainability bond". Finally, bonds that follow the concept of an issuer commitment in accordance with the Sustainability-Linked Bond Principles by ICMA qualify as a "sustainability-linked bond" (together with green bonds, social bonds and sustainability bonds, "ESG bonds"). Bonds that fall into the categories of green bonds, sustainability bonds and sustainability-linked bonds may be flagged on SIX, the main marketplace for listed bonds in Switzerland.

As of September 21, 2021, a total of 58 green bonds and one sustainability bond were listed on SIX, with aggregate principal value of approximately CHF 19.3 billion.

4.3 Do sustainability-linked bonds play a significant role in the market?

Sustainability-linked bonds do not yet play a significant role in the Swiss market. As of September 21, 2021, there was only one sustainability-linked bond listed on SIX, which had a principal amount of CHF 1.85 billion.

4.4 What are the major factors impacting the use of these types of financial instruments?

The main factors driving volumes of ESG bonds are primarily increased investor demand for sustainable finance instruments on the one hand, and higher issuance costs on the other hand as ESG bonds are associated with additional implementation costs for monitoring the use of proceeds compared to regular bonds (which may be offset by potentially more attractive pricing). Moreover, issuance levels of ESG bonds may be affected by the absence of a binding regulatory framework in Switzerland (please see question 4.5 below), which may create uncertainty for issuers and investors alike. It is noteworthy that the offer and choice of sustainable finance instruments have increased in the last few years in order to meet increased investor demand.

4.5 What is the assurance and verification process for green bonds? To what extent are these processes regulated?

There is no binding framework regulating the verification of ESG bonds in Switzerland as yet. However, the disclosure requirements for prospectuses pursuant to FinSA require the disclosure of the material risks associated with the financial instruments that are offered to the public or admitted to trading on a Swiss trading venue, including as to verification.

In the absence of binding regulation in Switzerland, issuers of ESG bonds often adhere to non-binding international standards, such as the Green Bond Principles, the Social Bond Principles or the Sustainability-Linked Bond Principles of ICMA, which include, among other things, a recommendation to the issuer to conduct an external audit. Adherence to such international standards is mandatory for listed bonds to be flagged as green, sustainable or sustainability-linked bonds by SIX.

5 Impact of COVID-19

5.1 Has COVID-19 had a significant impact on ESG practices?

By and large, COVID-19 has not detracted investors from their focus on ESG considerations, nor have companies abandoned their ESG initiatives. With climate change ever present, ESG considerations kept their top spot in the strategic agenda of investors and companies alike as was evidenced by the considerable expansion of sustainable investments in Switzerland in 2020. Even during strict shelter-at-home orders, many global asset managers intimated that the pandemic would not derail their plan to hold companies accountable on climate change objectives and governance issues.

6 Trends

6.1 What are the material trends related to ESG?

Material trends on the fast-moving ESG scene include:

- ***Climate Change***: The Swiss government and the financial sector have declared that they are committed to a sustainable Swiss financial centre, with a focus on the environment as an immediate priority.
- ***Transparency***: Investors have expressed the concern that the difference in reporting standards, coupled with the fact that they are voluntary, allows companies to cherry-pick data. On September 22, 2020, the International Business Council of the World Economic Forum ("WEF") released a set of universal ESG metrics and disclosures to measure stakeholder capitalism. In addition, the SIF has been tasked with proposing recommendations to amend financial market regulation in an effort to prevent greenwashing.

6.2 What will be the longer-term impact of COVID-19 on ESG?

Echoing the international debate, ESG proponents have been sharpening the social lens. In March 2020, the UN Principles for Responsible Investment exhorted investors to engage with companies that are failing to protect employees' safety or their financial security. Similarly, in April 2020, the WEF endorsed six stakeholder principles for the COVID-19 era, including keeping employees safe, securing shared business continuity with suppliers and customers, ensuring fair prices for essential supplies, offering full support to governments and society, and maintaining the long-term viability of companies for shareholders. As COVID-19 is having a profound impact on how businesses organise their operations and workforce, it is likely that social considerations will continue to garner increased attention.

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