Guidelines of SVVK-ASIR on Paris Climate Agreement

Zurich, March 2019

Table of Contents

1 Overview

The "Paris Convention" is an agreement of the 196 Member States of the United Nations Framework Convention on Climate Change. The objective of the Convention is to limit the increase in the global average temperature to below 2 degrees Celsius compared to pre-industrial levels. Furthermore, the ability to adapt to climate change and low-emission development should be promoted. The financial flows are also to be brought in line with a development that is low in greenhouse gases and resistant to climate change.

The Federal Assembly approved the Paris Convention on June 16, 2017 and set the target of a 50% reduction in greenhouse gas emissions by 2030 compared with 1990. Since its ratification on October 6, 2017, Switzerland has been legally obliged to take measures to mitigate and adapt to climate change.

The founding members of SVVK-ASIR (Swiss Association for Responsible Investment) provide their services for the benefit of a large and representative part of the Swiss population. Accordingly, the normative foundations of the association are based on the laws, ordinances and international conventions that have emerged from democratic consensus.

This paper explains how the Paris Convention on Climate Change was integrated into the normative basis of the SVVK-ASIR. On this basis, it will be explained how the SVVK-ASIR provides recommendations to implement the Paris Climate Agreement in its engagement process. In addition, further options to implement the objectives of the Paris Climate Agreement will be identified for the members of SVVK-ASIR.

2 Paris Climate Agreement and normative basis SVVK-ASIR

2.1 Normative basis SVVK-ASIR

As basic criteria for its recommendations to the Members ("normative basis"), democratically legitimized in Switzerland, the SVVK-ASIR orientates itself on the following bases:

1. The Federal Constitution as the foundation of norms and values accepted in Switzerland
2. the international conventions signed by Switzerland, as well as
3. the laws and regulations on the implementation of international conventions and sanctions in Switzerland

The greatest possible objectivity is ensured by the fact that this normative basis draws on laws and regulations and international conventions. In particular, the application of its own politically motivated or morally justified criteria should be avoided.

2.2 Legal bases

Name	SR number*
Paris Climate Convention (2015)	0.814.012

Switzerland ratified the Paris Convention on Climate Change on October 6, 2017. As a result, Switzerland has a binding international agreement on the reduction of greenhouse gas emissions. With the adoption of the Climate Agreement, the Swiss Federal Assembly has defined a national reduction target. With ratification, this reduction target became definitively and legally binding on the UN.

Under Art. 2 para. c), the Paris Agreement includes the objective of reconciling flows of funds with a path towards low-emission and climate-resilient development of greenhouse gases.

Switzerland has defined a national reduction target of reducing greenhouse gas emissions by 50% by 2030 compared with 1990 levels. The Paris Convention and the reduction target are transposed into national law. In Switzerland, this is done by the Federal Act on the Reduction of CO_2 Emissions (CO_2 Act), which, in its current version, does not specify any requirements with regard to financial market investments. A total revision of the CO_2 Act is planned as part of the Paris Climate Agreement. The current draft revision provides for a voluntary contribution by the financial sector" to measure, disclose and enhance the climate compatibility of financial flows". *(Chapter 2, Article 4 of the Message of December 2017).*

2.3 Classification of the Climate Agreement

The Paris Climate Agreement aims to reduce greenhouse gas emissions and accelerate the transition to a low-carbon economy. The international community has agreed on a binding, overarching goal for the future (reduction of greenhouse gases) and committed itself to introducing measures that will enable this goal to be achieved. The Agreement itself does not contain any direct restrictions. For example, the production, distribution and consumption of fossil fuels continue to be permitted. Accordingly, from a normative perspective, there are no restrictions that would restrict financial investments in companies in this sector.

However, financial flows should be brought in line with the objectives of the Agreement. Furthermore, the efforts of the international community of states to reduce greenhouse gases imply a future development that will have medium-term effects on companies and investors. Climate change is thus both an ESG factor ("Environment, Social and Governance") and a risk factor to be taken into account in investment activities.

3 Implementation within the engagement process of SVVK-ASIR

In order to enable the members of SVVK-ASIR to assess their portfolios in terms of climate compatibility within the meaning of Article 4 of the agreement, the dialogue with the companies will address specific issues relating to the companies' climate strategy going forward. This approach is in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), an international initiative launched by the Financial Stability Board on behalf of the finance ministers of the G-20 countries.

A company should describe how climate change and the measures taken to limit it will affect their business model in the long term and the resulting opportunities and risks. For this reason, transparent information on climate-related financial risks is necessary. This is where the Task Force on Climate-related Financial Disclosures (TCFD) comes in. The recommendations of the TCFD aim to implement a uniform reporting standard for the real and financial economy with regard to opportunities and risks arising from climate change. The focus is on integration into financial reporting.

As part of these engagement efforts, SVVK-ASIR will actively ask for climate-related financial reporting in accordance with TCFD standards from CO_2-intensive portfolio companies. The SVVK-ASIR already pursues this engagement approach with companies whose behavior systematically and seriously violates the standards of the SVVK-ASIR. Such a dialogue not only emphasizes to a company the importance of sustainable development from the point of view of the beneficiaries, but also allows a better assessment of how well management is aware of climate risks and how they are managed. The responsibility as an investor and co-owner of a company is thus assumed, with the aim of bringing about a change in behavior that is in line with the long-term interests of the beneficiaries.

4 Possible options for actions for the members of SVVK-ASIR

Depending on the different investment organization, processes and strategies, further options for action are available. Possible measures are presented below. The members of SVVK-ASIR may decide at their own discretion, which measures are considered as appropriate within their investment organization.

4.1 Governance, risk management and disclosure

An active assessment of climate-related investment opportunities and risks is important and should ideally be discussed at senior management level. As a result, an appropriate strategy and implementation can be defined.

Climate change acts as a risk factor on the value of assets. In addition to physical risks, climate risks primarily manifest themselves through transition risks resulting from the intended shift to a low-carbon world economy. This transition can have a positive or negative impact on the value of individual investments or entire sectors. These transition risks could be taken into account in the risk management of investment activities, analogous to all other risk factors affecting assets.

Furthermore, it can be viable to communicate the agreed strategy and its implementation to the beneficiaries.

4.2 Proxy Voting

Based on the above, a company should describe how climate change and its mitigation measures will impact its business model over the long term and what opportunities and risks it will create. For CO_2-intensive portfolio companies or companies that do not meet the financial reporting requirements of the TCFD standards, various forms of influence are available to an investor and / or co-owner. A direct form of influence can be exercised on shares by exercising voting rights. This information can be actively requested through the participation rights as owner. There has been an increase in shareholder pressure to get companies to report on their climate strategy and risk measures.

4.3 Harmonization of financial flows with the Paris Climate Agreement

Further measures are available to an investor in order to bring the financial flows into line with a development that is low in greenhouse gases and resistant to climate change. The following three options can be considered.

Divest from assets with negative impact on climate

A first option is the sale ("divestment") of shares or bonds of companies which cause a high emission of greenhouse gases and / or which are not prepared to integrate the possible effects of climate change in their own business model.

However, a sale of shares or bonds of companies which cause a high emission of greenhouse gases has no noticeable influence on the real emission of greenhouse gases, as long as the assets only change hands. This is confirmed by academic studies as well as exponents of known divest-campaigns. A restriction of the investment universe also results in a loss of diversification, one-off transaction costs and recurring compliance costs. Nonetheless, the sale of shares or bonds may have a signal effect or make sense from a risk management perspective.

Thorough review of participation in capital increases in shares and bonds

A further option is the critical review of participating in capital increases if a company raises new capital on the capital market. When participating in a financing round, an investor provides the company with new capital (equity or debt capital). A capital injection into CO_2-intensive companies that are not prepared to integrate the possible effects of climate change on their own business model should be critically reviewed.

Systematic investments with positive impact on climate

As a third option, targeted investment can be considered, taking into account the opportunities arising from climate change. Companies that make efforts to reduce CO_2 emissions and invest in new technologies can be specifically promoted by investors. The achievement of a return on such an investment in line with market conditions must be verified.

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5 Appendix

5.1 Legal foundations SVVK-ASIR

Name	SR number*
Paris Climate Convention (2015)	0.814.012

*Systematic Collection of Laws

5.2 Additional information

Recommendations of The Task Force on Climate-related Financial Disclosures (June 2017).