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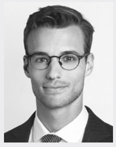
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1 Setting the Scene – Sources and Overview

1.1 What are the main substantive ESG-related regulations?

Swiss companies and investors are navigating a rapidly changing legislative and regulatory landscape.

Environment/Climate Change

- ***The Climate and Innovation Act***: In June 2023, the Swiss people approved the Federal Act on Climate Protection Targets, Innovation and the Strengthening of Energy Security (the "Climate & Innovation Act"). The Climate & Innovation Act anchors a legally binding goal for Switzerland to achieve net-zero emissions by 2050 by gradually reducing the importation of fossil fuels and promoting domestically produced renewable energy. The act further prescribes that all companies are required to reduce their emissions to "net zero" by 2050 at the latest. The Climate & Innovation Act uses a "carrot-but-no-stick approach". It does not institute taxes or compulsory action; financial support will instead be allocated over 10 years to support programmes aimed at reducing CO2 emissions and electricity consumption in a total amount of CHF3.2 billion (US$3.2 billion). As part of this budget, a maximum of CHF200 million per year will be made available over 10 years for companies to adopt innovative technologies, such as carbon capture. The Swiss financial sector is also expected to contribute to the energy transition. In this respect, the Climate & Innovation Act contemplates that the Swiss government may enter into industry-specific agreements with the financial sector in an effort to make finance flows consistent with climate objectives.
- ***Swiss CO2 Act***: Switzerland ratified the Paris Accord on climate change in October 2017. In the wake of the ratification, the Swiss parliament overhauled the Swiss Act on greenhouse gas ("Swiss CO2 Act") to align with the Paris Accord in September 2020, but the Parliament-approved act was turned down by the Swiss people in June 2021. In September 2022, the Swiss government mooted an updated bill intended to reduce CO2 emissions by half by 2030. In September 2023, the Swiss Parliamentary Environment Committee unanimously approved the updated bill and is now working on a compact of measures designed to achieve the reduction targets set for 2030.
- ***Swiss Climate Scores***: In June 2022, the Swiss government launched the Swiss Climate Scores, a set of standardised scoring methodologies to assess: (i) greenhouse gas emissions; (ii) exposure to fossil fuel activities; (iii) verified commitments to net zero; (iv) management to net zero; and (v) credible climate stewardship across a portfolio of investments; with a view to providing investors with reliable and comparable information on the level of climate compatibility of their investments. The scores are poised to be refined by the end of 2023. An extension to other asset classes (e.g., real estate) is also under review.
- ***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 power. Under the Swiss Federal Act on Banks and Savings Banks of 8 November 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. This regime is further detailed in question 1.2 below.
- ***Consumer/"Point of Sale" Protection***: On the basis of the Swiss Financial Services Act of 15 June 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. 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.
- ***FINMA Guidance on Greenwashing***: In November 2021, FINMA issued Guidance 05/2021 for collective investment schemes in which it indicated that it would closely review information provided to investors on advertised sustainability features when approving and supervising collective investment schemes – listing a range of practices it would deem to be deceptive – and the suitability of the organisational structure for managing sustainability-related funds and combat greenwashing.
- ***Public Pension Funds Investment Mandates***: A number of Swiss Cantons require their public pension funds to integrate ESG criteria in their investment decision-making.

Corporate Responsibility

- ***Human Rights Due Diligence Duties***: Switzerland signed up to the UN Guiding Principles on Business and Human Rights in 2011. This led the Swiss government, in 2016, to adopt a four-year "National Action Plan" – a set of guiding principles on business and human rights, which was most recently updated in January 2020. In June 2020, the Swiss parliament passed an amendment to the Swiss Code of Obligations introducing due diligence and transparency obligations applicable to Swiss companies importing into or smelting, refining or otherwise processing 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 offering 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). The implementing regulation (the so-called Ordinance on Due Diligence and Transparency in Relation to Minerals and Metals from Conflict-Affected Areas and Child Labour or "DDTrO") became effective on 1 January 2022 and will apply for the first time in respect of the financial year 2023. Compliance with the conflict minerals and metals due diligence duties is required to audited. See question 1.2 for further information on associated reporting obligations.

Corporate Governance

- ***Executive Compensation***: In January 2023, the provisions of the Ordinance against Excessive Compensation in Listed Companies (the "OaEC", which became effective in 2014 after the adoption of the so-called "Minder initiative" by the Swiss people) were rolled into the Swiss Code of Obligations without significant modifications. These provisions are intended to curb the perceived excesses in board and executive compensation. They apply to corporations organised under Swiss law with stock listed on a Swiss or non-Swiss stock exchange and have come to represent the cornerstone of corporate governance for these companies. The hallmark of these provisions is a binding say-on-pay regime. See question 1.2 below for more detail on compensation reporting.
- ***Governance and Electoral Process***: The Swiss Code of Obligation regulates many aspects of the corporate governance of listed companies, setting the maximum term in office of board members (board members are up for re-election every year precluding staggered boards), 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). Swiss pension funds also are required to vote on specified corporate governance matters, including the election of directors, and to report annually on how they exercise their voting rights.
- ***Gender Equality***: To promote gender equality in large public companies, minimum target gender quotas have been introduced under a "comply or explain" regime in the Swiss Code of Obligations for large, publicly traded companies on 1 January 2021. 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 covered companies. Any such company that does not meet these quotas will be required to state in its remuneration report the reasons for the deficit, and the actions that are being taken to improve the situation. Compliance with the regime of quotas is subject to multi-year conformance periods.

1.2 What are the main ESG disclosure regulations?

Corporate Responsibility Transparency

- ***Non-financial Disclosure***: In June 2020, the Swiss parliament introduced obligations for large, public interest companies to report on environmental and social matters ("non-financial disclosure") mirroring EU Directive 2014/95/EU. Under the new provisions introduced into 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. These provisions became effective on 1 January 2022 and apply for the first time in respect of the financial year 2023. In November 2022, the Swiss government adopted implementing regulation focused on climate disclosure (the so-called Ordinance on climate disclosures). This implementing regulation will become effective on 1 January 2024 and will apply for the first time in respect of the financial year 2024. Covered companies are required to report on: (i) their business model, policies and due diligence procedures; (ii) the measures taken in application of these policies and their evaluation system to assess the efficiency of these measures; (iii) 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; and (iv) key performance indicators ("KPIs") that are relevant to their particular business. Reports on non-financial questions must 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 is then required to ensure that the reports be published electronically immediately after their approval and remain accessible to the public for 10 years. The Ordinance on climate disclosures provides that the obligation to report on climate considerations is satisfied if the report is based on the TCFD Recommendations on Climate-related Financial Disclosures, as supplemented by the Implementing Annex and by the Guide on Metrics, Targets, and Transition Plans. If a covered company's reporting company relies on a different reporting standard, the burden shifts and the company must show that it satisfies its reporting obligations under the law and the ordinance. TCFD non-financial disclosure must cover the 11 TCFD recommendations in the four thematic areas (governance, strategy, risk management and metrics & targets). Moreover, the disclosure should adhere to the "double materiality" concept by covering the impact of sustainability issues on the company's performance as well as a company's impacts on people and the environment.
- ***Human Rights Transparency***: Since 1 January 2022, companies having due diligence obligations in respect of their supply chain as outlined in question 1.1 are also required to publish an annual report to ensure proper transparency. This report must 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 must be approved by the board of directors, be published electronically, and remain accessible for 10 years. However, it is not subject to the approval of the general meeting of the shareholders. This reporting requirement applies for the first time in respect of the financial year 2023.
- ***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, are required annually to publish 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 reporting requirement applies for the first time in respect of the financial year 2022.

- ***Wage Equality***: In July 2020, the Federal Act on Gender Equality of 24 March 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 was required to be completed by the end of June 2021). The analysis must be audited by an independent, approved third party (the first analysis had 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 Group ("SIX") has made an elective regime available to listed issuers 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. Out of more than 250 listed companies, approximately 40 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 prescribes 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 provisions of the Swiss Obligation Code requiring 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 board member, 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 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 2021, FINMA amended its Circular 2016/01 "Disclosure – banks" and Circular 2016/02 "Disclosure – insurers" to include transparency obligations for climate risks. Category 1 and 2 institutions are required to disclose how they manage climate-related risks as part of their annual financial reporting. This includes information around climate risk governance, strategy, risk management and quantitative information (targets and key data). In its "Guidance 01/2023 Developments with regard to the management of climate risks", FINMA indicated that it intends to intensify its supervision and expand it to a larger number of financial institutions.

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

As described above, a comprehensive framework for ESG disclosure has emerged in Switzerland and is gradually becoming effective. In 2024, public interest entities and other companies covered under the new provisions of the Swiss Obligation Code and implementing regulations will be required to comply with non-financial disclosure reporting requirements for the first time in respect of the financial year 2023.

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

In September 2023, the Swiss government announced key guiding principles to align the nascent non-financial disclosure obligations with the EU's Corporate Sustainability Reporting Directive (the "CSRD"). A detailed draft of the proposed changes is anticipated by mid-2024. The principal changes include:

- ***Expanding the scope of covered companies***: Large, public interest companies are currently defined to employ a minimum annual average of 500 FTEs (on a consolidated basis for at least the last two consecutive fiscal years). Under the guiding principles, companies in Switzerland with at least 250 FTEs are expected to come within the scope of the non-financial disclosure obligations, although it is not yet clear whether the other defining components of in-scope companies will be modified.
- ***Audit***: Non-financial disclosure will be required to be audited by an external auditor.

In December 2022, the Swiss government approved a governmental report on sustainability in the financial sector. A compact of policy measures in 2022–2025 is intended to consolidate the leading position of the Swiss financial centre for sustainable finance. Among other things, the Swiss government's position on greenwashing is that financial products or financial services that are advertised as sustainable should minimally be aligned with a stated sustainability goal, or make an effective contribution to sustainability goals. Simply incorporating sustainability criteria to minimise risk or optimise financial performance should not be described as "sustainable". Various departments have been instructed to work with the industry and interested parties to establish how to implement the government's position. On the back of that work, concrete proposals on next steps were expected to be formulated by the end of the year.

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:

- ***Initiatives against greenwashing***: In Switzerland, industry groups have moved to enhance sustainability transparency for investors and mitigate greenwashing in the financial sector. In June 2022, the Swiss Bankers Association published minimum requirements for its members regarding the integration of sustainability criteria into their investment advice and portfolio construction and management. In September 2022, the Asset Management Association Switzerland published a principle-based self-regulation on transparency and disclosure for collective assets referring to sustainability, with a focus on sustainability approaches. In December 2021, the Asset Management Association Switzerland and Swiss Sustainable Finance set out recommendations on how greenwashing can be avoided by adhering to minimum criteria and clear transparency.
- ***Corporate Governance***: In February 2023, the revised version of the Swiss Code of Best Practice for Corporate Governance (the "SCBP") was published by the Swiss business federation "*Economiesuisse*". The SCBP was first published in 2002 and has now largely become a respected benchmark in corporate governance. The SCBP is non-binding: companies adhering to the SCBP remain free to structure their governance as they see fit, but must explain in an appropriate manner why they deviate from any given recommendation (under a "comply or explain" model). Key novel recommendations include the following: (i) the board of directors ought to be guided by the goal of sustainable corporate development; (ii) the board of directors should ensure appropriate diversity among its members; and (iii) executive compensation should include fixed and variable components and be structured in such a way that the variable component depends to an adequate extent on the company's sustainable success.
- ***Swiss Boards for Agenda 2030 ("SBA2030")***: This board is an alliance of CEOs and board members committing their companies to act by making credible commitments on their sustainable development goals, adopting by-law changes and attending positive impact strategy training. The alliance is composed of about 28 Swiss companies.
- ***Voting Guidelines of Proxy Advisors***: Homegrown proxy advisors, such as the Ethos Foundation, have developed corporate governance and responsibility voting guidelines. For instance, the Ethos Foundation has been marshalling more than 230 tax-exempt Swiss pension funds and institutions in an effort to promote socially responsible investment and a stable and prosperous socio-economic environment.
- ***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 (or in opposition) of those views?

The Swiss Sustainable Investment Market Study 2023 issued by the Swiss Sustainable Finance association ("SSF") reported that sustainability-related investments faced a challenging environment in 2022. Negative market performance hit sustainable investors just as much as their mainstream peers. Furthermore, many banks and asset managers chose to take a more conservative approach in reporting their sustainable offerings, in order to manage greenwashing risks and rising regulatory complexity owing to the absence of commonly agreed definitions.

- ***Volumes***: From 31 December 2021 to 31 December 2022, sustainability-related investment volumes declined by 19% to CHF 1,610 billion. This decline is mainly attributable to negative market performance in 2022 (18 percentage points) and tighter definitions by respondents managing sustainability-related investments in Switzerland. Sustainability-related fund volumes correspond to about 52% of the entire Swiss funds population, similar to 2021 levels.
- ***General Approaches to Sustainable Investments***: The SSF distinguishes among nine different approaches to sustainable investments: (1) best-in-class (i.e., peer comparison among investable companies based on sustainability ratings); (2) climate-alignment (i.e., reduction in the greenhouse gas emissions of a portfolio): (3) ESG engagement (i.e., engagement with management of investee companies); (4) ESG integration (i.e., the explicit inclusion of ESG risks and opportunities into the investor's traditional financial analysis and investment decisions); (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); (8) sustainable thematic investments (i.e., investments in businesses contributing to sustainable solutions); and (9) ESG voting (investors addressing concerns of ESG issues by actively exercising their voting rights based on ESG principles or an ESG policy).
- ***Ranking of Sustainable Investment Categories***: Exclusions remain the leading applied approach in 2022, followed by ESG integration, ESG engagement and norm-based screening. Despite the poor market performance in 2022, there has been strong growth in thematic and impact approaches (86% and 80%, respectively). This shows the growing client interest in strategies with a clear link to impact. 2023 is the first year were data on the climate-alignment approach were collected, which focuses on reducing the carbon footprint of a portfolio or those of its component parts. With CHF 375 billion (about 20%) of total sustainability-related assets, the approach already has a strong foothold in the Swiss market.

2.2 What are the views of other stakeholders toward ESG, and how do they exert influence in support (or in opposition) 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.

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 people (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 power, 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 supervisory perspective.

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

FINMA intimated that curbing and preventing greenwashing was one of its key priorities and that around one-third of its on-site inspections will focus on greenwashing.

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?

ESG litigation risks can arise on multiple fronts:

- Beyond potential securities law claims (related to prospectus liability in connection with the issuance of securities), companies face the risk of litigation over their environmental emissions and other potentially harmful activities. For example, a Volkswagen customer recently won an appeal court case against the Swiss car importer AMAG connected with the 2015 Dieselgate controversy, obtaining the rescission of the sale agreement and monetary compensation. Another illustrative case involves a Swiss cement manufacturer that has been sued in Switzerland over its CO2 emissions by residents of an Indonesian island threatened by rising sea levels. The compulsory mediation hearing failed, prompting the formal filing of a complaint with the Swiss court in January 2023.
- Furthermore, there has been a growing litigation trend concerning "greenwashing" or "climate-washing" as exemplified by a recent case involving the FIFA World Cup 2022 before the Swiss Commission for Fairness (the "Fairness Commission") in 2023. The Fairness Commission held that the claim "climate neutral" or "carbon neutral" implies for the average person that a product has no environmental impact. Consequently, FIFA could only assert that the World Cup 2022 was climate neutral if it were able to prove the accurate computation and measurement of CO2 emissions generated by the tournament and the full offset of these emissions on the basis of "generally accepted methods", which it was not able to do. Accordingly, the Fairness Commission concluded that FIFA's sustainability claims were misleading and recommended that FIFA refrains from making such statements in the future. Following this decision, a Swiss environmental NGO filed a request with the State Secretariat for Economic Affairs in September 2023 seeking from the authorities a public censure of FIFA and the filing of a criminal complaint against FIFA.
- In July 2023, the Swiss Foundation for Consumer Protection announced the filing of complaints with both the Fairness Commission and the State Secretariat for Economic Affairs against Swiss companies challenging the truthfulness of environmental claims made in marketing communications, particularly those related to climate neutrality. In a separate publicised case from June 2023, the State Secretariat for Economic Affairs stepped in to enjoin a prominent Swiss ski resort operator from advertising itself as a "climate-neutral" ski destination.

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

In recent years, climate change has become front and centre of the legislative agenda and private initiatives, reflecting the deep concerns raised by climate change. On the financial scene, the Swiss government is devoting significant time and resources to the rollout of a framework for sustainable investments that is geared towards climate change. The fundamental debate, however, is whether by seeking to rely on self-regulation, Switzerland is establishing sufficiently strong foundations to fight against greenwashing. A number of ESG proponents argue that Switzerland will either need to develop detailed labels to rate sustainable finance products (i.e., a green taxonomy) or rely on a principled approach paired with strong enforcement power.

2.7 Have ESG issues attracted shareholder activism, and from whom?

In recent years, Switzerland has witnessed a significant increase in shareholder activism. We believe that this trend will further accelerate. This is because the Swiss corporate law reform, which became effective on 1 January 2023, seeks to further enfranchise shareholders and enhance their ability to requisition a special meeting of the shareholders, the addition of items on the agenda of a meeting of the shareholders, or proposals to existing agenda items. Shareholders have also been given much greater access to the corporate books and records.

3 Integration of ESG into Strategy, 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 relevant 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 *vis-à-vis* management?

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 consider ESG achievements when setting executive compensation. At the other end of the spectrum, a range of 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 the compensation committee factoring 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, as mandated by the new Swiss Climate and Innovation Act. Companies often seek to set their target emission reductions on a scientific 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, performing due diligence on 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.

3.5 How have boards and management adapted to address the need to oversee and manage ESG issues?

Many companies are in the process of comprehensively assessing and, where needed, adjusting existing business models, internal structures and responsibilities, as well as building up or revising their ESG disclosure. As mentioned above in questions 1.1 and 1.2, publicly traded companies have an obligation to report on non-financial matters from the financial year 2023 onwards, and that reporting will be subject to a shareholder vote at the annual general meeting. ESG issues have been increasingly elevated at board level, with boards adapting their organisation (either by assigning new functions to existing committees or by creating new dedicated committees such as sustainability committees), their business model (e.g., by adapting the parameters of M&A programmes to ensure that ESG-considerations are factored into the screening and decision-making process), and their internal reporting.

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 must be reviewed by an external auditor.

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 this 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 15 September 2023, a total of 109 green bonds and two sustainability bonds were listed on SIX, with an aggregate principal value of approximately CHF 23.8 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 15 September 2023, there were only five sustainability-linked bonds listed on SIX, with an aggregate principal amount of CHF 2.7 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 has 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 regarding 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 Trends

5.1 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.

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