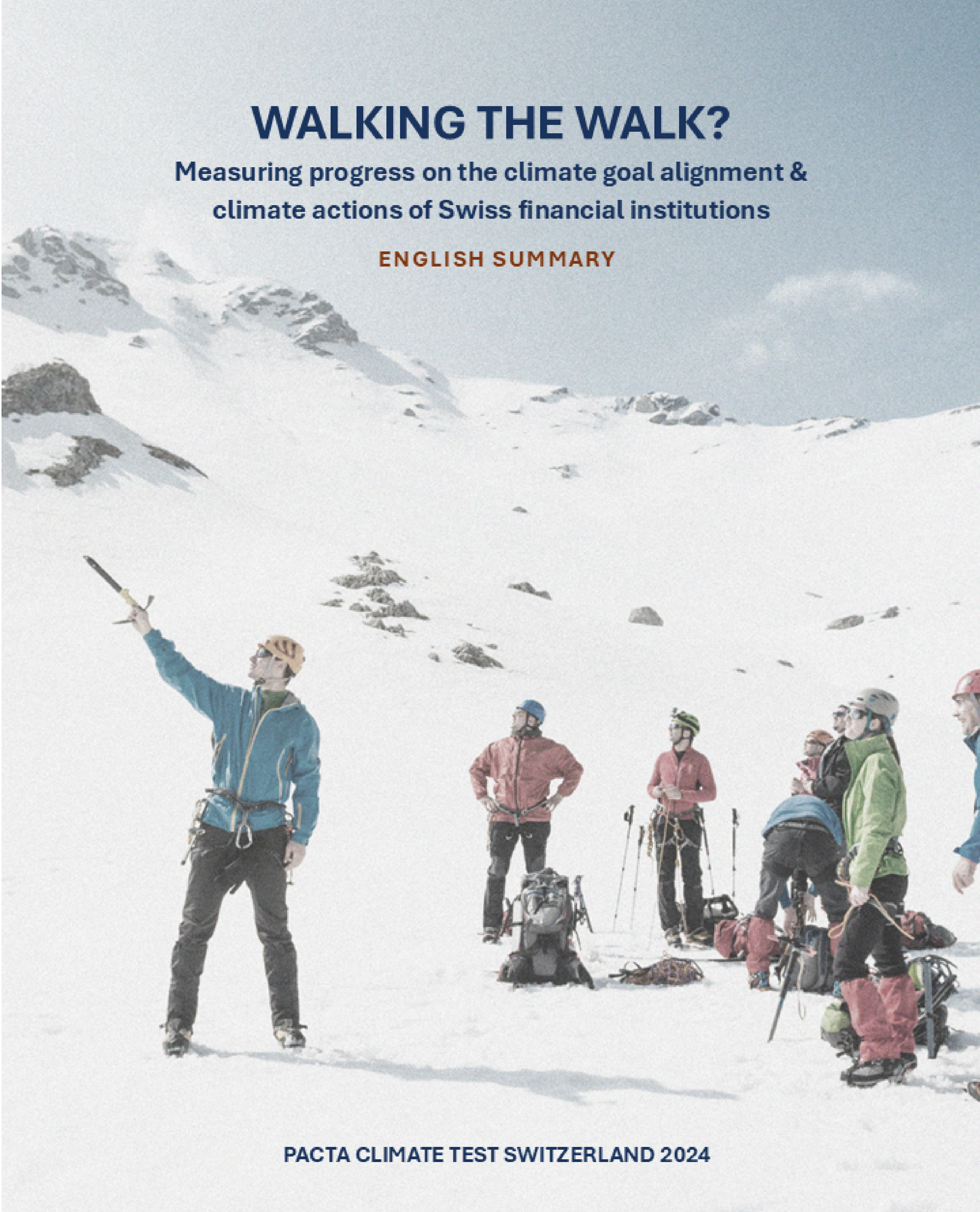
WALKING THE WALK?

Measuring progress on the climate goal alignment & climate actions of Swiss financial institutions

ENGLISH SUMMARY



PACTA CLIMATE TEST SWITZERLAND 2024

FPRE

PACTA Paris Agreement Capital Transition Assessment

RMI

IMPRINT

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Fahrländer Partner Raumentwicklung (FPRE) is an independent consulting and research company. FPRE provides a wide range of decision-making tools and services to real estate actors. These include applications for real estate analysis, consulting, market data and valuation. In addition, FPRE maintains its proximity to research through its teaching activities in training and further education and through research collaborations. FPRE has further developed the PACTA real estate model on behalf of the FOEN and supplemented it with the modules on "Scope 2 emissions" and "Scope 3 emissions from building materials". The views, conclusions, and findings expressed in the Corporate Bonds and Listed equity module, are those of RMI and do not necessarily reflect the position or opinions of FPRE.

RMI is an independent nonprofit, founded in 1982 as Rocky Mountain Institute, that transforms global energy systems through market-driven solutions to align with a 1.5°C future and secure a clean, prosperous, zero-carbon future for all. We work in the world’s most critical geographies and engage businesses, policymakers, communities, and NGOs to identify and scale energy system interventions that will cut climate pollution at least 50 percent by 2030. Starting in June 2022, RMI has taken on the management and application responsibilities for the open-source PACTA software and methodology, initially developed by the independent think tank 2°Investing Initiative (2DII). Since then, the tool has been maintained and further developed within RMI's Climate Finance team. This report is part of the internationally coordinated PACTA Climate Alignment Test (CAT) program, which aims to support governments and individual financial institutions for the implementation of PACTA to assess the alignment of financial portfolios to the climate change scenarios. RMI provided the results for the Corporate Bonds and Listed equity module, by using the PACTA for Investors methodology. The views, conclusions, and findings expressed in the Real Estate section, are those of FPRE and do not necessarily reflect the position or opinions of RMI.

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SUMMARY - PACTA CLIMATE TEST 2024 SWITZERLAND

This summary contains the results of the PACTA Climate Test 2024 for the Swiss financial institutions. PACTA stands for *Paris Agreement Capital Transition Assessment*. The summary is structured along the focal points of the 2024 Climate Test. The most important findings are set out in a box for each focus area. The detailed overall report in English on the Climate Test Switzerland 2024 and this summary in French and German can be found here.

KEY FINDINGS OF THE PACTA CLIMATE TEST 2024 IN SWITZERLAND

The 2024 Climate Test in Switzerland marks its fourth iteration, involving 146 banks, pension funds, insurance companies, and asset managers—making it one of the largest coordinated climate assessments for financial markets worldwide. Thanks to active support from various financial sector associations, participation has increased since 2022, with the exception of insurance companies.

The 2024 Climate Test reveals progress compared to the 2022 results. In particular, there is a growing recognition among financial institutions of their potential to contribute meaningfully to climate goals through their operations. The net-zero target is further already reflected in the majority of internal corporate strategies at the company level. On average, across the sector, banks, pension funds, and insurance companies are on track to achieve the climate targets for directly held real estate, at least with a view to 2030. Good practices *can be found in all areas and asset classes. For example, significantly more mortgage lenders offer various climate incentives for their customers than in the 2022 Climate Test. Around 60% of all participants state that they engage in credible "climate stewardship" for listed equity investments, i.e., by exercising voting rights and engaging in climate dialog with their portfolio companies to put them on track for climate action. In the case of corporate bonds, around 60% of financial institutions exclude coal companies from their investments, showing that the necessary move away from fossil fuels is supported in this area. Some financial institutions are, therefore, already "walking the walk."*

Despite the progress, the results highlight that not all financial sectors and asset classes are yet aligned with the net-zero target, with some financial institutions still having significant work to do, even in terms of directly held real estate. To advance the climate agenda, comprehensive net-zero transition plans must be developed for all climate-relevant business activities and asset class across the financial industry. In particular, the targets set, the transition plans, and their implementation at the portfolio level are not yet aligned and are often inconsistent in many financial institutions. For example, oil production companies held in equity and corporate bond portfolios are planning to further expand their overall production capacity. This contradicts the decision taken at the 2023 Climate Change Conference (COP28) by the global community, to move away from fossil fuels to achieve the climate goal. Additionally, there is a lack of evidence that climate measures taken by financial institutions will lead to climate-friendly outcomes. This evidence is notably lacking for climate incentives in the mortgage sector, the exercise of voting rights and dialog with portfolio companies in global equity and corporate bond portfolios, and transparency requirements for financial products and services.

Financial institutions can strengthen the credibility and effectiveness of net-zero targets and transition plans, as well as implement measures by adopting a consistent sector-based approach and reporting publicly on its progress. This not only fosters comparability but also helps focus efforts on essential climate objectives. It would be beneficial, for example, if it were systematically stated not only for individual financial products but for all financial products whether they aim for climate goal alignment, climate impact, or none of this. The next step for the Swiss financial market is, therefore, to follow up its broad commitment to the net-zero target for 2050 with climate-effective action in all areas. Or, as the title of the report says: "Walking the walk".

INTRODUCTION

By ratifying the Paris Agreement, Switzerland has committed to aligning its financial flows in a climate-friendly way. In addition, the Swiss electorate approved the Climate and Innovation Act[1] in June 2023. This enshrines the targets of achieving net-zero greenhouse gas emissions by 2050 at the latest and aligning financial flows accordingly. In addition, the federal government should ensure that the Swiss financial market makes an effective contribution to low-emission and climate-resilient development. At the United Nations Climate Change Conference 2023 (COP28), Switzerland supported the global community's decision to move away from coal, oil, and gas and to triple renewable energy sources and double their efficiency by 2030.[2]

In 2024, the PACTA Climate Test was conducted for the fourth time using an internationally coordinated approach. With the voluntary PACTA Climate Test, the federal government has regularly tracked the progress of the Swiss financial market in terms of its climate compatibility since 2017. In its report[3] "Sustainable Finance Switzerland, action areas 2022-2025 for a leading sustainable financial center" published in December 2022, the Federal Council describes the Climate Test as an important field of action. From 2025, regular implementation is also to be enshrined in the Climate Protection Ordinance (Art. 28).[4] Continuous monitoring enables a comparable and robust assessment of progress over time. The method used is now well established and is recognized as sound by both international financial supervisory authorities and various governments. In addition to previous Climate Tests in Switzerland (2017, 2020, 2022), the PACTA methodology has been applied in various countries and by several supervisory authorities.[5]

The methods used in the Climate Test are available on the market without a licensing requirement, and the methodologies are publicly accessible, ensuring transparency. Free availability reduces transaction costs compared to other commercially protected approaches, especially for medium-sized and smaller financial institutions. The federal government supports the further development of the methods and releases them after they have been applied in the Climate Test, both for the participants and all other interested parties such as consulting firms, researchers, and non-governmental organizations.[6] At the same time, commercial approaches can ideally complement the PACTA results, by addressing other specific use cases.

How does the PACTA Climate Test work?

The Federal Office for the Environment (FOEN) and the State Secretariat for International Finance (SIF) have invited all Swiss banks, pension funds, insurance companies, and asset managers to voluntarily participate in the 2024 Climate Test. This is now the fourth round of testing. The focus of the 2024 test round particularly lies on real estate and mortgages, for which the FOEN also offers extended analysis models. In addition, the following are of particular interest in this test round: The extent to which the different recommendations of the Federal Council and associations are being implemented,

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[1] BBl 2022 2403 - Federal Act on Climate Protection Targets, Innovation and Strengthening Energy Security KlG (in German)

[2] COP28: global stocktake with commitment to expand renewable energy capacity - DETEC

[3] Sustainable Finance SIF

[4] Federal Council opens consultation on Climate Protection Ordinance (admin.ch) (in German)

[5] These include Austria, France, Japan, Liechtenstein, Luxembourg, the Netherlands, Norway, Peru and Sweden. It has also been used by several supervisory authorities such as the Office of the Superintendent of Financial Institutions (OSFI), the New York Department of Financial Services (NYDFS), the US Treasury Federal Insurance Office (UST-FIO), the California Department of Insurance (CDI), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Central Bank (ECB) to assess the alignment of financial portfolios with climate scenarios.

[6] For more information on obtaining the R-Script and Methodology Report for the PACTA Real Estate and Mortgage Module, please visit www.bafu.admin.ch/pacta-climate-test. Information on the PACTA equity and corporate bond tool for investors can be found here Resources - PACTA (rmi.org).

how the current and announced self-regulations have already been adopted and how they are having an impact beyond the sector in question is also of interest.

For each test round, the FOEN publishes a country level report[7] with the aggregated and anonymized data in English and a summary of the overall results in German and French. Participation in the test is anonymous and free of charge for participants. By participating voluntarily, financial institutions help generate meaningful monitoring of the progress that has been achieved to date with voluntary measures, recommendations, and self-regulation. The FOEN aims to verify the plausibility of entries, though this is somewhat constrained by the voluntary nature of the approach. It utilizes the results of the Climate Test to assess the Swiss financial market's alignment with climate-friendly practices and its effective contribution toward achieving climate targets.

Each participating financial institution further receives an automatically generated, individual test report for each submitted portfolio as well as an aggregated report for the entire financial institution. It is up to the participants to decide whether and to what extent they publish the individual results. In addition to the comparison with the climate target for the Swiss building sector and the other participants in their sector in the Climate Test 2024, the financial institutions also receive results on the so-called "Scope 2 emissions" from electricity and district heating and initial findings on the "Scope 3 emissions" from building materials for the real estate and mortgage portfolios submitted. The individual test report on the equity and corporate bond portfolios contains anonymized comparisons with the other test participants, allowing financial institutions to understand how they position themselves across their financial industry. In a static summary, the participants further receive some indicators for the Swiss Climate Scores.[8] The evaluations from the qualitative survey complement the analysis and show *good practices* in the market.

The PACTA Climate Test 2024 consists of the following three test modules:

- The **"Real Estate and Mortgages" module** is used to examine the emissions intensity of buildings in Switzerland and compares it with Switzerland's climate targets. This module was developed by Wüest Partner AG on behalf of the FOEN and further developed by FPRE for the PACTA Climate Test 2024.
- **The "listed equity and corporate bonds" module** compares the compatibility of the production plans of the companies held in the portfolios with various climate scenarios for the following eight climate-relevant real economy sectors: electricity generation, coal mining, oil production, gas production, automotive construction, cement, steel and aviation. This analysis is carried out using the PACTA open-source software originally developed by the 2°Investing Initiative (2DII, since 2023 Theia Finance Labs), which has been further developed and maintained by RMI since 2022.
- The **qualitative survey** collects information on climate strategies and other climate-related measures that financial market players have already taken across all their business activities.

It should be noted that the PACTA Climate Test 2024 has certain limitations. One such limitation pertains to the portfolios and information submitted by participating financial institutions. Participants are not obliged to upload portfolios in the asset classes available for testing and can choose whether to submit their entire portfolios or select specific financial products. Therefore, the analysis does not necessarily cover all of their climate-relevant holdings. However, the PACTA team, the FOEN, and the associations recommended submitting all assets under management for the test, with the aim to obtain information that reflects, as best as possible, the current status of the climate performance of financial actors.

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[7] The full report is available on this website: www.bafu.admin.ch/climate-and-financial-markets.

[8] ,Swiss Climate Scores

To check the plausibility of the quantitative entries, the survey asked how many assets the participants manage in which asset classes. Conversely, to check the plausibility of the survey data, such as on targets and commitment, when uploading each portfolio, it was asked which climate target it pursues and whether it is subject to a climate commitment strategy. However, as the PACTA Climate Test is voluntary and based exclusively on self-reported information and not all participants completed the survey, the authors have little opportunity to check the information in detail.

Another limitation concerns the scope of the analysis. PACTA does not cover certain asset classes, such as private equity or the insurance business (underwriting). The PACTA module for corporate loans was used independently by the two big banks in 2020. However, as only very few banks grant a relevant number of corporate loans in the PACTA sectors, it has not been used since then. In the qualitative survey in 2024, however, questions on climate strategies in the infrastructure, commodities, and primary market asset classes were also asked for the first time.

Furthermore, the analysis of equities and corporate bonds covers the most important, but not all, particularly climate-relevant economic sectors (such as agriculture and forestry). These limitations are due to the lack of available, meaningful, and reliable data and scenarios for such a quantitative analysis. However, focusing on the most critical sectors simplifies the scope of the analysis and thus reduces costs. It also makes it easier to set strategic priorities when implementing climate strategies. Unlike a general "portfolio approach", the PACTA method allows for sector-specific decarbonization pathways and therefore considers the different speeds and challenges for different sectors. In addition, metrics and indicators are technology- and sector-specific and thus adapted to the individual sector-specific characteristics.

One of the Climate Test's focus is on the asset classes of Swiss real estate and mortgages because switching from fossil to renewable heating in buildings financial market players can have a direct impact on the climate. These two asset classes are relevant in terms of volume for various financial sectors. Real estate is particularly relevant for pension funds, accounting for over 20% of their assets[9] Around half of all buildings held directly by institutional investors were submitted.[10] A quantitative, unlicensed model is also available.

The other quantitative module focuses on equities and corporate bonds, as these asset classes are among the most relevant in terms of volume in all financial sectors. However, it is more difficult to achieve an actual change in corporate strategies and, thus, an effective climate impact in these liquid markets. However, the focus on the economic sectors most in need of transformation and the combination with the qualitative survey enables an assessment of the climate-friendly orientation and credible climate strategies and measures of financial institutions.

Using the forward-looking PACTA method based on technology indicators, establishes a direct link to international and national climate targets. This approach is widely utilized by international initiatives such as Climate Action 100+,[11] where it underpins capital alignment assessments, and is similarly applied by members of other alliances, such as the Net-Zero Alliance for Asset Owners NZAOA,[12] as a tool that supports tracking their climate strategies. The scientifically sound methodology also makes it possible to show actual climate progress in the real economy and not just 'virtual' progress at financial portfolio level. This enables a direct link to the federal government's mandate under the Climate and Innovation Act to ensure that the financial market makes an effective contribution to climate targets.

[9] Pension Fund Statistics 2022: final and key results - GNP Diffusion
[10] ,Banking Barometer 2023 - Banking Barometer 2023
[11] Climate Action 100+
[12] UN-convened Net-Zero Asset Owner Alliance - United Nations Environment - Finance Initiative (unepfi.org)

RESULTS

1 SWITZERLAND LEADS THE WAY IN CONTINUOUS, COMPARABLE PROGRESS MEASUREMENT

The most important findings on Switzerland's pioneering role in the comparable measurement of progress

- With the continued broad participation of 146 banks, pension funds, insurance companies and asset managers, the Climate Test 2024 is one of the largest coordinated climate tests for financial markets worldwide.
- Switzerland is also a pioneer in the longest, continuously ongoing analysis of the climate compatibility of its financial institutions. Thanks to central coordination, the results are comparable between the various financial institutions, which is also an international *best practice*.
- The number of participants increased compared to 2022 thanks to the active support of the associations in all financial sectors, except for insurance. However, the volume of assets under management submitted for analysis also increased for insurance companies.
- The high level of participation in the additional qualitative survey on climate-relevant strategies and measures is encouraging. This engagement enhances the analysis as it supplements the results of the quantitative modules focused on Swiss real estate and mortgage portfolios, as well as global equity and corporate bond portfolios, providing a more comprehensive understanding.
- The results allow for a detailed analysis and meaningful, robust findings on the Swiss financial market's climate compatibility, as well as on progress and gaps, despite the limitations of voluntary participation.
- Because the Climate Test uses methods that are available on the market without a license, transaction costs for climate analyses can be reduced, especially for medium-sized and smaller financial institutions. At the same time, commercial approaches for specific issues can ideally complement the PACTA results.
- In addition, the scientifically sound PACTA methodology makes it possible to show the actual climate progress in the real economy and not just 'virtual' progress at financial portfolio level. This creates a direct link to the federal government's mandate under the Climate and Innovation Act to ensure that the financial market makes an effective contribution to climate targets.

Thanks to the active support of the industry associations, a large number of participants could be mobilized in 2024. A total of 146 financial institutions and institutional investors took part in the Climate Test. Only insurance companies saw a decline in the number of participants compared to the last test round. The Pension Fund Association ASIP, the Insurance Association SIA, the Swiss Banking Association SBA, the Asset Management Association Switzerland AMAS, the Swiss Sustainable Finance Association SSF, the Association for Responsible Investments SVVK-ASIR and the Conference for Investment Foundations KGAST support the Climate Test and recommended that their members take part.

In terms of the number of participants, this is one of the largest coordinated Climate Tests for financial markets worldwide. As table 1 shows, 121 of all 146 participants submitted portfolios in the "Equities and corporate bonds" module. 100 participants had portfolios tested in the "Real Estate and Mortgages" module. In addition, 112 participants completed the qualitative survey, which corresponds to a pleasing 77% of all participants. The banking sector had the highest level of participation in all three parts of the analysis.

Central coordination by the federal government ensures that all results are comparable and consistent between the various financial sectors. Because Switzerland uses a free, scientifically sound and standardized method for the Climate Test, it reduces the transaction costs of participation, especially for small and medium-sized financial institutions.

Table 1 Participants in the 2024 Climate Test by test module

Financial sector	Total 2024	Real estate and mortgage portfolios	Equity and corporate bond portfolios	Qualitative survey	*Total 2022*
Asset manager	**26**	13	13	22	*13*
Banks	**34**	25	33	33	*31*
Insurances	**15**	13	12	9	*20*
Pension funds	**71**	49	63	48	*67*
In total	**146**	**100**	**121**	**112**	***131***[13]

Looking at the uploaded assets under management and the number of properties and mortgages, there has been an increase in almost all asset classes since the 2022 test round. Even though the number of participants in the insurance sector fell significantly, assets under management also increased in the insurance sector. Only part of this increase in equities and corporate bonds is probably due to general asset price inflation. As far as real estate is concerned, around half of all buildings held directly by institutional investors were submitted. Over one million mortgages on Swiss buildings have been submitted, 96.2 % of them through banks. This means that around half of all Swiss residential buildings can be tested. In addition, a total of CHF 2.7 trillion investments were submitted for testing the equity and corporate bond portfolios.

The high number of participants in both the quantitative and qualitative modules enables a meaningful and robust analysis of the progress and gaps in the Swiss financial market in terms of climate compatibility despite the existing limitations. The qualitative questions in particular allow an important link to be established between the portfolio results and the climate targets, strategies and measures.

Peer comparison was the main motivation cited by participants to take part in the test. Participating institutions also mentioned that it was relevant for them to be share with the public and political decision-makers the progress made by the Swiss financial market and the efforts of the financial institutions. The Climate Test also helps them to raise awareness of climate change in their organizations.

[13] A total of 133 participants were identified in the Climate Test, 2 of whom classified themselves as "other".

2 FOCUS ON NET-ZERO TARGETS AND PLANS AND TRANSPARENCY REQUIREMENTS

Key findings on net-zero targets and transition plans

- The Climate Test 2024 shows that over 60% of all participants have at least partially integrated a net-zero target for their financial institution by 2050 into their internal strategy. However, only just under a third have publicly committed to the net-zero target. Switzerland has enshrined the goals of reducing greenhouse gas emissions to net-zero by 2050 at the latest and aligning financial flows in a climate-friendly manner in the KlG.
- There are major differences in how the net-zero targets are broken down from company level to the various asset classes. Net-zero targets are most common for real estate (40% of participants in all financial sectors). 40% of banks also have a net-zero target for their mortgage portfolio. Fewer financial institutions have a net-zero target for self-managed equities and corporate bonds.
- Only 14% of the uploaded equity and corporate bond portfolios have the goal of achieving a climate-friendly orientation according to the participants' self-disclosure. This does not yet reflect the net-zero target.
- A large proportion of banks already have a net-zero transition plan at the company level, at least for certain asset classes, or plan to develop one by the end of 2024. Developing a net-zero transition plan and a corresponding strategy (referred to as a "roadmap" in the Climate and Innovation Act) is becoming more important nationally and internationally. For larger banks and insurance companies, the publication of such a net-zero transition plan has been mandatory since the beginning of 2024 under the Reporting Ordinance.
- More than half of the participating insurance companies, pension funds, and asset managers have yet to develop transition plans.
- Transition plans can be an effective instrument if they are consistently aligned with the net-zero target for all climate-relevant asset classes and are implemented consistently. They are more credible if they set concrete interim targets and measures for specific asset classes and sectors. This area presents significant opportunities for the financial institutions being assessed.
- Publication of transition plans could strengthen public confidence in the achievement of targets. Only 13% of all participants already have a publicly accessible transition plan for all climate-relevant business areas. This is once again a significantly lower number of financial institutions than the number that publicly commit to the net-zero target (just under a third of participants).
- Minimum requirements for transition plans increase comparability. The Swiss Federal Council is calling for such requirements to meet the existing obligation to prepare a net-zero transition plan in the Ordinance on Reporting on Climate Matters. An extension of the reporting obligation to medium-sized companies via the general reporting obligations in the Swiss Code of Obligations is also proposed.
- In addition to the asset classes with the largest volumes (often equities/bonds or mortgages) or the most direct opportunities for climate impact (often real estate), there is another climate lever in the primary market. Around 20%-40% of participants already state that they implement various climate-relevant strategies in the infrastructure, commodities, equity, and venture capital asset classes.
- A transition plan could also reflect the fact that financial institutions are committed to climate-effective political framework conditions for all sectors of the economy in order to help achieve political majorities. Very few financial institutions are still doing this, although it is effective according to the NZAOA.
- For most participants across all sectors, the next crucial step is the creation and implementation of asset class and sector-specific transition plans for all climate-relevant business activities.

Results on net-zero targets and transition plans

The Climate Test 2024 shows that over 60% of all participants have at least partially set a net-zero target for their financial institution by 2050 or plan to do so by the end of 2024. Switzerland has also legally enshrined the goal of net-zero greenhouse gas emissions by 2050 at the latest with the Climate and Innovation Act (KlG), which comes into force on January 1, 2025. However, less than a third of all participants have publicly published their net-zero target to date. This proportion is significantly higher for banks and insurance companies than for pension funds. Only 5% of all participants explicitly state that they do not intend to set a net-zero target until at least the end of 2024.

However, there are significant differences in how the net-zero targets are broken down from the company level to the various asset classes. Net-zero targets are most frequently already introduced for directly held real estate. Across all financial sectors, around 40% of participants set such a target for directly held real estate. 40% of the participating banks also have a net-zero target for their mortgage portfolio. Fewer financial institutions have a net-zero target for self-managed equities and corporate bonds (pension funds around 10%, asset managers around 20%, banks and insurance companies around 30%)

Banks, insurance companies and pension funds also state net-zero targets for the most frequently held asset classes, relatively consistent with the company target. Asset managers were more likely to have an overall net-zero target than to set net-zero targets for specific asset classes. In the case of banks and insurance companies, however, there are already a few financial institutions that set net-zero targets for all of the business activities surveyed. However, the majority of participants in all financial sectors and asset classes do not yet have any asset class-specific net-zero targets.

When uploading the equity and corporate bond portfolios, participants were also asked to indicate what climate-related objective the portfolio pursues. The questions were asked in line with the Climate and Innovation Act and the Swiss Federal Council's position on avoiding greenwashing[14] : "Is the objective of the portfolio to contribute to climate change mitigation - in other words, to have an effective, positive impact on the climate or is the objective to align with the net-zero target or neither?"

If - as mentioned above - around 60% of all participants are committed to the net-zero target, one would expect this to be reflected in the targets for the portfolios. However, only 14% of the uploaded portfolios state a climate-friendly focus as a goal. For asset managers, the figure is just under 40%, but significantly lower for the other sectors. In addition to the climate-friendly alignment of financial flows, the Climate and Innovation Act also requires the Swiss financial market to make an effective climate target contribution. However, only very few companies set this target for their secondary market portfolios. This was expected, as it is challenging to achieve an actual climate impact via these liquid asset classes.

The KlG stipulates that all companies must also achieve net-zero emissions by 2050. To this end, they are to develop so-called net-zero roadmaps (also known as transition plans). For larger banks and insurance companies that are subject to the Ordinance on Climate Change Reporting[15] ("also known as the TCFD Ordinance"), the publication of such a transition plan has been mandatory since the beginning of 2024.

The same banks, insurances and asset managers that already have a transition plan or are planning to have one also state that they comply with the requirements of the Reporting Regulation, either voluntarily or (in the case of larger institutions) because they are obliged to do so. This suggests that the Climate Change Reporting Regulation has a strong influence on the development of transition

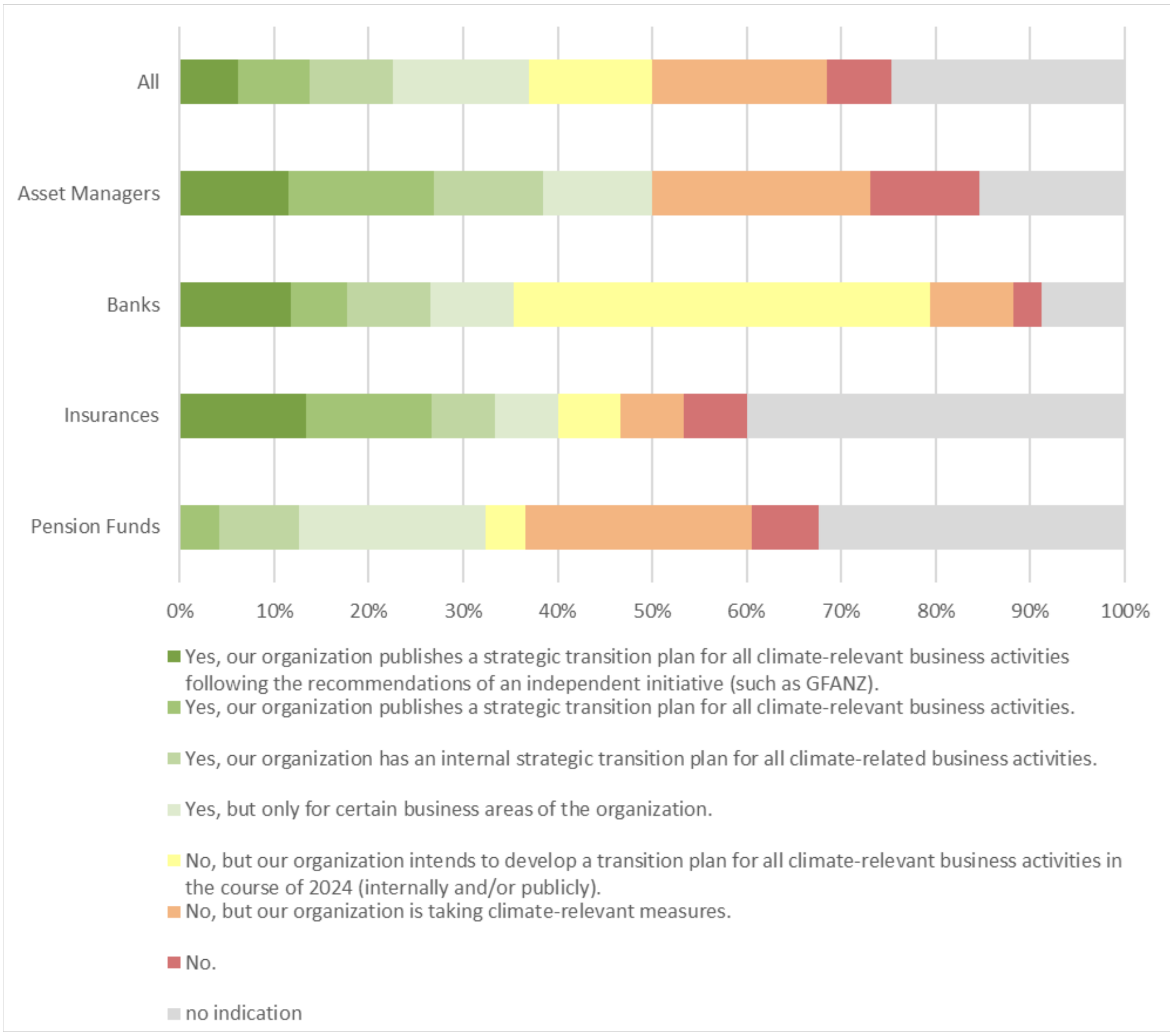
[14] The Federal Council's position on the prevention of greenwashing in the financial sector

[15] RO 2022 747 - Ordinance of November 23, 2022 on the... | Fedlex (admin.ch) (in German), reporting based on the 2024 financial year is mandatory for the first time in 2025.

plans at all institutions, although it only requires large companies to do so. The reporting regulation also requires disclosures on climate risks. Such disclosures are essential in terms of credibility because they show whether a financial institution **is adequately addressing transition risks.**

As figure 1 shows, only 13% of all participants already have a published transition plan for all climate-relevant business areas. This means that there is still an apparent discrepancy between the almost one-third of participants that have publicly committed to net-zero targets and the associated transition plans. Publication strengthens the credibility of the targets and measures. Over 40% of banks plan to create a transition plan before the end of 2024. This would increase the proportion of banks with a transition plan to almost 80% of participants if those that have a transition plan for at least certain business areas are also included. In the case of asset managers, insurance companies, and pension funds, however, more than half of the participants still have this step ahead of them.

Figure 1 Question: "Does your organization have a transition plan/roadmap for aligning all your business activities or for individual business areas with the net-zero target by 2050 at the latest?" The financial institutions that did not answer the question fall under 'no answer'.



A smaller proportion of financial institutions have concrete transition plans for specific asset classes. Those that have a transition plan for a specific asset class state that they have concrete interim targets, e.g. for 2030, and concrete measures. Participants most frequently already have transition or heating replacement and refurbishment plans for directly held real estate, and in the case of banks also for mortgages (around 40% of participants). Transition plans are also in place for self-managed and mandated equity and corporate bond portfolios in all sectors, but less frequently (around 15%-25%).

Another climate lever is the primary market. Although these asset classes often account for smaller shares of the overall business, financial institutions can have a more direct climate impact. Around 20%-40% of participants state that they implement various climate-relevant strategies in the infrastructure, commodities, equity and venture capital asset classes.

An additional opportunity for financial market players is to get involved in effective climate policy measures in the real economy, because climate-friendly framework conditions require political majorities for all economic sectors. As in the Climate Test 2022, very few in all financial sectors state that they are taking an active role in this area. As the Net-Zero Alliance for Asset Owners NZAOA[12] points out, this type of action can be effective and complement a comprehensive transition plan.

In order to increase the comparability of transition plans for companies in the financial sector, the Federal Council proposes adding principle-based minimum requirements to the Ordinance on Reporting on Climate Matters. These are intended to ensure the implementation of climate targets in accordance with the Climate and Innovation Act. This was decided by the Federal Council at the opening of the consultation on the Climate Protection Ordinance.[16] In addition, the reporting obligation, including net-zero transition plans, could also apply to medium-sized companies in the real economy and the financial sector in the future. [17]

Transition plans have also become the norm internationally, both in climate reporting and in the development of climate targets and strategies. Financial institutions that report in accordance with IFRS (International Financial Reporting Standards) S2[18] are obliged to publish transition plans if they exist. The preparation and publication of transition plans is also recommended by the Glasgow Financial Sector Alliance GFANZ[19] . Transition plans are an integral part of the implementation of climate targets in the business plans of companies and financial institutions.

Transparency requirements

The most important findings on transparency requirements

- In a comparison of the various transparency requirements, mandatory reporting for companies has the broadest impact. Voluntary transition plans are also being drawn up by financial institutions that are not subject to the ordinance.
- In contrast, there are currently no binding sustainability and climate-related transparency requirements for financial products and services in Switzerland. However, various voluntary self-regulations and recommendations have been or are being introduced.
- The numerous self-regulations and recommendations cover the most important financial sectors and are asset class-specific. This means that many sub-aspects are addressed. However, this makes it difficult to maintain an overview. It is also difficult for customers to compare financial products and financial portfolios as there are no binding standards across the board.

[16] Bundesrat eröffnet Vernehmlassung zur Klimaschutz-Verordnung (in German)
[17] Sustainable corporate governance: Federal Council proposes stricter rules for reporting (admin.ch) (in German)
[18] IFRS - IFRS S2 Climate-related Disclosures
[19] Glasgow Financial Alliance for Net Zero (gfanzero.com)

- The Climate Test shows that industry-specific self-regulation and recommendations have a certain impact on other industries beyond the targeted industry. However, a comprehensive implementation of the self-regulation and recommendations for each industry does not yet appear to have been achieved. Even if it is considered that those who said "no" to implementation may not be affected by the requirements.
- The voluntary self-regulation of the SBA will be implemented most widely by the end of 2024 (around 75% of the banks tested want to implement this according to their self-disclosure for the customer preference query, with 18% saying "no"; around 70% for the customer target query with 3 "no" votes). Among the pension funds, around 50% voluntarily report the "basic" key figures and 25% the extended key figures of the ASIP recommendation. 10% will explicitly not report them.
- Comparability is better for real estate portfolios because quantitative indicators are required. However, basic key figures are only published by a maximum of half of the players in each sector (AMAS, ASIP, KGAST). It would be desirable to have the same indicators for real estate and mortgages across the board, for example as Swiss Climate Scores for these asset classes.
- So far, only very few financial product providers seem willing to voluntarily publish their product targets regarding climate compatibility and / or climate impact. For financial products with listed shares and corporate bonds, it is easy and clear for customers to understand whether the financial product aims to achieve climate compatibility, climate impact or none of the above if the corresponding target is disclosed transparently and consistently for all financial products. This is also required by the Federal Council's position on avoiding greenwashing. According to the expanded Swiss Climate Scores for equities and corporate bonds, it is planned to answer this product target as an initial question.
- Overall, it would appear to be expedient to focus on the essentials in the transparency requirements and to increase the comparability, clarity and climate target relevance of the information.

Switzerland strives to be an international leader in terms of credible climate transparency. Transparency is often seen as an important prerequisite for climate-related measures. The only mandatory transparency requirement in Switzerland since 2024 is the Reporting Ordinance for large companies. Greater transparency and disclosure lead to better-informed investment decisions by clients and other financial institutions. However, this only applies if the information is relevant, comparable, as comprehensive as possible, and forward-looking.

Transparency can also help to avoid greenwashing. According to the Swiss Federal Council[20] , the objective pursued by a sustainable financial product should, therefore, be clearly published. The PACTA analysis, therefore, asked about these objectives when uploading the portfolios, as explained in the chapter on net-zero objectives. According to the Federal Council, financial products or services may only be advertised as sustainable if they are compatible with a specific sustainability goal, e.g. the net-zero goal ("alignment" as a goal) or contribute to its achievement ("contribution/impact" as a goal). Products that merely integrate ESG risks and optimize performance should not be designated as sustainable. However, the Federal Council's position is currently not mandatory in Switzerland.

In addition, several voluntary self-regulations and recommendations from associations were introduced or planned in 2023. PACTA can cover the various financial sectors. It is therefore interesting to see how these industry self-regulations and recommendations have an impact beyond the target sector itself. Voluntary self-regulation is a common instrument in the Swiss financial market. Such

[20] https://www.newsd.admin.ch/newsd/message/attachments/74580.pdf

measures are autonomously introduced by associations without state involvement but are generally considered binding for the member institutions of the associations as well as for other affiliated institutions.

Switzerland currently has the following transparency requirements:

Strategy and net-zero transition plan for companies: Mandatory reporting on climate issues for large companies (banks, insurance companies) in accordance with the Reporting Ordinance for large companies. These obligations are aimed at the company as a whole and only create transparency for investors and customers at this level.

There are currently no state sustainability-specific transparency requirements for financial products and services in Switzerland. However, various voluntary self-regulations and recommendations have been or are being introduced.

- **Mortgages:** voluntary self-regulation for banks (SBA)[21] , which calls in particular for a discussion on long-term value retention and thus also on energy efficiency when providing mortgage advice.
- **Real estate:** Recommendations for the publication of quantitative, energy, and climate-relevant indicators for real estate fund providers (AMAS)[22] and real estate investment groups (KGAST)[23] and for pension funds (ASIP).[24]
- **Equity and corporate bonds:**
    - Recommendations on the voluntary publication of quantitative climate-relevant indicators for pension funds (ASIP) and for all financial products (Federal Council recommendation on the use of Swiss Climate Scores V1.0 for all financial products and, from 2025, the extended version of the SCS, in particular with the questions on the portfolio objective on sustainability, impact, none of the above;[25]
    - Voluntary self-regulation for financial products with a sustainability focus without quantitative climate-relevant indicators for asset managers (AMAS)[26] , structured products (SSPA)[27] and now also for insurance products (SIA) ;[28]
    - Recommendations for stewardship activities in all sectors (AMAS and SSF Stewardship Code).[29]
- **Investment advice:** Voluntary self-regulation for banks (SBA)[30] , which requires a survey of ESG preferences with a corresponding range of products when advising clients.

The survey results show that the mandatory reporting obligation is the most effective of all these transparency requirements. It has a strong influence on the creation of additional, voluntary transition plans, although it only obliges larger companies. The recommendations and self-regulation all also lead to certain effects beyond the sector in question, but to a lesser extent.

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[21] SBA_Guidelines_mortgage_providers_on_the_promotion_of_energy_efficiency_EN.pdf
[22] Asset Management Association Switzerland | Real estate funds
[23] KGAST recommendation (in German) on environmentally relevant key figures for real estate investment groups.
[24] ASIP ESG Reporting 2022 | Swiss Pension Fund Association ASIP (in German)
[25] Swiss Climate Scores V1.0; Extended Swiss Climate Scores 08.12.2023
[26] Asset Management Association Switzerland | Sustainable Finance…
[27] SSPA Sustainability Guidelines_Version 14072023
[28] Self-regulation on the prevention of greenwashing in sustainability-related unit-linked life insurance | SIA
[29] 2023-10-04-swiss-stewardship-code-final.pdf (sustainablefinance.ch)
[30] SBA_Guidelines_investment_advice_and_portfolio_management

Around 75% of banks follow the SBA's voluntary self-regulation for the customer preference survey and 70% for the customer target survey. In contrast, 18% of banks explicitly stated that they do not want to implement self-regulation for mortgages by the end of 2024. 3 banks said this about the guideline for the preference query. Although not all participating banks may manage all asset classes or advise customers to the same extent, it appears that the highest level of coverage has been achieved in a sector comparison but not yet complete coverage.

Around 50% of the pension funds voluntarily report the "basic" key figures and 25% the extended key figures. 10% expressly do not wish to report the key figures.

Around 45% of banks, over 20% of asset managers, 20% of insurance companies, and 15% of pension funds publish (at least some of) the Swiss Climate Scores SCS for equity and corporate bonds in version 1.0. Half of asset managers and 45% of banks stated that they do not intend to publish a SCS until the end of 2024. Three banks, three pension funds, and one asset manager have published the SCS V1.0 for their entire product range of secondary market investments.

This is followed by AMAS's voluntary self-regulation for collective assets focusing on sustainability, which 40% of participating banks and 30% of asset managers comply with. In both groups, around 20% of participants do not aim to comply with self-regulation or do not have any collective assets or none with a sustainability focus.

Almost 30% of the participating asset managers plan to publish the key figures for real estate funds recommended in the AMAS Best Practice Guidelines by the end of 2024 at the latest. 30% explicitly stated that they would not do so. As only half of the participating asset managers have real estate funds (according to uploaded portfolios), this still corresponds to 15%. A similar picture emerges when looking at the KGAST recommendations for real estate investment groups. Sustainability appears to play a much smaller role in structured products. Only 15% of asset managers, 10% of banks, and 7% of insurance companies report partially in accordance with the SSPA self-regulation.

Between 20% (banks) and 30% (asset managers) implement the SSF/AMAS Stewardship Code. Two-thirds of asset managers go beyond. 20% of insurance companies and 30% of the other peer groups explicitly state that they do not implement the code or do not require such an offer.

According to the participants, the EU disclosure requirement entitled "Sustainable Finance Disclosure Regulation" (SFDR)[31] is of little relevance. Less than 20% of asset managers state that a significant proportion of their company's financial products (e.g. more than 2/3) are subject to the mandatory EU disclosure requirements. For banks and insurance companies, the figure is less than 10%. At first glance, this seems to contradict the results of the SSF survey[32] in which two-thirds of the banks and asset managers surveyed stated that they are legally required to implement the EU sustainable finance regulations. The difference could be explained by the focus on the SFDR[33] or by the fact that the question in the Climate Test was aimed at a significant portion (e.g., more than 2/3) of a company's financial products.

A large proportion of Swiss financial institutions do not (yet) appear to be prepared to voluntarily and systematically publish for all financial products whether they pursue a sustainability, impact, or no climate target. These answers to the objective of the financial product would provide clarity for customers, especially as financial institutions are free to justify their objectives. Only five banks and two asset managers state that they will have published the extended Swiss Climate Scores, including this initial question, by the end of 2024.

[31] Regulation - 2019/2088 - EN - sfdr - EUR-Lex (europa.eu)

[32] Swiss Sustainable Investment Market Study 2024, page 65ff

[33] In the SSF survey, questions were asked about several regulations, in particular the Corporate Sustainability Due Diligence Directive (CSDDD); Corporate Sustainability Reporting Directive (CSRD); regulation on the Transparency and Integrity of ESG Rating Activities

Overall, the self-regulations and recommendations cover many sub-aspects, the various financial sectors, and different asset classes, as well as customer advice at banks. They are therefore both comprehensive and specific. An asset class-specific approach makes sense because the different topics require different indicators in order to assess the climate compatibility of a product or portfolio. The various self-regulations and recommendations also have a certain spillover effect on other sectors. However, it remains unclear whether a level playing field has been achieved for the various financial sectors.

On the other hand, the regulatory landscape appears fragmented, and it is difficult to maintain an overview. This impression is consistent with the results of other recent studies, such as the SSF market study from 2024 and the overview of the sustainability of Pillar 3a products. It also appears that the sector-specific requirements and recommendations have not yet been implemented across the board.

Another important question is how transparency requirements actually lead to more climate-friendly decisions. It helps if the information is as clear and easy to understand as possible, showing how the investment and financing decision affects the climate. In the real estate sector, the requirements are already quantitative and more uniform and, therefore, also more comparable. If it is clear which climate-relevant measures have the most significant impact on an indicator (e.g. renewable heating system on Scope 1 emissions, in-house photovoltaic system on Scope 2 emissions), transparency can lead to decisions with a direct impact on the climate. For comprehensive, comparable transparency, for example, a Swiss-wide label similar to the "Swiss Climate Scores" could also be introduced for real estate. This could be based on existing recommendations and self-regulation, supplemented with a reference to the climate target pathway in the building sector.

A broad application of the target questions in the expanded Swiss Climate Scores could lead to clearer and more comparable transparency for equity and corporate bonds. Is the objective of the financial product climate compatibility an actual positive climate impact or neither? This initial question is clear, easy to understand and relates to the investment decision. It is also in line with the Federal Council's position of wanting to avoid greenwashing and with the objectives for the financial market in the Climate and Innovation Act.

3 FOCUS ON REAL ESTATE AND MORTGAGES

The most important findings on directly held real estate

- The results show progress compared to the 2022 Climate Test. On average, all sectors are currently on target for 2030, with the exception of asset managers. However, the differences between the various participants are significant.
- Today, 15% of the properties tested use renewable heating, 29% use district heating. The greatest lever for reducing Scope 1 emissions lies in replacing heating systems from fossil fuels to renewables. The replacement rate has increased since 2022. In addition, a heating replacement is planned for 31% of the directly held properties.
- This means that for around a quarter of the buildings, no replacement for the fossil fuel heating system is planned. In view of the net-zero target for 2050, the heating replacement and renovation plans are still insufficient. Net-zero targets and concrete transition, refurbishment and heating replacement plans are therefore important prerequisites for both direct and indirect real estate investments.
- Climate policy instruments such as the temporary impulse program in the KlG or the discussed ban on the use of fossil heating systems for replacement by the cantons from 2030 can also support property owners and mortgages.
- The data quality submitted for directly held properties is very high. Test participants could feed their data into the Federal Register of Buildings and Dwellings (GWR) and thus help to keep it up to date.
- AMAS, KGAST and ASIP recommendations are only partially implemented (see above) and could be better targeted to support the net-zero target by adding a comparison with the Swiss reduction path.
- The results for Scope 1 and 2 emissions show that they should generally be reported separately, as aligning them with climate protection requires different measures for each scope. For a comparable assessment across the sectors, a label similar to the "Swiss Climate Scores" could also be provided for real estate (see Transparency section).
- Pension funds are currently the best performers when it comes to the expansion of photovoltaic systems. This expansion should be driven forward, with federal funding instruments providing support.
- Data on PV systems and emission factors of the various district heating and electricity providers are still collected very rarely today and should be collected more frequently.
- The results of the Scope 3 analysis are particularly relevant when deciding to renovate or demolish a building and when constructing a new one. Emissions from building materials should also be reduced as far as possible. Limits for these "gray greenhouse gas emissions" are also being discussed at a political level, which could be of interest to investors.

The most important findings on indirectly held real estate

- Net-zero transition plans are also central to indirect real estate, with 20% of pension funds and insurance companies already having such plans.
- The broad distribution of climate compatibility in directly held portfolios argues in favor of systematically requiring comparable and comprehensive data from providers. This would also enable institutional investors to support the full implementation of the AMAS/KGAST recommendations.

Directly held real estate

Scope 1 emissions, direct emissions from room heating and hot water

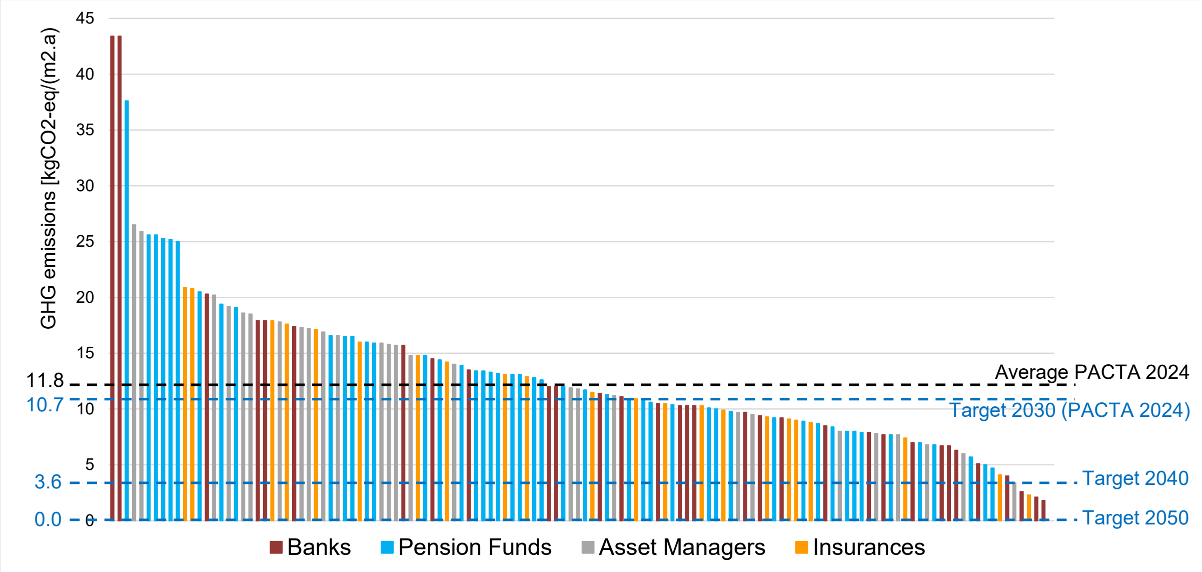
Switzerland has committed to achieving net-zero emissions by 2050 at the latest. The building sector must reduce its direct emissions by 50% by 2030, by 82% by 2040 and by 100% by 2050 at the latest compared to 1990 levels.[34] Several federal, cantonal and municipal climate policy instruments aim to reduce emissions in the building sector and support this. In 21 cantons there are already binding minimum requirements for the replacement of heating systems, particularly for residential buildings (all except: AG, SO, UR, VD, VS).[35] The quality of the building data submitted is very high on average. With this knowledge, the test participants could help to keep the Federal Register of Buildings and Dwellings (GWR) up to date.[36]

The entire Swiss building sector is responsible for around 25 percent of Switzerland's CO2 emissions.[37] In the case of directly owned buildings, financial institutions can make a direct contribution to the climate target by replacing fossil fuels with renewable heating systems. Doing so, the direct CO2 emissions of a building can be completely eliminated (so-called "Scope 1" emissions). The test results show that the replacement of fossil heating systems with renewable ones has progressed since 2022. However, 57% of the submitted energy reference area of directly owned buildings is still heated with fossil fuels, 29% with district heating and 15% with renewable energy sources. There is little evidence that oil heating has been replaced by gas heating, as the shares for both oil and gas have decreased. This reflects the general trend - the market share of renewable heating systems was 88% across Switzerland in 2023.

Overall, on average all financial sectors are currently on track to meet their climate targets for directly held buildings, with the exception of asset managers. However, the distribution of CO2 intensity is still very broad, as shown in figure 2. Almost half of the submitted portfolios are currently not aligned with the climate targets, with some portfolios significantly exceeding the actual reduction pathway for buildings. Assuming that some of the portfolios of asset managers and banks are, for example, held by pensions funds as indirect real estate investments, it is worth requesting comparable and specific portfolio information.

[34] See Climate and Innovation Act KlG, art. 4 (in German) and Entwurf der Verordnung über die Reduktion der CO2-Emissionen (admin.ch), Art. 3 (in German)
[35] Replacing a boiler: Requirements in your canton | Renewable heating (in German)
[36] If you are interested, please contact energiegwr@bfs.admin.ch directly
[37] Buildings (admin.ch)

Figure 2 Distribution of directly held real estate portfolios of all participating financial institutions by CO2 emissions per heated area (energy reference area EBF)



To achieve the target value for the building sector and the net-zero target in 2050, ALL buildings heated with fossil fuels must be converted to renewable energy sources in the next 26 years. The planned replacement of heating systems has increased overall compared to 2022, as Table 2 shows. For almost a third of all properties it is planned that their heating systems are replaced by 2050, compared to 6% in 2022. However, there are major differences: banks have the lowest share with 15% of their owner-occupied buildings, whereas insurance companies have 44%. While in the PACTA Climate Test 2022, at least one refurbishment was planned for around half of all directly held buildings, this is only planned for around a third in the Climate Test 2024.

Table 2: Proportion of directly held buildings with renewable heating systems, heating system replacements and planned energy refurbishments by 2050 compared with the figures for 2022

Directly held real estate **Financial sector**	**Share of properties already heated with renewable energy (+ district heating)**	**Planned heating replacement by 2050**	**Planned refurbishments by 2050**	***PACTA 2022: Planned heating replacement by 2050***	***PACTA 2022: Planned renovations by 2050***
Asset managers	13% (+27%)	32%	39%	*6%*	*58%*
Banks	13% (+31%)	15%	18%	*1%*	*3%*
Insurances	17% (+28%)	44%	49%	*14%*	*47%*
Pension funds	16% (+28%)	31%	33%	*23%*	*46%*
All	**15% (+29%)**	**31%**	**34%**	**-**	**-**

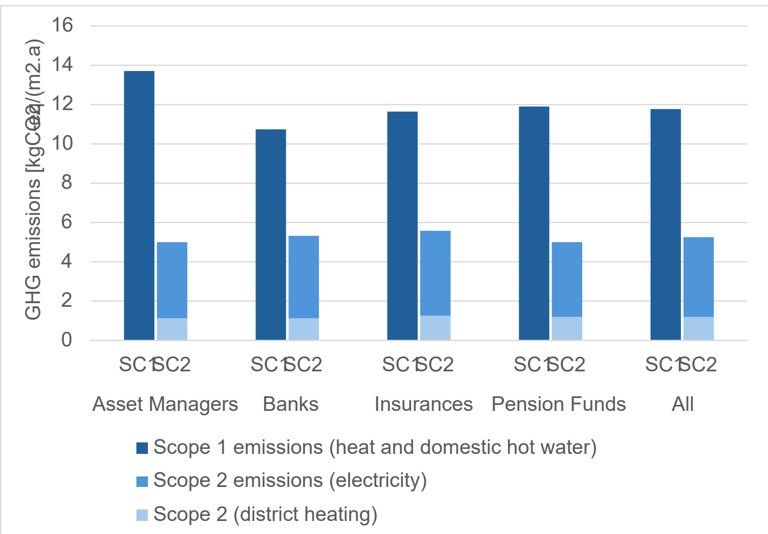
Considerable efforts are still required to achieve the interim target for 2040[38] **(3.6 kg/m2) and the target for 2050 (0.0 kg/m2).** If the submitted heating replacement and renovation plans up to 2050 are considered, the scope 1 emissions still amount to 8.6 kg/m2 (Climate Test 2022: 11.8 kg/m2). The average lifespan of a heating system is 15-25 years. The Conference of Cantonal Energy Directors (EnDK) is therefore also proposing a ban on replacing fossil fuel heating systems with fossil fuel heating systems, as of the year 2030.[39] If financial market players are aware of these developments, it will help them to assess their transition risks as well as the opportunities to accelerate the transition.

Scope 2 emissions, indirect emissions from district heating and electricity production

Switzerland's net-zero target requires all sectors to decarbonize as far as possible. In addition to direct emissions from room heating and hot water (Scope 1 emissions)**, indirect emissions associated with the entire operating energy also play a role for buildings. Therefore, "Scope 2 emissions" were included in the 2024 Climate Test for the first time.** From a building perspective, these include emissions that arise during district heating or electricity production. Electricity emissions can be reduced directly by using the building's own photovoltaic electricity. The energy efficiency of a building influences consumption.

Overall, Scope 2 emissions in all financial sectors are, on average, around half as high as Scope 1 emissions, as shown in figure 3. The emissions per electricity source account for around 80%, while those from district heating account for around 20%. The type of production has the greatest influence on emissions, even if the Swiss electricity mix is already low in emissions by international standards. If electricity or district heating is generated entirely from renewable energy sources, Scope 2 emissions are almost zero.

Figure 3 Comparison of Scope 1 and Scope 2 emissions (PACTA 2024) for directly held buildings



Scope 2 emissions can therefore be significantly reduced if the electricity requirements of the held properties are covered by the building's own photovoltaic (PV) system. The differnet sectors report PV systems on 0.4% to 3.6% of their properties. According to the SFOE database[40]**, between 1.7% and 6.6% of buildings already have PV systems installed. The potential for improvement is therefore considerable, both in terms of data collection and PV expansion.** In June 2024, the Swiss population approved the increased promotion of renewable energy.[41] One of the goals is to almost quintuple the amount of solar power produced in Switzerland over the next 10 years.

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[38] The interim target is calculated based on the reference value for the Swiss building stock in the KlG and the forecast EBF development in accordance with Energy Strategy 2050 (see also full report in English).

[39] Invitation to the expert opinion on the draft revisions of own electricity generation and heat generation_EnDK (in German)

[40] Electricity production plants in Switzerland

[41] Federal act on a secure electricity supply

Another lever to reduce Scope 2 emissions is the choice of district heating provider and possibly influencing district heating production. CO2 emissions vary considerably depending on the provider. The Swiss average for the fossil share is still around 50%.[42] Compared to the Swiss average, the submitted portfolios are much more frequently heated with district heating. By the end of 2021, the SFOE listed 1068 district heating networks throughout Switzerland.[43] The operators of district heating networks are aiming to replace fossil fuels with renewable fuels and to expand supply. Emission factors currently vary considerably depending on the type of production. In the Climate Test, institutional investors specified district heating as the heating source for 29 % of the buildings submitted. Across Switzerland, only 3.8 % of the residential buildings are heated like this.

To choose district heating and electricity providers based on their Scope 2 emissions, it is crucial that investors know their emission factors. In the Climate Test, only pension funds provided emission factors for electricity and district heating. This was for just over 10% of their directly held properties. Insurance companies provided emission factors for less than 4% of buildings heated by district heating. All other figures are smaller than 1%. For the calculations the Swiss average based on KBOB was used. [44]

Financial market players still have great potential concerning data collection, including on PV systems. The PACTA results can support the financial institutions because they create a link to the SFOE database. Banks reported PV systems for around 1 % of mortgages. None were reported in the other financial sectors.

Scope 3 emissions, upstream and downstream emissions, particularly from building materials

The PACTA Climate Test 2024 collects initial information on Scope 3 emissions. Building materials are responsible for around 10 percent of Switzerland's greenhouse gas footprint.[45] Measures in this area can also make a significant contribution to the reduction of greenhouse gas emissions in Switzerland and along the supply chain. The new PACTA CO2 module looks at the indirect greenhouse gases generated during the production of materials, the construction of the building and renovation during its life cycle.

For investors, information on Scope 3 emissions play a particularly important role when it comes to deciding whether a building should be renovated, demolished and rebuilt, and whether the materials should be reused. The aim of the new PACTA module on Scope 3 emissions is therefore to provide financial market players and institutional investors with initial access to the topic and to raise awareness for this issue. However, it does not yet provide a concrete basis for decision-making with complete recording of Scope 3 emissions for refurbishment, demolition and/or a reuse concept or for the new construction of a building.

Scope 3 emissions cannot be added directly to Scope 1 and Scope 2 emissions. They are based on a life cycle assessment and require other measures[46] (see also full report). For example, the so-called "residual value" of CO2 emissions for an existing building or real estate portfolio can be calculated at a specific point in time or expressed in an annual view.

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[42] Table 26 in the overall energy statistics (in German) shows that around 80% of energy comes from waste, around 10% from gas and around 7% from wood. In the case of waste, the fossil share of emissions (in the MSWI plants) is around 50%, see emission factors in the Swiss Greenhouse Gas Inventory (in German). The emissions from gas and wood roughly cancel each other out.

[43] List "Thermal grids" - Evaluation report 2021. Final report (admin.ch).

[44] Ökobilanzdaten im Baubereich

[45] Impact of housing on the environment

[46] Faktenblatt (in German) Klimapositives Bauen (admin.ch)

The building cubature - i.e. the total volume of a building - and therefore the amount of materials used is particularly decisive for the level of Scope 3 emissions. Underground garages are particularly significant.[47] The initial assessment with the PACTA Scope 3 module shows that, on average, 20% of Scope 3 emissions for directly held properties are attributable to the building envelope above ground level and 16% to the envelope below ground level. Internal components such as interior walls, ceilings and floors account for 42% and building services for around 18%. Preparatory work still accounts for 5%.

A validation study on the PACTA module for Scope 3 of the HSLU[47] **also shows that Scope 3 emissions can be influenced by +/- 20 % depending on the selected materials. It therefore enables to optimize grey emissions in this area.** Emissions from certain building materials, for example in the production of cement, are among the most difficult to avoid. It therefore is particularly important to consider the quantity and possible alternatives when renovating, rebuilding or constructing a building. The HSLU study demonstrates that the PACTA module is robust for approximating Scope 3 emissions from building materials.

The PACTA analysis shows that average Scope 3 emissions of 10.8 kg/m2 per year of energy reference area are installed in the directly held properties. The residual value analysis shows that around 40 % of this grey energy has not yet been amortized in the portfolios submitted. The longer a building (or part of a building) is used, the smaller the residual value. In addition to the residual value, the replacement value can also be calculated. It is based on a hypothetical scenario in which all buildings are demolished and replaced by identical new buildings by December 31, 2024. In addition to the grey energy associated with the new construction, the non-depreciated residual values of the demolished assets are also added. The calculations of residual value and replacement value are intended to support the decision-making process for the reduction of Scope 3 emissions from buildings.

This approach is also becoming increasingly relevant at a political level. The Swiss parliament has passed an amendment to the Environmental Protection Act on the circular economy.[48] It instructs the cantons to set limits for grey energy. This is intended to promote demand for building materials with low grey energy and support resource-conserving construction methods.

<u>Indirect real estate investments</u>

Around 20% of pension funds and insurance companies already state that they have net-zero transition plans for their indirectly held real estate. Comparable results are likely to play a role in the selection of indirect real estate investments and the mandating of their management, achieving a climate-positive effect in this area as well. 61% of PACTA participants stated that they were indirectly invested in Swiss real estate, for example via real estate funds. AMAS and KGAST recommended that their members take part in the Climate Test 2024.

The broad distribution of climate compatibility in directly held portfolios suggests that we should take a closer look. Despite self-regulation by AMAS and KGAST, there is still no comprehensive and comparable publication of climate-relevant real estate data. Institutional investors could support the full implementation of the AMAS/KGAST recommendations if they systematically demand comparable and comprehensive data. Around 25% of pension funds already require these key figures, or at least some of them, when they invest indirectly in real estate funds or real estate investment groups.

[47] 2024, HSLU Validierungsstudie zum PACTA Modul für Scope 3 Emissionen, im Auftrag des BAFU, http://www.bafu.admin.ch/pacta-climate-test -> Documents
[48] 20.433 Pa. Iv. Strengthening the Swiss circular economy. (parlament.ch) (in German)

Mortgages

The most important findings on mortgages

- Although the proportion of renewable heating systems in the tested mortgage portfolios has increased since the 2022 Climate Test, the Swiss financial market as a whole is not yet on a climate-friendly track in this asset class.
- A part of the improvement is attributable to the improved data quality of the frequently used Swiss Federal Register of Buildings and Dwellings (GWR). However, further efforts are required here, and the financial institutions can support the cantons and municipalities in updating the GWR data (see also the section on real estate).
- Net-zero transition plans are also key for mortgage portfolios. The results show that half of the banks and a much larger proportion in the other sectors have yet to take this step.
- The SBA's self-regulation on mortgage advice and awareness-raising are starting to have an effect. More participants are taking more different measures and provide incentives to support mortgage borrowers with heating replacement, PV installation and energy-efficient renovations than in the 2022 Climate Test.
- However, with the advisory measures taken and incentives for customers, the evidence for climate impact should increase dramatically. Due to the close links with climate policy, current funding instruments and cantonal bans on fossil heating systems can also support measures by mortgage lenders when replacing heating systems.
- If, in future, predominantly climate-friendly incentives are provided for mortgage customers, this – together with the measures taken by politicians and customers – should also be reflected in climate target-oriented portfolios in future.

The broad coverage of the PACTA Climate Test of buildings by mortgages shows the close link between the building sector and the financial market. More than half of the Swiss residential buildings were tested for their climate compatibility by the 146 participating financial institutions. The vast majority (96.2%) were submitted by banks, 2.1% by insurance companies, 1.3% by pension funds and 0.4% by asset managers. Most of the tested buildings are residential buildings (96%). Compared to directly held properties, many more mortgages were submitted for single-family homes (48%, 1% for directly held properties).

The emissions of almost all mortgage portfolios submitted are well above the reduction pathway for buildings and are therefore not yet in line with the climate targets. There are also major differences between the participating institutes in terms of climate compatibility. When interpreting the results for mortgages, the significantly lower data quality of the submitted portfolios compared to the directly held buildings must be taken into account. However, the data quality for mortgages has improved since 2022. This is due on the one hand to the self-regulation of the Bankers Association for mortgage providers and on the other to the improvements in the GWR.

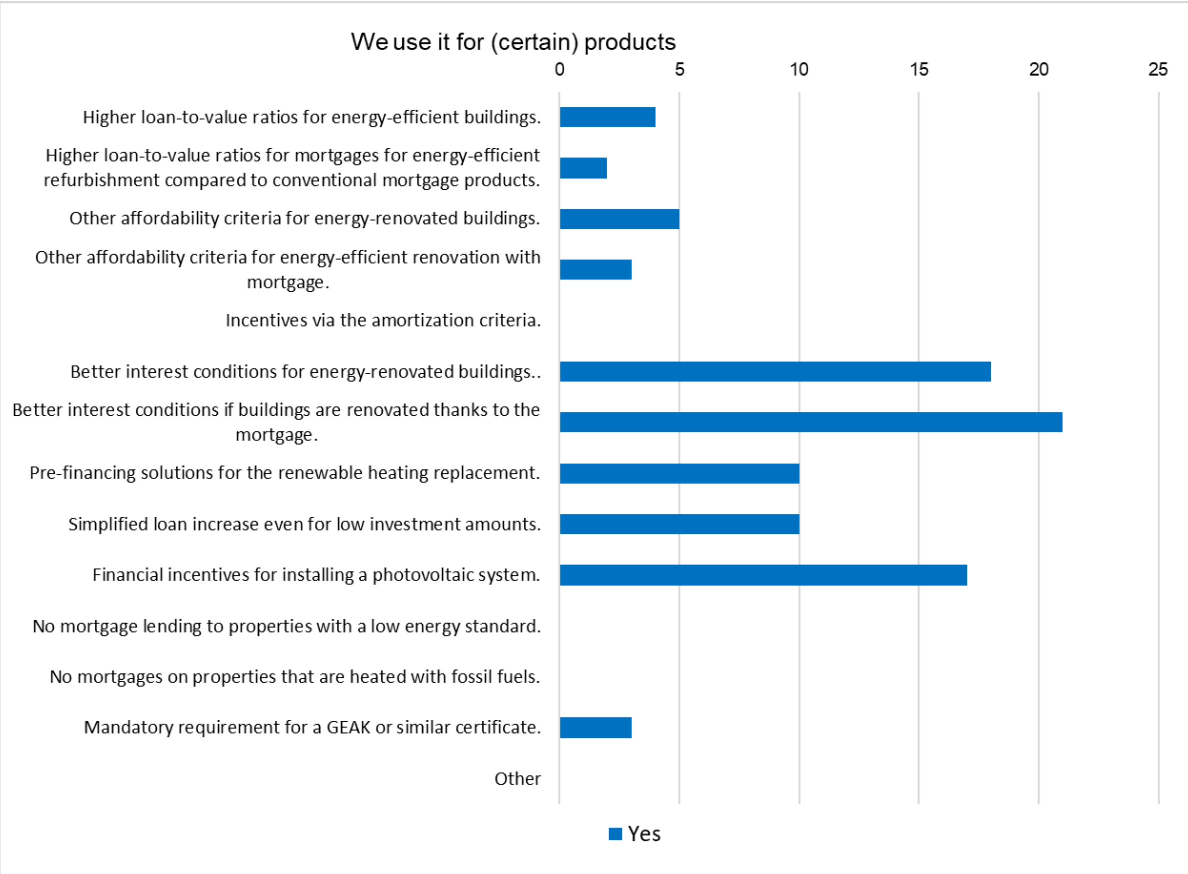
Overall, a decline in properties heated with oil can also be observed within the mortgage portfolios. However, 42% of the energy reference area of properties secured by mortgages is still heated with oil and around 23% with gas. These numbers are similar to 2022. The results for Scope 2 and the initial indications for Scope 3 from building materials are similar to those for directly held properties**.**

Mortgage lenders have a less direct influence on the reduction of emissions from buildings than financial market players for directly held buildings. However, the results show that a much larger number of incentives are used systematically for all mortgages than in 2022. The survey differentiated between incentives via advice and financial incentives. Various types of advice are provided just slightly less often systematically for all mortgages than at the explicit request of the customer. This is certainly due to the newly introduced self-regulation of the SBA. Over 70% of the participating banks state that they will fully implement the SBA guidelines for mortgages by 2024 at the latest. The same proportion stated that all their advisors are aware of the guidelines. The guidelines are most important for banks, but there is a slight spillover effect on the other sectors.

From a climate perspective, the most promising measure in terms of financial incentives is to offer better financing conditions so that a building can be renovated in an energy-efficient manner, as shown in figure 4. In contrast, the second most frequently mentioned measure - offering better financing conditions for buildings that have already undergone energy-efficient renovation - is not aimed at contributing to the achievement of climate targets, as better financing conditions are only offered for buildings that have already been renovated.

In addition to incentives via financing conditions, pre-financing solutions for the replacement of fossil heating systems with renewable heating systems have particularly increased compared to 2022. 10 mortgage lenders offer such solutions. Advice on an initial assessment of the building's energy efficiency, information on public and private subsidies for renovations, followed by an initial assessment of the expected need for renovation are also mentioned by around 44% of banks. To reduce Scope 2 emissions from electricity generation, 17 mortgage lenders provide financial incentives for the installation of a PV system. However, banks have only reported that a PV system is in place for 1% of buildings with mortgages.

Figure 4 Please indicate whether (and which) financial incentives via conditions based on climate / sustainability performance you apply.



There is still little evidence which of the measures taken actually lead to the replacement of fossil fuel heating systems with renewable ones or which buildings have been renovated to make them more energy efficient. The vast majority of mortgage lenders did not provide any information on the number of heating system replacements they had observed or expected. However, the experiences and expectations reflect the most frequently mentioned incentives: better interest conditions seem to have led to the most climate-relevant building renovations. From the participants' perspective, these are also expected to be the most effective by 2030, followed by pre-financing solutions for heating replacements and financial incentives for PV systems. The same applies to the most frequently mentioned approaches in the consultation. As expected, direct contact with customers appears to have led more often to climate-relevant building renovations than the provision of information on the website.

If the created and planned net-zero transition plans are implemented, mortgage customers need incentives that lead to the actual replacement of heating systems, the installation of PV systems and energy-efficient renovations. Around 50% of the participating banks - the largest group of mortgage lenders - and the vast majority of other sectors have yet to create a transition plan for mortgages. To implement a net-zero transition plan, mortgage lenders are also supported by the current regulations in the building sector. The temporary stimulus program to promote the replacement of heating systems in the KlG could, for example, be included in mortgage advice so that customers learn about the subsidies and benefit from them. The promotion of PV systems via the Electricity Act could also be of interest. The ban on fossil fuel heating systems when replacing heating systems, discussed by the Conference of Cantonal Energy Directors, on the other hand, could influence the transition risks and reward those who have already undertaken climate-friendly mortgage incentives.

4 EQUITY AND CORPORATE BONDS

The most important findings on equity and corporate bond portfolios

- In terms of value, 9.5% of the equity and corporate bond portfolios submitted are invested in companies that operate in sectors that are particularly relevant to the climate (PACTA sectors). From a climate perspective, targeted measures against a relatively small number of companies could make a difference- particularly by bringing investors together.
- The use of a sector-based approach to setting objectives, analysis, and measures is key to meeting the different transition needs of the economic sectors.
- Overall, there is too much investment in companies that are not yet making an adequate contribution to the transition. Little progress is evident in the climate-friendly orientation compared to the 2022 Climate Test. In particular, the oil production companies held in equity portfolios are planning to expand their overall production capacities further instead of reducing them as necessary to achieve the climate target.
- The greatest leverage in equity portfolios lies in the exposure to and exercise of voting rights. However, these measures take time to take effect.
- 60% of all participants state that they exercise voting rights and are committed; in 2022, only around a quarter noted this. Progress can be observed in the resources available for commitment and escalation strategies.
- However, the credibility of efforts is crucial for exercising voting rights and commitment to have an impact. For example, a third of those who exercise voting rights say that they would not systematically vote in favor of compatibility with a 2050 net-zero target when voting on climate resolutions. From a customer perspective, this would probably not be expected under 'credible climate stewardship'.
- If the commitment is outsourced to commercial or non-commercial providers, less than half of all sectors state that they systematically discuss the net-zero target with the external asset managers.
- A false incentive can arise if the highest possible number of portfolio companies subject to active engagement is used as an indicator of success for engagement at the company level. This should be examined more closely in the corresponding indicator of the Swiss Climate Score.
- In the case of corporate bonds, around 60% of financial institutions cited exclusion criteria for coal companies (coal mining and coal-fired power generation) as the most common measure. This shows that there is support for the necessary move away from fossil fuels.
- However, only 24% of the financial institutions that exclude coal companies state that they use an exclusion limit of 0% of the turnover or production of a portfolio company for coal mining or coal-fired power generation as an exclusion criterion. As in the 2022 Climate Test, this leads to a contradiction in communication. In the case of banks and pension funds, a significant proportion of those that communicate an exclusion strategy for coal still have coal mining or coal-fired power generation companies in their portfolio.
- Net-zero targets, transition plans or the use of Swiss Climate Scores do not yet show any significant climate impact.

Different economic sectors contribute to global warming differently and must be transformed differently. This means that the fossil fuels, coal, oil, and gas must no longer play a significant role in a transformed economy. For sectors that cannot be dispensed with in the future (e.g. industry, transportation), the focus is on promoting the transition. Green energy and climate-friendly alternatives, on the other hand, are central pillars of the transition and should be invested in. The potential for climate-friendly measures is low in advance for companies and sectors with comparably low emissions.

Over 30% of asset managers and insurance companies already use such a sector-based approach as a climate-relevant strategy for equities and corporate bonds. The figure is 25% for banks and 18% for pension funds. More participants also state that they already use a sector-based approach for measures such as exposure or exclusion.

PACTA is also based on a sector-based approach. The method covers eight of the most carbon-intensive sectors of the global economy - oil and gas, coal, electricity, automotive, cement, aviation, and steel (the so-called "PACTA sectors"). A sectoral approach is also anchored in the leading climate standards (SBTI, CBI, GFANZ)[49] and can be supplemented with general portfolio strategies.

In each sector, PACTA focuses on the part of the value chain that makes the most significant contribution to CO_2 emissions. The production plans of the companies held in the portfolios are compared with the scenarios required to meet the global 1.5°C temperature target in these economic sectors. In the oil and gas sector, for example, the focus is on upstream activities related to production, while in the electricity sector, the focus is on power generation and related energy sources. The methodology measures the alignment per economic sector or per technology.

The sectors covered by PACTA account for 10.56% of the bond portfolios and 9.45% of the listed equity portfolios of the participating financial institutions. This figure corresponds to the share in the 2022 Climate Test (10%), but with shifts in the various asset classes and technologies considered. Pension funds, for example, have seen a significant increase of around 20% in their exposure to the oil and gas sector in equity portfolios. Together, the PACTA sectors are responsible for around two-thirds of all greenhouse gas emissions and almost 80% of all CO2 emissions worldwide. If you compare PACTA coverage with the “financed emissions” of a portfolio (calculated using a conventional “carbon footprint methodology”), coverage is lower. It is around 50% of the bond portfolio and 42% of the equity portfolio. This underestimation occurs because emissions from the energy consumption of, for example, IT companies, are not attributed to the 'PACTA sectors', although energy supply is comprehensively covered by PACTA. Furthermore, PACTA shows the share of renewable energy, which cannot be captured by a carbon footprint analysis.

The PACTA Climate Test shows that corporate bond portfolios are slightly more fossil-intensive on average (a share of 2.9% for fossil technologies in the overall portfolio) than equity portfolios (2.2%). Oil is the dominant component in both portfolios and accounts for over 50% of production in all financial sectors. In the case of corporate bonds, the exposure of investments to the oil and gas sector has decreased in all financial sectors compared to 2022 and for banks by as much as 25%. While banks, insurance companies, and asset managers have a similar level of exposure to equities as the MSCI index, the proportion of oil in pension funds is around 10% higher on average.

The electricity sector plays a key role in global efforts to mitigate climate change, as it is one of the largest sources of greenhouse gas emissions. At the same time, the provision of renewable electricity is central to the transition. The exposure to renewable energy in equity portfolios is slightly higher than the MSCI World Index in all sectors and similar to the benchmark index for corporate bonds. However, the share of fossil electricity provision in investments in electricity capacity still accounts for just under half of asset managers and around a third of banks.

The companies held in the portfolios are planning to increase their renewable capacities by 45-55% on average, and by 30-37% in bond portfolios. However, this increase is insufficient, as the corres-

[49] SBTI: Science Based Targets Initiative; CBI: Climate Bonds Initiative; GFANZ: Glasgow Financial Alliance for Net Zero (gfanzero.com)

ponding global net-zero scenario[50] assumes that this capacity would have to be increased by a factor of 3.7 over the next five years. In the case of oil production, the companies supported in the bond portfolios are even planning to increase their production by 9% to 12%. Similarly, companies in the equity portfolios held by pension funds and insurance companies are planning to increase their oil production by 7% and 14%, respectively.

These predicted increases in oil production contradict all major climate scenarios and indicate a discrepancy with the measures required to mitigate climate change. Similar to the 2022 Climate Test, oil production companies, which are held in equity portfolios in particular, are planning to further expand their overall production capacities instead of reducing them as necessary to achieve the climate target. In gas production, most companies in Swiss portfolios are expected to maintain production levels over the next five years. The analysis of coal production shows a decline in production in most bond and equity portfolios. However, these declines are not yet sufficient to be consistent with most climate scenarios. There are also positive trends in the automotive sector, but these are still insufficiently pronounced. Only in the case of companies in cement production are Swiss financial institutions performing significantly better than the market as a whole, which could also be related to the corresponding commitment efforts.

60% of all participants state that they exercise their voting rights and are actively engaged. This is the most frequently cited climate-related measure for shares. In the 2022 Climate Test, only around a quarter made this statement. There has also been progress compared to 2022 on the question of whether sufficient resources are available for self-executed engagement and whether companies are excluded from the portfolio if they do not meet the milestones. Most financial institutions say that they primarily engage with the oil production and cement sectors, followed by the coal, gas and automotive sectors.

However, only two-thirds of those who exercise voting rights state that they would systematically vote in favor of compatibility with a 2050 net-zero target when voting on climate resolutions. Also, 79% say they would not systematically vote against the board of directors if the company's direction is not climate-friendly.

In contrast to the 60% of all participants who state that they are actively involved in climate engagement, only 10% of all uploaded equity and corporate bond portfolios are subject to a climate engagement strategy. This indicates that general engagement at company level does not yet apply to the majority of financial products and portfolios. Looking at the data per sector, banks and insurance companies reported engagement in less than 10% of their portfolios, pension funds in just under 20% and asset managers in around 30% of the portfolios they uploaded. However, certain companies in portfolios that are not subject to active climate engagement could still be affected by the engagement strategy of the overall institution. Overall, no significant difference can currently be identified in the climate compatibility of portfolios that are subject to engagement and those that are not.

Collaboration between asset owners and asset managers is key to implement sound and effective engagement strategies that are aligned with long-term climate goals. According to the survey, around 60% of pension funds and 65% of insurance companies outsource a significant portion of their engagement activities to commercial or non-commercial providers, while banks outsource around 42%. The sectors in which Swiss financial institutions are most heavily involved include oil, cement, followed by coal, natural gas and the automotive industry.

Challenges exist in particular regarding the question of what climate engagement needs to include in order to be credible and effective. Of those institutions that carry out engagement themselves, most state that they have sufficient resources to do so. They also exclude companies if they do not

[50] The scenarios used for the PACTA Climate Test 2024 can be found under "methodology and supporting documents" on the website [PACTA for Investors - PACTA (rmi.org)](https://pacta.rmi.org).

meet certain climate targets. If the engagement is outsourced, less than half of all sectors state that they systematically discuss the net-zero target with the external asset manager. There may be a false incentive if the highest possible number of portfolio companies subject to active engagement is used to indicate success. Overall, the results show that it is currently more important to many financial institutions that engagement strategies are effective than that they can report engagement with as many companies as possible.

In the case of corporate bonds, around 60% of financial institutions cited exclusion criteria for coal companies as the most common measure. This is also a standard criterion for passive investment strategies. For most institutions, the limit for excluding a portfolio company is between 0-5% of turnover or production. However, only 24% of them stated that they used an exclusion limit of 0%. This probably explains the contradiction in communication that has remained since 2022: among banks and pension funds, a significant proportion of those who communicate an exclusion strategy for coal still have coal mining or coal-fired power generation companies in their portfolio.

Portfolios of financial institutions with a net-zero target are currently not significantly more climate-friendly than those without. The same applies to financial institutions with transition plans or those that apply the Swiss Climate Scores. It is unclear whether the measures simply need more time to have an effect on the secondary market or whether the financial institutions are merely following the gradual decarbonization of the global economy, regardless of the measures. Between 13% (pension funds and insurance companies), 18% (banks) and just under 20% (asset managers) of the companies held in the portfolios have a science-based net-zero target themselves.

5 CONCLUSIONS AND OUTLOOK

The most important conclusions and outlook in brief

- The 2024 Climate Test shows progress compared to the 2022 results, particularly in the broad awareness that financial institutions can and should achieve an actual climate target contribution with their business activities. The net-zero target is also already reflected in most internal corporate strategies at the company level.
- *Good practices* can be found in all areas and asset classes. Some financial institutions are already putting their money where their mouth is: *"They are already walking the walk"*. On average, for the sector, banks, pension funds, and insurance companies are currently on track to achieve their climate targets for directly held real estate, at least until 2030.
- However, the results show that overall, not all financial sectors and asset classes are aligned with the net-zero target and that there are still major differences between the various financial institutions. In particular, the very important consistency between the targets, the transition plans and the implementation at portfolio level has not yet been implemented by many financial institutions.
- The progress and gaps for various asset classes, strategies, and aspects are shown in detail in the Climate Test 2024. Due to the chosen approach in the coordinated Climate Test by the federal government, the authors and the FOEN do not provide any individual recommendations for action for financial institutions. Associations, peers, NGOs, researchers, and consulting firms can play an important role in determining how individual financial institutions can align in a more climate-friendly way.
- The FOEN and its partners are endeavoring to include further developments that are as relevant as possible for the market as a whole in the test. The corresponding questions in the 2024 survey indicate a broad interest in other nature-related topics where financial institutions can have a positive impact.
- For the 2026 Climate Test, the FOEN expects that, in particular, credible transition plans for all climate-relevant asset classes will have been created on a broad basis and that these will show an effect. This will be supported by national and international developments.
- In the next Climate Test, the net-zero targets must also be reflected more strongly in the targets of the individual asset classes, but also in the financial portfolios and the communication. Greater consistency between communication at the institutional level and actual actions such as the exercise of voting rights, active engagement and exclusion policies is central to the credibility of the financial sector's efforts.
- The measures taken by the financial sectors and institutions should increasingly demonstrate that they are having a positive impact on the climate. This particularly applies to mortgages and transparency requirements for financial products and services.
- The measures taken by financial sectors and institutions should also lead to a significant increase in the comparability of information by 2026. A focus on the essentials and a stronger reference to climate targets in the information, such as the systematic indication on all financial products of whether they have climate compatibility, climate impact, or neither as a goal, or a comprehensive, comparable label for real estate and possibly also mortgage portfolios, will help here.
- The next step is therefore to follow up the Swiss financial market's broad commitment to net-zero with climate-effective, credible action in all areas. Or, as the title of the report says: *"walking the walk"*.

The PACTA Climate Test enabled a far-reaching and detailed assessment of the Swiss financial market in terms of its climate-friendly orientation and its contribution to climate targets. It highlights *good practices* in various areas. These range from overarching net-zero targets and a transition plan to detailed climate-relevant strategies in the various asset classes and different measures to achieve the targets. At the same time, it highlights the gaps and challenges as well as opportunities for targeted progress.

This overall report shows the progress made at the sector and financial market level, but not the individual results of the financial institutions. It is up to the financial institutions whether or not they publish their results. Almost no financial institution has indicated that they have published their individual PACTA results**.** There is also greater potential to derive specific climate-relevant measures from the results. In contrast to commercial offers, however, the framework of the Climate Test does not allow for individual consultations with the individual institutions by the authors or the FOEN. However, associations or NGOs, researchers, and consulting firms could play a possible role - particularly through *peer learning* of *good practices*.

From a climate perspective, it is encouraging that most financial institutions state that they want to focus on the areas in which they can make the most direct contribution to climate targets. Many participants believe it makes sense to join forces in larger groups and coordinate climate-related activities in a targeted manner. Many further do not want to focus primarily on reporting and their own external image, but believe that they can make a real contribution to the climate goal with their organization's business activities.

The FOEN, together with its partners, is endeavoring to offer further developments that are as relevant as possible for the overall market in future Climate Tests. The results of the initial questions in the qualitative survey on other environmental issues indicate that all financial sectors have an interest in other nature-related issues such as deforestation, water, pollution or biodiversity, given that they are affected by investments and financing and could have a positive influence with appropriate engagement measures. Taking into account this trend, the FOEN is currently working with external partner institutions on a concept for the development of such a quantitative assessment model. If possible, an additional module of this kind should be offered to participants in the 2026 Climate Test.

For the 2026 Climate Test, the FOEN particularly expects transition plans to be created and implemented on a broad basis. These should be credible for all climate-relevant asset classes and backed up with concrete, sector-specific measures. These developments are further expected due to the planned further developments in the reporting obligation. FINMA's work on climate-related and other nature-related financial risks should promote a more consistent net-zero approach, as potential risks arising from a lack of alignment will be identified and assessed in a more informed manner.[51] The widespread establishment and implementation of credible transition plans is also in line with international trends.

The broader commitment to net-zero targets in the future should also be reflected more strongly in the targets of the individual financial portfolios in the next Climate Test. For the credibility of the financial sector's efforts, it is crucial that communication at the institutional level is consistent with actual actions such as the exercise of voting rights, engagement, and exclusion policies.

In two years' time, there should also be more evidence that the measures taken by financial institutions are actually having a positive impact on the climate. This is particularly the case in areas where it is still less clear today, i.e. in the mortgage sector and for transparency requirements. The comparability of information should also increase by 2026, with a focus on the essentials and a stronger reference to climate targets in the information.

[51] Integrating climate-related risks into supervisory practice | FINMA

The next step is, therefore, to follow up on the Swiss financial market's broad commitment to net zero with credible action in all areas. Or, as the title of the report says: "Walking the walk." The planned anchoring of the regular, voluntary Climate Test in the Climate Protection Ordinance will help to regularly provide a solid, comparable basis for discussion of possible measures at the financial institution and/or financial market level, such that the Swiss financial market makes an effective contribution to achieving this climate target.