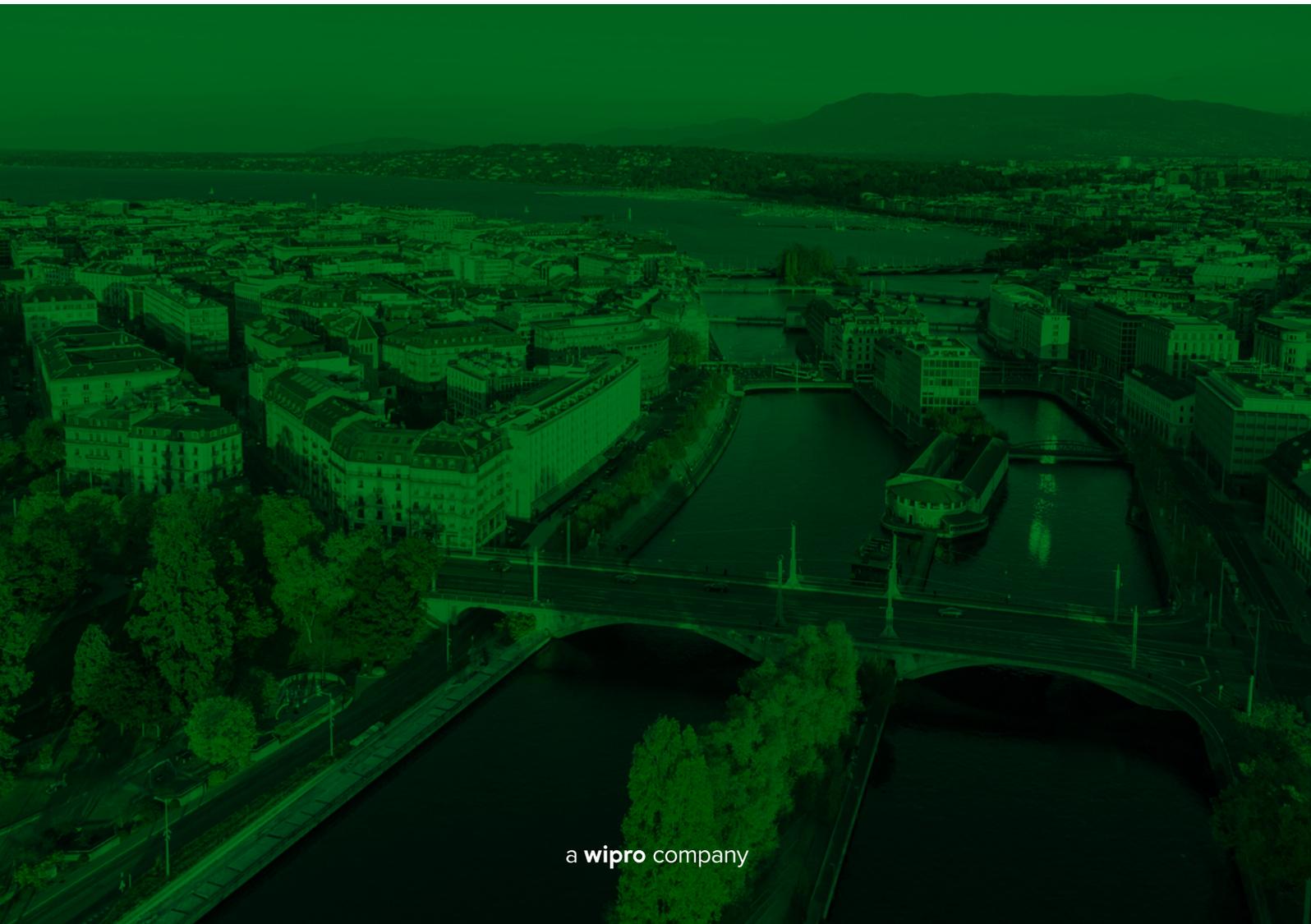


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**REFLECTIONS ON SWITZERLAND'S
'BUILDING BRIDGES' EVENT:
ALIGNING FINANCE WITH SUSTAINABILITY**



In early October 2023, 1500 global finance professionals gathered at Geneva's Building Bridges (BB) event together with the Swiss public authorities, the UN and other global partners. The focus was on accelerating the transition to a global economic model aligned with the UN Sustainable Development Goals (SDGs) and fostering change in the real economy.¹

The 'action days' of the event entailed 70 plenary and workshop sessions, which saw the launch of the Swiss Stewardship Code and the full nature disclosure recommendations for Switzerland from the Taskforce for Nature-related Financial Disclosures (TNFD).

The participants discussed a wide variety of subjects, such as responsible wealth management, impact-driven private equity, the role of insurance in promoting sustainability, blended finance, greening real estate investments, ESG impact on family offices and pension funds, fiduciary duty and activism, and sustainable commodity trading.

This blog highlights some of the key takeaways on the next steps in the nature disclosure journey for Switzerland and the never-ending greenwashing debate as well as the importance of transition financing and leadership commitment.

1. BIODIVERSITY: RISK MANAGEMENT AND DISCLOSURE OF NATURE-RELATED ISSUES IS THE NEXT PUZZLE PIECE IN ESG REPORTING

It has become common knowledge that climate risk is investment risk². Nature capital is the missing piece in the transition to net zero, as climate change and nature loss are interdependent. The speech on this topic by Michael Baldinger, CSO of UBS, was particularly inspiring and emphasized the following:

The risks – “there is no central bank for nature”

We are faced with a threat on nature like never before. Since the 1970s we have experienced a drop in species (animal, fish, reptiles) of 69 percent. Also, 55 percent of global GDP is highly dependent on nature - USD 58 trillion³.

The opportunities – “the biodiversity business case”

Besides the nondebatable risks, there is also an estimated untapped market potential of USD 10 trillion in nature solutions.

The framework – “TNFD as a starting point”

The Taskforce on Nature-related Finance Disclosures (TNFD)⁴ recommendations for nature-related risk management and disclosure that were globally adopted in September 2023 at New York Climate Week, were also officially launched at BB. Similar to the Taskforce on Climate-related Finance Disclosures (TCFD) for climate, it proposes 14 disclosures for the integration of nature data into strategy, governance, risk and impact management, metrics and targets.

The challenges ahead – the data dilemma

While sourcing climate data (especially indirect emissions) is already hard, biodiversity data is still miles away from even that level of maturity. However, Baldinger also gives hope by saying that we are “good at innovating ourselves out of trouble”³.

The solutions – financial innovations

As a teaser, financial innovations and startups that generate the much-needed data are growing exponentially. Various alignment tools were presented at BB, including Nature-Finance Alignment Tool, WWF Risk Filter Suite, SEED Biocomplexity and Nature Alpha.⁵

2. “ESG-WASHING”: TRUST OF INVESTORS NEEDS TO BE REGAINED TO REDIRECT CAPITAL TOWARDS A SUSTAINABLE ECONOMY

Greenwashing is still one of the key impediments for a solid shift to sustainable finance, which is highly impacting the reputation of the sustainable finance community and leading to the closure of ESG-funds due to the lack of demand globally.

What should banks do next: Three lessons from Vontobel Asset Management:⁶

- **Master sustainability** – The first crucial step is to fully understand **what sustainability means through the lens of the banking business model** to be able to provide ‘bulletproof’ reporting. One of the most important recent developments was the integration of TCFD into Swiss Law for large companies⁷: Banks can no longer cherry-pick what they report on, but need to disclose how they embed sustainability into strategy, governance, risk management and targets/metrics setting. For smaller banks that are just starting their sustainability journey, direction is more important than speed. Based on current statistics, well over

50% of banks have no climate commitments at all⁸, and of those that do, their claims do not match the Paris Agreement and there are no concrete company-specific SMART⁹ goals in place for compliance by 2050.

- **Walk the talk** – Secondly, **start by doing, not by saying what you want to do** (which is one of the biggest sources of greenwashing risk). Also, demonstrate credibility by showing clear goals, actions to reach those, and what you will do in case targets are not reached.
- **Take it seriously** – Thirdly, support an **internal mindset shift**. Sustainability reporting is not an add-on report to the annual statements from the communications/marketing department, but should be treated with the same care and be subject to the same internal control and audit processes as what is commonly considered as financial reporting.

3. TRANSITION FINANCING: FOSTERING CHANGE IN THE REAL ECONOMY CAN BE COUNTER-INTUITIVE TO BEGIN WITH

Many investment strategies are followed with good initial intentions, but some hardly achieve any impact at best, or actively do harm at worst. There can be a disconnect between low carbon portfolios and low carbon in the real world. A forward-looking approach has a more substantial impact for real change than supporting the “dark green” companies.

Three levers to foster change in the real economy

According to Marie-Laure Schaufelberger, Head of ESG and Stewardship for the Pictet Group¹⁰, the discussions about sustainability should shift from purely operational considerations to considering the investor’s perspective:

- **Invest in solutions** – invest in players and market solutions that are already ‘dark green’, for example renewable energies.

- **Invest in the transition** – 95 percent of players are currently in the transitioning phase. Invest and finance the transitioning players (climate-transition bonds/funds) that are brown today and need funds to transition to follow a net zero target and have a solid plan in place.
- **Engage for change** – Only 50 percent of companies (MSCI World index) have set science-based net zero targets. Engagement and active ownership are critical to facilitate the change journey. Divestments can sometimes do more harm than good, which might initially seem counter-intuitive. Environmentally unfriendly companies especially need funds for their sustainability transformation journey. As a next step, education of the investor community is key so that they can understand the reasons for avoiding disinvestments.

4. TRANSFORMATIVE CHANGE CAN ONLY BE ACHIEVED WITH THE RIGHT LEADERSHIP, VALUES, INTERNAL KPIs AND CONTINUOUS ALIGNMENT

Continuous global alignment

According to Vontobel⁶, the number of ESG reporting provisions issues by governmental bodies in the past four years grew by 74 percent. Also, there are currently more than 400 reporting provisions on ESG across 80 countries.

Marie-Laure Schaufelberger commented that the industry is facing an “acronym-fatigue” and it is paramount to connect the dots on what is important. Therefore, events like BB are crucial. However, we cannot wait to have the dots connected and must engage with industry players to obtain the data that our organizations need. Such alignment can lead to greater awareness and more accurate measurement and reporting.

CONCLUSION:

TRANSFORMATIVE LEADERSHIP – REDEFINED VALUES AND KPIS

The why: Establishing purpose

“We don’t lack visionaries, but the will of politicians and CEOs”¹¹. We are often occupied with dealing with symptoms of shortcomings, rather than changing the causes. Sustainability needs to be defined by the CEOs of leading financial institutions who shape banks’ strategies and translate them into compelling purpose statements.

The what: Measuring what is important

You “measure what you treasure”.¹¹ Achieving fundamental change relies on what leadership defines as success, and what it actually measures. If leaders don’t track progress towards sustainable goals through internal KPIs, employees will not take them seriously either. Investment strategies should also be defined by C-level executives and aligned to the overall bank’s strategy, not by a central, often disconnected, team.

The BB event also introduced the Global Alliance for Banking on Values (GABV) which inspires banks to redefine their values beyond pure productivity. Their principles go hand in hand with a vision of growing our organizations for the benefit of the people, the planet and prosperity, not just for profit and power.

The how: Accelerating cultural change

Education across all levels within organizations is required. How can advisors offer sustainable financial products to clients, if they don’t properly understand them, or how can they appear credible if the investment strategy is contradicting the actual bank operations?

For sustainable finance to become mainstream, leadership commitment and tone from the top are critical. Frameworks like the TCFD or TNFD must be lived and become part of company culture, rather than just box-ticking reporting exercises.

The cost of not acting on any of the UN 17 sustainable development goals is higher than the cost of acting, as externalities will eventually be priced in the financial markets. What everyone across all levels within financial organizations needs to understand is that the short-term levers currently used “only finance change, but don’t change finance”.

According to the World Economic Forum, we are “on the brink of a polycrisis”¹² Not only do we have an opportunity, but also an obligation to build a more resilient banking system that will be better able to deal with shocks and stresses to come. Switzerland’s future is defined by ‘bridge-builders’ that share a common objective to further define a mutual language for sustainable finance, define best practices and make Switzerland a leading hub for sustainable investments.

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