



How Switzerland can profit from the EU Taxonomy

Topic of the month November 2019

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With the ongoing student protests (“Fridays for Future”) the issue of climate change is continuing to gain strong public attention. It is more than obvious that this agenda setting contributed significantly to the historic shift of voter shares towards green parties in the latest elections.

The constantly high (and still increasing) levels of carbon emissions make it clear that great efforts are necessary to limit the rise in the global average temperature to 2 degrees Celsius. With the Paris Agreement, the signatories also committed themselves to «making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development». While the Swiss Federal Council, in their discussion of the total revision of the CO₂ Act, tended to avoid this issue and focused exclusively on voluntary measures, the European Commission presented an «Action Plan: Financing Sustainable Growth» in March 2018.

Although Switzerland is not a member of the European Union (EU), the interdependence between the economies is so extensive that the mentioned regulations are likely to be incorporated into Swiss law sooner rather than later. Particularly because many Swiss banks and asset managers operate in the EU and see additional market opportunities due to their long track record of sustainable investment solutions. Even if some things are still in flux, the following trends are already emerging today:

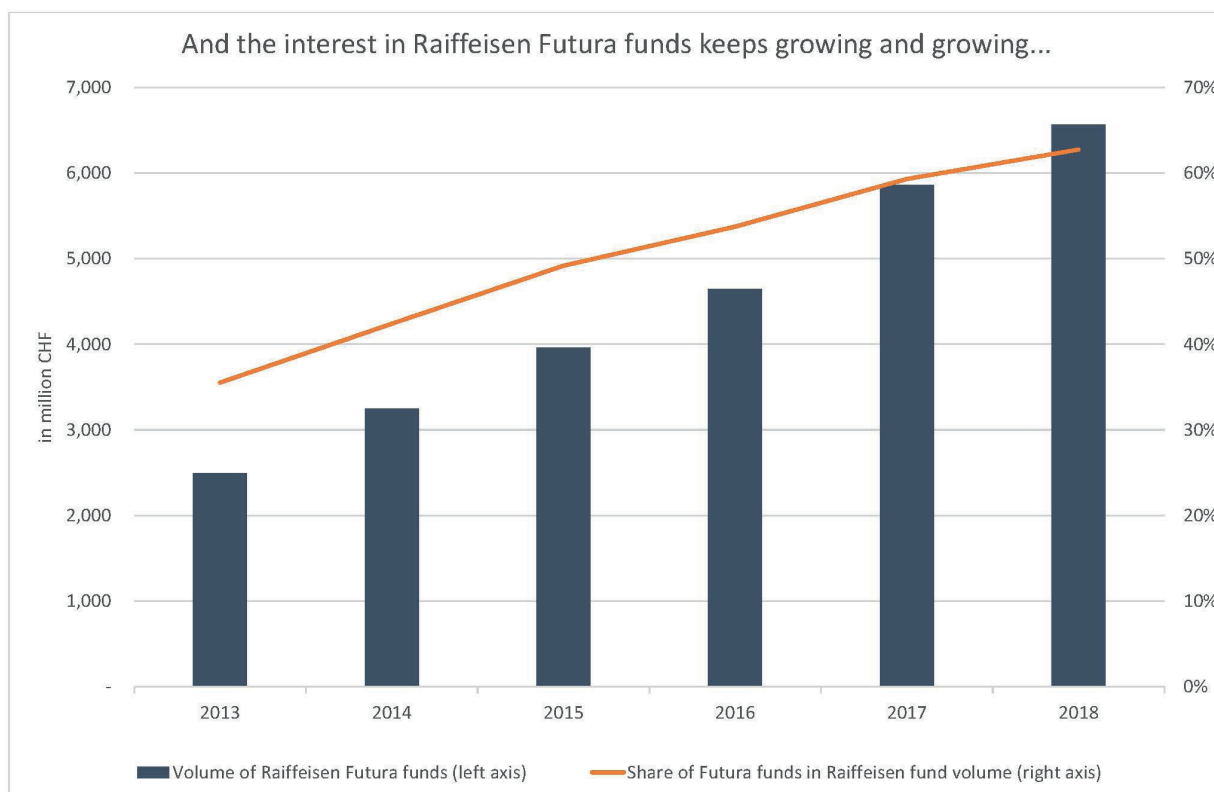
- Before long, there will be a first taxonomy, i.e., a common language for assessing economic activities. Even if some critics have noted that it is very focused on climate change, this taxonomy was conceived from the outset only as an initial step towards a more comprehensive sustainability taxonomy. In organisational terms, this will be reflected in the planned transition from the Technical Expert Group to the Platform for Sustainable Finance.
- As of 2021, investment funds for private investors that meet the above definition of green investments will be eligible for the EU eco-label. Until then, however, there is still some work to be done. The EU Commission's Joint Research Center has already carried out initial tests of possible threshold values (with the support of Raiffeisen Switzerland and their partner Inrate). However, as the definition of the taxonomy had not yet been completed at the time and there was no data available from companies, these thresholds only provide a first clue.
- Finally, in addition to inquiring about customers' financial risk appetites, preferences regarding sustainability will become a mandatory part of due diligence.

Does that mean that banks and asset managers in Switzerland have to prepare for major changes? Of course, new regulations call for actions. However, this does not imply that banks in Switzerland have been passive in the past and are now being caught off guard. On the contrary, Switzerland is regarded as the world leader in the field of sustainable investments. The variety of investment funds offered today covers a broad range of

investors' needs. This is an additional reason why e.g. Raiffeisen decided to further expand their Futura product range. As a result, the entire range of Raiffeisen pension products is sustainable now.

Raiffeisen Switzerland believes that asking clients whether and how sustainability is to be integrated into their investment strategy is a great opportunity. On the one hand several surveys suggest clients are interested in sustainable investments. On the other, we know that there are no drawbacks in doing so: Since 2013, every client opening a custody account has been asked by Raiffeisen Switzerland to what degree they prefer sustainable investments to conventional ones. The result is clear: around 40 percent choose (more) sustainability. This trend will be gaining momentum.

Regulation can be cumbersome, but in the case of the EU taxonomy it will be exciting to see how the Swiss financial center – and also the Swiss regulator – will answer the call and turn it into an opportunity. Until then, however, the success story of sustainable investments in Switzerland – and also the Raiffeisen one – will continue.





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