Regulatory updates

ESG developments

Last update: April 2024

Contents

1. Counter-Proposal to Responsible Business Initiative (CP-RBI) 4

2. Swiss Climate Ordinance leaning on TCFD (Task Force on Climate-Related Financial Disclosures) 8

3. CSRD – Corporate Sustainability Reporting Directive 11

4. EU Taxonomy Regulation 14

5. SFDR – Sustainable Finance Disclosure Regulation 17

6. IFRS Sustainability Disclosure Standards 20

7. Global Reporting Initiative (GRI) Standards 23

8. Equal pay 26
8.1. Switzerland 26
8.2. European developments 28

9. Further regulatory developments 30
9.1. CS3D – Corporate Sustainability Due Diligence Directive 30
9.2. SEC (US Securities and Exchange Commission) climate-related disclosure rules 34
9.3. California climate disclosure bills 37
9.4. CBAM (Carbon Border Adjustment Mechanism) 37
9.5. ESEF – European Single Electronic Format 39

10. Industry- and territory-specific considerations 40
10.1. Sustainable Finance at FINMA 40
10.2. Developments relevant for entities operating in the financial services industry (incl. funds) 40
10.3. Principality of Liechtenstein 41
10.4. Developments in the Asia Pacific Region 42

Scope of this publication

This publication focuses on the topics of ESG (Environmental, Social and Governance) standards and sustainability reporting and disclosure frameworks. Further insights into the ESG topic – for instance tax-related matters – are addressed on the following PwC webpages and publications:

Sustainability in general: https://www.pwc.ch/en/insights/sustainability.html

Tax developments (Swiss focus): https://www.pwc.ch/en/insights/regulation/tax.html

Tax developments (international focus): https://www.pwc.com/gx/en/services/tax/esg-tax.html

1. Counter-Proposal to Responsible Business Initiative (CP-RBI)

Non-financial reporting obligations for large companies as well as due diligence and reporting obligations in connection with minerals and metals from conflict-affected areas and child labour.

Enactment:

- Transparency for raw material companies: 1 January 2022 (i.e. first-time reporting in 2023)
- Due diligence in the supply chain:
- Minerals and metals from conflict-affected areas: 1 January 2023 (i.e. first-time reporting in 2024 on FY 2023)
- Child labour: 1 January 2023 (i.e. first-time reporting in 2024 on FY 2023)
- Swiss sustainability reports:
- Based on Swiss CO 964a-c: 1 January 2023 (i.e. first-time reporting in 2024 on FY 2023)
- Based on Ordinance on Climate Disclosures: 1 January 2024 (i.e. first-time reporting in 2025 on FY 2024)

The amendments to the Swiss Code of Obligations (CO) (art. 964a–964l) and the related ordinances (for the Ordinance on Climate Disclosures, refer to the section on TCFD below) entered into force as of 1 January 2022 and 1 January 2023, respectively. The reporting obligation applies since 2024 for the 2023 financial year (FY).

Swiss sustainability reports (Non-financial reporting)

Companies/groups of public interest (including entities supervised by the Swiss Financial Market Supervisory Authority FINMA and certain collective investment schemes) with 500 or more full-time employees on average in two consecutive financial years and that exceed at least one of the following in two consecutive financial years

(i) total assets of CHF 20 million; or
(ii) turnover of CHF 40 million

are required to report annually on non-financial matters.

It is required to report on core elements (such as the business model, policies, due diligence applied, measures taken and assessed for effectiveness, main risks identified and their treatment as well as relevant indicators) in the areas of the environment (in particular, CO2 targets), social issues, employee-related issues, respect for human rights as well as combating corruption.

In a permissive provision, the law states that the report may be based on national, European, or international reporting standards. If such standards are used, they must be considered and followed in their entirety. This means that companies have some leeway in implementing the Swiss law. However, it must be ensured that all required aspects of the Swiss law are covered, which in practice is best implemented through a reference table.

For smaller companies reporting sustainability information for the first time, it is advisable to focus first on the core elements without applying specific reporting standards, whereas for larger companies with established sustainability reporting it is recommended to designate and apply appropriate standards accordingly.

The non-financial reporting obligation on climate-related information is specified by means of a separate implementation ordinance (Ordinance on Climate Disclosures) which is leaning

on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Whilst the law applies for the 2023 reporting period (i.e. first-time reporting in 2024), the specifications of the Ordinance on Climate Disclosures have entered into force as of January 2024 (i.e. first-time reporting in 2025). Please refer to the section on the Climate Ordinance below for details.

There is currently no assurance requirement for the non-financial report in accordance with CO 964a-c. However, the Federal Council communicated on 22 September 2023 that related Swiss legislation shall be coordinated internationally, in particular the latest developments (CSRD) in European Union (EU) regulation shall be reflected. Until July 2024 at the latest, the Federal Council intends to present a consultation proposal, which is expected to include developments in the following areas:

- Similar to the EU, Swiss companies/groups with over 250 (currently 500) full-time employees on average in two consecutive financial years could also be required to report on non-financial matters.
- Implementation of an assurance requirement on the Swiss sustainability reports (CO 964b)
- Enhancement of the requirements for Swiss sustainability reports towards the EU standard (ESRS).

Due diligence and reporting obligations in connection with minerals and metals from conflict-affected areas

Specific due diligence must be carried out if the company/group – having its seat, head office or principal place of business located in Switzerland – imports or processes minerals and metals originating from conflict-affected or high-risk areas exceeding the thresholds mentioned in Annex 1 of the Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour (DDTrO). The specific thresholds are in line with EU law. The thresholds refer to tariff numbers defining the exact form of the metals and minerals. For instance, Annex 1 refers to gold or tin as a raw material (in unwrought form), i.e. gold or tin imported e.g. as part of computer chips is not subject to this regulation. The minerals category includes ores and concentrates containing tin, tantalum or tungsten, as well as gold, also in the form of by-products. Metals are those containing or consisting of tin, tantalum, tungsten as well as gold, also in the form of by-products. If companies/groups can prove that they exclusively import/process recycled materials, an exemption applies for part of these obligations.

Furthermore, compliance with internationally recognised regulations – either (1) the OECD (Organisation for Economic Co-operation and Development) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas or (2) the Regulation (EU) 2017/821 – exempts a company/group from the obligations as specified in the Swiss law. The company/group needs to prepare a report in which it names the internationally recognised regulations and applies them in their entirety.

The companies concerned are required to:

- Define the supply chain policy (including used instruments) in writing and communicate the policy to their suppliers (including integration in contracts) and the public;
- Maintain a management system specifically tailored to the due diligence process. This includes defining roles, responsibilities, and procedures;
- List in writing information about production facilities and service providers in a supply chain traceability system;
- Ensure that concerns in the supply chain in respect to conflict minerals/metals can be reported;

- Identify and assess the risks of adverse effects in its supply chain in the areas of minerals and metals and take appropriate measures; and
- Report on the above; in the case of conflict minerals and metals, this report is subject to an assurance obligation in accordance with the DDTrO.

Those charged with governance must report annually on compliance with the due diligence obligations. A limited assurance engagement in accordance with PS/NAS 980 must be performed by an audit firm supervised by the Federal Audit Oversight Authority (FAOA) to assess the appropriateness of the Compliance Management System (CMS) to determine if the due diligence obligations have been complied with (negative assurance).

In the event of a breach of the reporting obligation, fines up to CHF 100,000 could be imposed.

The Federal Council communicated – based on an external study commissioned by the Federal Department of Justice and Police (FDJP) and the Federal Department of Economic Affairs, Education and Research (EAER) – on 22 December 2023 that due diligence requirements in the EU may have a direct impact on several hundred and an indirect impact on several thousand Swiss entities. The indirect impact results from the companies directly affected passing on the requirements to their suppliers. The FDJP and EAER intent to have the study updated once the EU has definitively adopted the Corporate Sustainability Due Diligence Directive (CS3D, refer to chapter below). Following this in-depth analysis and while observing how the EU member states implement the Directive, the Federal Council will decide on the way forward.

Due diligence and reporting obligations in connection with child labour

Specific due diligence must be carried out by companies/groups having it's seat, head-office or principle place of business located in Switzerland, if they offer products or services in relation to which there is a reasonable suspicion that they have been manufactured or provided using child labour. Exemptions may apply in the case of small and medium-sized entities/groups (SMEs) that fall below two of the thresholds (total assets of CHF 20 million, revenue of CHF 40 million and 250 full-time equivalents on average) in two consecutive years. Furthermore, low-risk companies/groups are exempt from the due diligence and reporting obligations (low risk is assumed, among others, if companies/groups are operating in countries whose due diligence response is rated as 'basic' by UNICEF). However, such an assessment must be documented.

Lastly, compliance with internationally recognised regulations (either (1) the International Labour Organisation (ILO) Conventions and the ILO-IOE (International Organisation of Employers) guidance or (2) the OECD Due Diligence Guidance for Responsible Business Conduct and the UN Guiding Principles on Business and Human Rights) exempts a company/group from the respective Swiss obligations. The company/group needs to prepare a report in which it names the internationally recognised regulations and applies them in their entirety.

The companies concerned are required to:

- Define the supply chain policy (including used instruments) in writing and communicate the policy to their suppliers (including integration in contracts) and the public;
- Maintain a management system specifically tailored to the due diligence process. This includes defining roles, responsibilities, and procedures
- List in writing information about production facilities and service providers in a supply chain traceability system;
- Ensure that concerns in the supply chain in respect to child labour can be reported;
- Identify and assess the risks of adverse effects in its supply chain around child labour and take appropriate measures; and
- Report on the above.

Those charged with governance must report annually on compliance with the due diligence obligations. In the event of a breach of the reporting obligation, fines up to CHF 100,000 could be imposed.

Reporting obligations for raw material companies

An additional requirement arising from the revised CO (art. 964d) applies to companies subject to ordinary audit by law that themselves or through a controlled subsidiary are active in the extraction of minerals, oil, gas or wood. Such companies are required to report annually on payments to government institutions. This requirement already applied for the 2022 financial year (i.e. first-time reporting in 2023).

2. Swiss Climate Ordinance leaning on TCFD (Task Force on Climate-Related Financial Disclosures)

Climate reporting obligations for companies in scope of the Swiss sustainability reports (CO 964a-c, refer to chapter above) leaning on TCFD effective for the 2024 financial year.	
Enactment:	• The Ordinance on Climate Disclosures has come into force on 1 January 2024.

Background

The Ordinance on Climate Disclosures has come into force on 1 January 2024. The new rules are leaning on the recommendations of the TCFD, which have gained global and cross-sector acceptance in climate reporting.

In accordance with the Ordinance, reporting must cover the four core elements of governance, strategy, risk management, and metrics and targets. In addition, reporting must consider both the cross-sectoral and sector-specific guidance on the eleven recommendations and should consider the 'Guidance on metrics, targets and transition plans' of October 2021.

Whilst the Ordinance refers to TCFD, it also carries an important caveat as it allows companies/groups to meet the disclosure requirements of the Swiss law in another way. As a result, many businesses may look to developments beyond Swiss borders, where initiatives and standards are much stricter. This is not only a necessity for those Swiss companies falling within the scope of foreign regulation (e.g. CSRD in the EU), but a strategic decision for all others to gain a distinct competitive advantage.

Notably, with regard to the recommendations pertaining to strategy and specifically the reduction of CO2 emissions, companies are required to disclose a transition plan comparable with the Swiss climate goals to reinforce validity and comparability.

Correspondingly, metrics and targets should also cover quantitative CO2 targets and, if relevant, targets for other greenhouse gases (GHG), while considering the short-, medium- and long-term implications. In line with other global initiatives, all GHG emissions, including the relevant categories of so-called ‘Scope 3’ emissions, must be reported when possible. Financial institutions are subject to further scenario analysis requirements.

The implementation of the recommendations regarding 'metrics and targets' requires companies to set targets and disclose metrics for the relevant business areas. The metrics should be disclosed separately for Scopes 1 and 2 GHG emissions, and, if possible, for Scope 3 emissions as well.

Recommendations of the TCFD

The Task Force makes eleven disclosure recommendations concerning four core elements of every company:

1) Governance,
2) Strategy,
3) Risk management, and
4) Metrics and targets

In its report, the Task Force also recommends a defined role for the Board of Directors in assessing climate risks, identifying material climate-related risks and opportunities, using scenario analyses to assess their financial impact and defining a process for managing these risks.

There are some key challenges to be considered for companies that want to implement the recommendations of the TCFD:

1) Integration in the core areas of the company

The company has to integrate holistically the identification, evaluation and management of the opportunities and the risks in its structures and make them measurable through appropriate metrics and targets. This means that various functions, from risk management, financial controlling and investor relations to strategy and sustainability, have to be integrated, and various processes and structures adjusted or expanded.

2) Impact on the company and scenario analyses

The TCFD highlights the financial impact on the company. To this end, significant opportunities and risks over the short-, medium- and long-term horizons should be identified and their financial impact quantified and assessed using scenario analyses. This should ensure a longer-term and more holistic perspective in the assessment of opportunities and risks. The Swiss Ordinance on Climate Disclosures explicitly requires forward-looking analyses for financial institutions (see TCFD's 'Guidance on Scenario Analysis for Non-Financial Companies', October 2020).

3) Materiality and broader understanding of opportunities and risks

As in financial reporting, the determination of the materiality should consider the financial effects of climate-related risks and opportunities on income and expenses, assets and liabilities, the conditions for raising capital and refinancing. In addition, companies are required to broaden their opportunity and risk assessments to include climate-related aspects. This means dealing with market and regulatory risks arising from the transition to a low-emission economy.

4) Linking climate-related reporting and financial metrics

Companies are required to report on climate-related opportunities and risks from a financial perspective. They are also required to publish the metrics used to assess and manage the financial impact of the opportunities and risks.

Key differences between the Swiss Climate Ordinance and TCFD

While the Swiss Climate Ordinance explicitly states that corporate reporting on climate-related issues should be based on the TCFD recommendations, there are some differences.

- Whilst the TCFD requires a financial materiality approach only, the Swiss Non-Financial Reporting law requires a double materiality approach. That means that companies report on both, how sustainability issues affect a company's business development, performance and position (an "outside-in" perspective or "financial materiality"); and the impact the company has on sustainability issues (an "inside-out" perspective or "impact materiality").
- Furthermore, the Swiss Code of Obligations requires reporting on environmental matters in general, while the Climate Ordinance which references the TCFD recommendations only specifies additional requirements related to Climate matters.
- The Climate Ordinance requires specifically that businesses should describe their reduction targets for direct and indirect greenhouse gas emissions and how they plan to implement them.
- Finally, the TCFD recommendations provide soft-law guidance and support the evolution of tools and methods in line with the growing experience of businesses in

improving their reporting practices. The Swiss Law and the Climate Ordinance are generally legally binding, however, they include various reliefs; a) the general comply-or-explain approach and b) the option to apply a different framework.

Future outlook on the TCFD

The Financial Stability Board has announced that the work of the TCFD has been completed. From 2024 onwards, the IFRS Foundation® takes over responsibilities from the TCFD for the monitoring of progress on companies' climate-related disclosures.

Companies that apply either the IFRS® Sustainability Disclosure Standards or the ESRS E1 requirements will meet the TCFD recommendations. On that basis it will not be necessary to apply the TCFD recommendations in addition to the International Sustainability Standards Board (ISSB™) Standards.

3. CSRD – Corporate Sustainability Reporting Directive

Increased requirements for sustainability reporting by companies in the EU, which may also impact Swiss companies with subsidiaries in the EU.

Enactment: Phased approach:

- From 2025 on FY 2024 ESG reporting for companies previously falling under NFRD as well as large EU companies and third country companies with securities listed on a regulated EU exchange
- From 2026 on FY 2025 ESG reporting for large companies in the EU (including large EU subsidiaries of third country parent companies)
- From 2027 on FY 2026 ESG reporting for SMEs with securities listed on an EU exchange (2 year opt out possible)
- From 2029 on FY 2028 ESG reporting for third country parent companies with at least one large EU subsidiary (or a branch > EUR 40 million turnover) and > EUR 150 million consolidated turnover in the EU

Background

In April 2021, the European Commission (EC) published its proposal for a Corporate Sustainability Reporting Directive (CSRD), which will replace the current Non-Financial Reporting Directive (NFRD). The EU is thus increasing the requirements for sustainability reporting. After being formally adopted in November 2022, the CSRD entered into force on 5 January 2023. EU Member States have 18 months to implement the directive into national law.

Impacted companies

While the NFRD was only applicable to PIEs (Public Interest Entities) with more than 500 employees, the CSRD significantly expands the scope of applicability. In December 2023, some of below thresholds were increased by 25% through an inflation adjustment:

- All 'large' companies, regardless of their capital market orientation, that meet two of the following three criteria:
  - an annual average of 250 employees, or
  - EUR 50 million in net turnover; or
  - EUR 25 million total assets.
- All capital market-oriented companies – including SMEs – except for micro-companies.
- Non-EU companies above EUR 150 million net turnover generated in the EU for each of the last two consecutive financial years, and either
  - at least one entity in the consolidated group within the scope of CSRD is a large undertaking or a listed small or medium-sized undertaking; or
  - at least one branch generated more than EUR 40 million annual net turnover in the EU in the preceding financial year.
- Reporting at group level exempts non-listed subsidiaries of their own reporting obligation, provided the standard applied of the parent company is ESRS (European Sustainability Reporting Standards) or accepted as equivalent. The subsidiary must refer to the group report.

Timeline

For companies that are already subject to the NFRD, reporting obligations apply from 2025 for the 2024 financial year. For all other large companies and large subsidiaries of a non-EU parent company, the reporting obligation will apply as of 2026 for the 2025 financial year and for listed SMEs and non-EU companies as of 2029 the latest (for the 2028 financial year).

Format

The CSRD requires companies to provide more consistent and transparent sustainability-related information about their business practices than previously. The aim is to bring sustainability reporting to the same level as financial reporting.

Companies will no longer be able to choose where to publish the information. In future, the required information must be included in the management report section of the annual report. This is to be published at the latest four months after the end of the financial year and at the same period as the financial information.

Contents

The content of European sustainability reporting has been developed by the European Financial Reporting Advisory Group (EFRAG) and specified in the new ESRS. The ESRS were eventually adopted on 31 July 2023.

The ESRS include general standards as well as standards on environmental, social and governance topics. Additional standards (ESRS third country standards, ESRS SME standards) are in preparation and expected to be published in mid-2026. This gives the EFRAG more time to finalise the implementation guidance on the materiality assessment and value chain, and to work on the SME standards. In preparing the standards, the EFRAG is working closely with existing sustainability reporting standard setters (such as the Global Reporting Initiative GRI) and tries to achieve compatibility with other new reporting standards, such as those developed by the ISSB. These collaborations have created hope for a gradual harmonisation of ESG reporting standards. In December 2023, the Draft ESRS GRI interoperability index was published (updated in July 2024) that highlights the main similarities and differences between these two sustainability disclosure standards. Existing GRI reporters are believed to be well prepared to report under the ESRS and entities reporting under ESRS are considered as reporting with reference to the GRI Standards.

The CSRD requires all information to be provided to understand the company's development and performance, as well as the impact of its activities.

The concept of double materiality is enshrined in the regulations. In this case, sustainability aspects are to be considered material for a reporting entity if they are material from an ecological or social perspective either regarding the company's impacts on society and environment (impact materiality/inside-out-perspective) or on the company's risk and opportunities related to business and financials (financial materiality/outside-in perspective). The EFRAG issued non-authoritative draft implementation guidance for the materiality assessment in August 2023.

All content should be measurable with the help of indicators. For instance, ESRS E1 'Climate change' requires in 'Disclosure Requirement E1-6 – Gross Scopes 1,2,3 and Total GHG emissions' that an entity shall disclose its:

- gross Scope 1 GHG emissions;
- gross Scope 2 GHG emissions;
- gross Scope 3 GHG emissions; and
- total GHG emissions.

In this regard, the ESRS refer to the Greenhouse Gas Protocol Corporate Standard (GHG Protocol – version 2004) as an additional source of guidance with already widespread application and acceptance. The GHG Protocol started in 1998 with the aim of developing internationally accepted GHG accounting and reporting standards and promoting their broad adoption.

In the future, sustainability reports should be both retrospective and forward looking, contain quantitative and qualitative data, take into consideration intangible resources, e.g. human capital or intellectual property, and address the entire value chain.

Phase-ins

Various transitional reliefs are foreseen, such as that the information on the value chain can first be limited to information available in-house or that comparatives are not mandatory in the first year of application. Furthermore, appendix C of ESRS 1 includes a detailed list of phased-in disclosure requirements aimed at facilitating the first-time application for ESRS preparers.

Assurance requirements

The EC's proposal requires external assurance of the reported information – initially with limited assurance. However, it is envisioned to move to reasonable assurance in the medium term. Statutory auditors will be allowed to provide sustainability assurance as well, but there is no requirement to do so. Specific requirements regarding auditors' experience and expertise are planned to ensure quality.

Impact on companies in Switzerland and link to other EU regulations

Swiss companies with subsidiaries or branches in the EU and/or transferable securities listed in the EU will also be affected by the CSRD. The requirements apply to large companies, regardless of their capital market orientation, i.e. also to subsidiaries of Swiss groups. It is recommended that the CSRD requirements be implemented at group level on a timely basis to exempt the non-listed subsidiaries from the reporting obligation and, at the same time, to meet the Swiss reporting obligations.

PwC Switzerland has developed a free-to-use online tool, the Swiss Sustainability Reporting Advisor, that allows Swiss companies to carry out an initial check of their reporting requirements under EU and Swiss sustainability reporting regulation.

Further, the EU is also in the process of finalizing the adoption of a Corporate Social Due Diligence Directive (CS3D) which goes beyond the Swiss due diligence requirements (refer to separate section below). Companies active in the EU (i.e. subject to CSRD) should anticipate this in their implementation of Swiss requirements. This directive will also underpin the Sustainable Finance Disclosure Regulation (SFDR) that has recently entered into force and applies to financial market participants (such as investment fund and portfolio managers, insurance companies selling insurance-based investment products and companies providing various pension products) and financial advisers. Under the SFDR, these companies are required to publish, among others, a statement on their due diligence policies with respect to principal adverse impacts of their investment decisions on sustainability factors on a comply-or-explain basis. At the same time, for companies with more than 500 employees, the publication of such a statement is mandatory, and the Commission is empowered to adopt regulatory technical standards on the sustainability indicators in relation to the various types of adverse impacts (refer to separate chapter on SFDR below).

4. EU Taxonomy Regulation

Binding classification standard for sustainable economic activities in the EU, which will also impact Swiss companies with subsidiaries or branches in the EU as well as Swiss financial companies that offer their products in the EU.

Enactment: Phased approach:

- From 2024 on FY 2023 alignment on environmental objectives 1 and 2 including amendments of economic activities. Voluntary regarding environmental objectives 3–6
- From 2025 on FY 2024 alignment on all environmental objectives and corresponding economic activities

Background

With the EU Taxonomy adopted in July 2020, the EC is creating a binding classification standard for sustainable economic activities in the EU. The act published in July 2021 supplementing article 8 of the Taxonomy Regulation ('delegated act') specifies the formal disclosure requirements for reporting companies in the context of the EU Taxonomy.

Technical screening criteria

The EU Taxonomy distinguishes between six environmental objectives in terms of classification:

1) Climate change mitigation
2) Climate change adaptation
3) Sustainable use and protection of water and marine resources
4) Transition to a circular economy
5) Pollution prevention and control
6) Protection and restoration of biodiversity and ecosystems

The Taxonomy Regulation ranks certain economic activities based on technical screening criteria as sustainable and non-sustainable activities. The technical screening criteria for economic activities which have to make a significant contribution to climate change mitigation and adaptation were adopted in June 2021. Economic activities in emission-intensive sectors, such as energy, manufacturing, transport, forestry and buildings, which account for almost 80% of direct GHG emissions in Europe, were ad dressed. In June 2023, the technical screening criteria for the remaining four environmental objectives were adopted. The technical screening criteria, where possible align with the NACE codes[1] to facilitate the identification of taxonomy-eligible activities.

Who is impacted by the EU Taxonomy Regulation?

On the one hand, the Regulation concerns **non-financial companies**, i.e. capital market-oriented companies with more than 500 employees that are subject to the NFRD, and since the adoption of the CSRD, companies are subject to it if at least two of the following three conditions apply: €50 million net turnover, €25 million in assets, or 250 or more employees (refer to chapter “3. CSRD – Corporate Sustainability Reporting Directive”).

On the other hand, the Regulation concerns **financial companies**, such as banks, asset managers, investment firms and insurance/reinsurance companies. The Regulation is based

[1] So-called NACE codes (industry standard classification system used in the EU) support entities in this assessment.

on information on the proportion of environmentally sustainable economic activities in the total assets that financial companies finance or invest in.

Procedure for companies

Since only selected economic activities are included in the Taxonomy, **non-financial companies** must first consider which of their economic activities fall within the scope of the Taxonomy (so-called 'Taxonomy-eligible'). For a taxonomy-eligible activity to be aligned it needs to be demonstrated that it (1) makes a substantial contribution to one of the six EU environmental objectives based on the technical screening criteria, (2) does not significantly harm any of the other environmental objectives and (3) meet the minimum social standards. The companies concerned are required to disclose the following KPIs, expressed as part/percentage of turnover, investments (Capex) and operating expenses (Opex):

- Taxonomy-eligible (non-aligned) economic activities
- Taxonomy-aligned economic activities
- Taxonomy non-eligible economic activities

Supplemented with additional qualitative information on accounting policy, evaluation of taxonomy-aligned turnover including KPIs.

Financial market players in the EU offering financial products need to disclose how their products contribute to the goals of the EU Taxonomy. Industry specific disclosure requirements apply to insurance companies and credit institutions.

What is the time horizon?

The introduction will take place in several phases.

Non-financial companies that have reported under the EU's Non-financial Reporting Directive (NFRD), the predecessor to the CSRD, have already been required to provide Taxonomy disclosures. As of 1 January 2022 (for the 2021 financial year), companies were only required to disclose the proportion of Taxonomy-eligible and non-Taxonomy-eligible economic activities for the three KPIs (Turnover, Capex, Opex). As of 1 January 2023 (for the 2022 financial year), reporting on compliance with the criteria for classification as Taxonomy-aligned for the first two environmental objectives was required. The delegated acts containing the technical screening criteria for the remaining four environmental objectives were adopted on 27 June 2023. As of 1 January 2024 (for the 2023 financial year), reporting on the eligibility and non-eligibility on the remaining four objectives was required.

Companies in scope of the CSRD will also be in scope of the EU Taxonomy. Those companies in scope of the CSRD as soon as financial year 2024 are likely already reporting under the Taxonomy by virtue of being in scope of the NFRD. Companies that are in scope of the CSRD for financial year 2025, reporting in 2026, are expected to be the first round of companies that will newly have to comply with the Taxonomy.

As of 1 January 2022, **financial companies** must disclose their risk positions in Taxonomy-eligible and non-Taxonomy-eligible activities as a share of their total assets. Credit institutions also have to disclose their trading portfolio and short-term interbank loans as a share of their total assets. Insurance and reinsurance companies must indicate their share of Taxonomy-eligible and non-Taxonomy-eligible activities in their non-life business. As of 1 January 2024 (for the 2023 financial year), **asset managers** must disclose the proportion represented by their investments in Taxonomy-aligned economic activities of the value of all managed investments (Green Investment Ratio or GIR). As of 1 January 2024, **credit institutions** must disclose the Green Asset Ratio (GAR), which indicates the ratio of risk positions in Taxonomy-aligned activities to the total assets of the credit institution. In addition, KPIs for off-balance-sheet assets (green ratio for financial guarantees (FinGuar KPI)) and for their trading book, fees and commissions for non-banking activities (F&C KPI)

apply as of 1 January 2026 (for the 2025 financial year). As of 1 January 2024, **investment firms** will disclose (both on their own account and on behalf of clients) the proportion of their total assets accounted for by Taxonomy-aligned activities. As of 1 January 2024, **insurance and reinsurance companies** shall disclose KPIs relating to the Taxonomy-aligned activities of their managed assets and insurance activities.

Impact on companies in Switzerland

Swiss non-financial companies, which are subject to the NFRD or after the entry into force of the CSRD, are also subject to the EU Taxonomy Regulation. Swiss financial companies offering financial products in the EU are also subject to the EU Taxonomy Regulation regarding the product disclosure requirements.

It is also relevant if Swiss non-financial companies or financial institutions want to gain a competitive advantage through better access to financial markets and reputational benefits and/or seeking guidance to improve sustainability performance and climate resilience.

At present, it is advisable for companies to examine the EU requirements and to pursue their implementation at group level.

Please refer to this PwC publication for an explanation of the basics of the EU taxonomy.

5. SFDR – Sustainable Finance Disclosure Regulation

The SFDR imposes transparency and disclosure requirements for financial market participants and financial advisors at entity and product level.

Enactment:	• 10 March 2021 (1 January 2023 – detailed technical standards) • Final report on updated draft RTS published in December 2023 – not enacted yet

Background

The Sustainable Finance Disclosure Regulation (SFDR) is a fundamental pillar of the package of measures implementing the EU Action Plan on Sustainable Finance. By introducing comprehensive sustainability-related disclosure obligations for financial institutions, SFDR aims to provide greater transparency on sustainability within the European financial markets in a standardised way, thus preventing greenwashing and ensuring comparability.

Key requirements

The sustainability-related disclosure requirements under the SFDR must be met at both company and product levels.

Disclosure requirements at company level

Financial market participants (FMPs) and financial advisors (FAs) have to disclose the following sustainability-related information on their website since 2021:

- how sustainability risks are included in the investment decision-making process and in investment advice;
- the extent to which the remuneration policy is consistent with the inclusion of sustainability risks; and
- whether the so called principal adverse impacts (PAI) on sustainability factors are considered in investment decisions and investment advice at company level.

The obligation on FMPs to disclose PAI requires comprehensive and detailed qualitative and quantitative information based on a specified template. The reporting template includes a set of quantitative PAI indicators depending on the underlying asset type and requires the reporting of all pre-defined mandatory PAI indicators as well as at least one environmental and one additional social PAI indicator. Examples of indicators include GHG emissions of all investments, the GHG intensity of investee companies and investee countries, the share of investments in investee companies that have been involved in violations of the UNGC (United Nations Global Compact) principles or OECD Guidelines for Multinational Companies, and the share of investments in energy-inefficient real-estate assets. The qualitative information to be disclosed includes information such as a description of the policies to identify and prioritise PAIs within the investment process, the data sources used, the consideration of PAIs within the engagement policies, as well as references to alignment with international standards for due diligence and reporting and, where relevant, the degree of their alignment with the objectives of the Paris Agreement.

The obligation to consider the PAI obligations at entity level is mandatory for companies with more than 500 employees and is applicable on a comply-or-explain basis for all other companies. The reporting based on the prescribed template has to be conducted annually starting by 30 June 2023, at the latest.

Disclosure requirements at financial product level

All financial products in scope of SFDR have to disclose information on sustainability risks and the (non-) consideration of the PAI on sustainability factors of the financial product in their pre-contractual disclosures (e.g. fund prospectuses). In addition, increased transparency requirements apply to financial products that promote environmental and/or social characteristics (art. 8 ‘ Light Green') and those that have sustainable investments as their objective (art. 9 'Dark Green”). Such products must include additional sustainability-related information based on detailed templates in the pre-contractual documents, in periodic reporting (e.g. annual reports from funds) and on websites. The templates include, among others, the disclosure and regular reporting of:

- the promoted environmental and/or social characteristics and objectives and how they were attained;
- the binding elements of the sustainability-related investment strategy;
- sustainability indicators; and
- detailed asset allocation of the portfolio in terms of % investments aligned with the promoted environmental and/or social characteristics and sustainable investments.

The templates also require the disclosure and reporting of the proportion of investments that are environmentally sustainable as defined by the EU Taxonomy (‘Taxonomy-aligned investments’), including taxonomy-aligned activities in natural gas and nuclear energy. Complementary product information, such as methodologies, data sources and processing and due diligence processes, is to be disclosed on the website of the FMP.

Who is impacted by SFDR?

The regulation applies to all **FMPs** and **FAs** within the EU. This includes, among others, asset managers, investment firms, credit institutions, insurance companies and pension funds.

Impact on Swiss financial institutions

Although Swiss financial institutions are often not directly within the scope of the requirements, they are indirectly impacted through their European subsidiaries and their exposure to EU clients and services. For example, Swiss companies who manage, market or act as a delegate for investment funds registered in the EU, often have to provide the required ESG information for the disclosures and include the respective obligations in their investment process and controls. Hence, many Swiss financial institutions are impacted by the transparency requirements of SFDR.

Recent developments and future outlook

Since its first application in March 2021, the SFDR regime has been concretised through regulatory technical standards (RTS), amendments to the RTS, Q&As, clarification documents and supervisory expectations. Below are the most recent developments.

In February 2023, the Commission Delegate Regulation (EU) 2023/363 was published amending the SFDR Delegated Regulation (SFDR RTS), which introduced new aspects to the original pre-contractual and periodic disclosure templates for financial products under SFDR in respect of fossil gas and nuclear energy-related activities to ensure alignment with the EU Taxonomy.

The EC launched a public and targeted consultation on the implementation of SFDR, lasting from 14 September 2023 until 15 December 2023. The aim was to assess potential shortcomings, focusing on legal certainty, the useability of the regulation and its ability to play its part in tackling greenwashing, ultimately exploring possible options to improve the framework. The consultation feedback was published in January 2024, but the regulatory consequences of these two consultations is yet to materialise.

Furthermore, following their mandate to review and revise the SFDR Delegated Regulation, the three European Supervisory Authorities (ESAs) published a joint consultation paper on a potential revision of SFDR in April 2023. The proposal entails, among others, an extended list of the universal social PAI indicators, a revision of the content of other PAIs, improvements on the disclosures on how sustainable investments ‘do no significant harm’ to any sustainable objectives and simplifications of the pre-contractual and periodic disclosure templates. Considering the feedback from industry and public interest groups to the consultation, the ESAs have published a final report on the draft RTS in December 2023. While the suggestions in the final report do not diverge far from the initial suggestions, they contain updated templates and articles that reflect the suggestions. Changes to RTS are not final until the Delegated Act has been released, which is expected in the course of 2024, however, no specific timeline is communicated. As soon as a timeline is available, the new templates have to be implemented.

6. IFRS Sustainability Disclosure Standards

Sustainability disclosure standards developed by the International Sustainability Standards Board (ISSB) aimed at developing standards for a global baseline of sustainability disclosures. The objective is not only to provide relevant and comprehensive sustainability information to global capital markets and investors, but also interoperability with local requirements and to address information needs with a variety of stakeholders.

Enactment:	• 26 June 2023 (IFRS S1 and S2) • Like the IFRS® Accounting Standards, jurisdictional bodies will decide whether IFRS Sustainability Disclosure Standards may be used within a certain territory. The standards are not enacted in Switzerland.

Background and current stage

Investors increasingly consider sustainability information when making their decisions and require information that is globally comparable and of high quality. The ISSB™ was formed in November 2021 by the IFRS® Foundation with the intention to develop standards aiming to meet this requirement, and to address a wide range of sustainability-related standards with the aim to reduce complexity, costs and risks to issuers and stakeholders.

The ISSB issued its inaugural global sustainability disclosure standards 'IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information' and 'IFRS S2: Climate-related Disclosures' on 26 June 2023.

What are the objectives?

The standards are focused on cost-effectiveness, relevance for decision-making and market-information.

The ISSB™ defined the following four key objectives:

- Develop standards for a global baseline of sustainability disclosures
- Meet the information needs of investors
- Enable companies to provide comprehensive sustainability information to global capital markets
- Facilitate interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups.

The ISSB on the sustainability reporting standards map

The ISSB is – among others – supported by the G7 and the G20. The close collaboration with the GRI ensures compatibility and interconnectedness between the investor-focused standard of the ISSB and the broader range of addressees of GRI. The ISSB™ benefits from the work and other support of leading investor-focused sustainability and integrated reporting organisations.

In this endeavour, the ISSB actively uses the work of the Climate Disclosure Standards Board (CDSB), the TCFD, the Value Reporting Foundation's Integrated Reporting Framework (responsibility jointly held by the International Accounting Standards Board (IASB)® and the ISSB), industry-based Sustainability Accounting Standards Board (SASB) Standards, and the World Economic Forum's Stakeholder Capitalism Metrics.

The CDSB and the Value Reporting Foundation (Integrated Reporting Framework and SASB Standards) were integrated into the IFRS Foundation in 2022 where the responsibility for the SASB Standards is now with the ISSB. Also, from 2024 onwards, the IFRS Foundation will take over the responsibilities from the TCFD concerning the monitoring of progress made on companies' climate-related disclosures. Companies applying the ISSB Standards will meet the TCFD recommendations.

ESRS and ISSB™ standards still differ in many key areas such as impact materiality or separate standards for different ESG matters. Work undertaken on interoperability, however, still enables companies to apply both sets of climate-related standards with a very limited duplication of effort. To facilitate such reporting, the ISSB™ collaborates with the EC and EFRAG to provide interoperability guidance aiming at assisting companies that intend to report under both ISSB™ and ESRS standards.

What is the content?

It is noteworthy that IFRS Accounting Standards and IFRS Sustainability Disclosure Standards are highly compatible. Whilst the combined application of these standards is possible and intended, the IFRS Sustainability Disclosure Standards are designed in a way that they can be used independently of the applied GAAP (Generally accepted accounting principles).

The IFRS Sustainability Disclosure Standards currently consist of the following:

1) IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information

- asks for disclosure of material information about sustainability-related risks and opportunities;
- sets out general reporting requirements;
- points to other standards and frameworks (e.g. SASB Standards and CDSB Framework application guidance) in the absence of specific IFRS Standards;
- emphasises the need for consistency and connections between financial statements and sustainability disclosures, requiring financial statements and sustainability disclosures to be published at the same time.

2) IFRS S2: Climate-related Disclosures

- sets out disclosure of material information about climate-related risks and opportunities;
- Incorporates TCFD Recommendations and includes SASB Standards' climate-related industry-specific topics and metrics as illustrative guidance;
- requires disclosure of information, when material, about physical risks (e.g. flood risk), transition risk (e.g. regulatory change) and climate-related opportunities (e.g. new technologies); and
- sets out disclosure for transition planning, climate resilience, and Scopes 1, 2 and 3 emissions.

Considering materiality, the ISSB uses the same definition of 'material' as the IFRS Accounting Standards: information is material if omitting, obscuring or misstating it could be reasonably expected to influence investor decisions.

Transitional reliefs

For the first year using the ISSB™ Standards, companies need not:

- provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
- provide annual sustainability-related disclosures at the same time as the related financial statements;

- provide comparative information;
- disclose Scope 3 greenhouse gas emissions; and
- use the Green House Gas Protocol to measure emissions, if they are currently using a different approach.

In addition, the ISSB decided that companies that only report on climate-related risks and opportunities in the first year are provided with additional relief from providing comparative information (in the second year, comparatives are required only for climate-related risks and opportunities).

What is the expected use?

The International Organisation of Securities Commissions (IOSCO) announced its endorsement of the IFRS Sustainability Disclosure Standards in July 2023. Member jurisdictions are now asked to consider how ISSB™ Standards can be incorporated in respective regulatory frameworks. It is expected that this will encourage the adoption of these standards. Like the IFRS Accounting Standards, legislative bodies will decide whether IFRS Sustainability Disclosure Standards may be used within a certain territory. For that purpose, the ISSB created the Sustainability Standards Advisory Forum for a closer collaboration with jurisdictional representatives.

Compatibility with other standards

If a company already applies either SASB Standards, TCFD Recommendations, the CDSB Framework or the Integrated Reporting Framework, the recommendation is to continue doing so since the IFRS Sustainability Disclosure Standards is based on these materials. Thus, it should facilitate a potential adoption of the standards developed by the ISSB.

In January 2024, a paper with the title *"Interoperability considerations for GHG emissions when applying GRI Standards and ISSB Standards"* was published illustrating the potential for interoperability when measuring and disclosing Scope 1, 2 and 3 GHG emissions in accordance with both GRI 305: Emissions and IFRS S2 Climate-related Disclosures.

Next steps and future outlook

For entities new to sustainability disclosure, it is recommended to use the 2023 financial year to prepare for a potential application of IFRS Sustainability Disclosure Standards by:

- evaluating internal systems and processes for collecting, aggregating and validating sustainability-related information across the company and its value chain;
- considering the sustainability-related risks and opportunities that affect the business;
- reviewing the ISSBTM's proposed standards; and
- reviewing or using the SASB Standards and CDSB Framework (both of which support IFRS S1), TCFD Recommendations (which form the foundation of IFRS S1 and IFRS S2) and the Integrated Reporting Framework (whose concepts are reflected in IFRS S1).

In Q2 2023, the ISSB™ consulted to determine future priorities beyond the initial IFRS S1 and IFRS S2 standards. The following four projects are subject to feedback from investors and other market participants:

- biodiversity, ecosystems and ecosystem services;
- human capital;
- human rights;
- connectivity in reporting (a potential joint project with the IASB).

Feedback was received and after having analysed it, the ISSB is currently evaluating the strategic direction aiming to finalise the next two-year work plan in the first half of 2024.

7. Global Reporting Initiative (GRI) Standards

Global sustainability reporting standards for sustainability impacts developed by the Global Reporting Initiative (GRI) and governed by the Global Sustainability Standards Board (GSSB). The objective is to enable organisations of any size to understand and report on their impact in the dimensions of economy, environment and people. Using the GRI is intended to provide structured and transparent information to many varied stakeholders and other interested parties. It can help organisations make their contribution to sustainable development more tangible and transparent.

Enactment:	Voluntary, currently the most widely used sustainability reporting standard across the globe

Objective

The concept of the triple bottom line is at the heart of the GRI Standards with its goal for preparers to focus in their sustainability reporting on their significant impacts on the economy, environment and people. Even though GRI recommends reporting in accordance with the GRI Standard, it is inclusive in the sense that it does not only encourage full compliance ('to report in accordance with') where a preparer reports on all its material topics and how it manages them. In situations where an organization is not able to fully comply or prefers to only report on certain elements, it allows preparers to report 'with reference to' the GRI Standards.

Whether a sustainability report is prepared in accordance with or with reference to the GRI Standards, in both cases an organization must include a GRI content index that:

- Provides an overview of the included topics respectively which GRI Standards have been applied
- Helps to swiftly locate reported qualitative and quantitative information through a page number or URL
- Shows which topics an organization has not reported on:
  - either because it cannot comply with a disclosure or requirement (including an explanation in the content index); or
  - because it used a 'reason for omission'[2] (disclosed in the content index).

Using the GRI Standards for its sustainability reporting, an organization raises expectations among stakeholders and other addresses. To meet these expectations a reliable quality is of great importance which includes comparability over time and across different organisations. In this regard, the fundamental reporting principles are crucial:

- Accuracy
- Balance
- Clarity
- Comparability
- Completeness
- Sustainability context
- Timeliness
- Verifiability

[2] GRI 1.4: «If the organization cannot comply with a disclosure or with a requirement in a disclosure for which reasons for omission are permitted […], then the organization is required to specify the disclosure or the requirement it cannot comply with, and provide a reason for omission with an explanation in the GRI content index. The acceptable reasons for omission are included in GRI 1 requirement 6.

Modular structure

Whether it is a large, listed group or a small private entity, the aim of the GRI Standards is that they can be applied by a broad spectrum of companies. This intention is reflected in the modular, interconnected structure of the GRI Standards:

- Universal Standards (applicable to all companies).
- Sector Standards (applicable to organizations operating in specific sectors).
- Topic Standards (disclosure requirements applicable to specific topics).

Universal Standards

Content of GRI Universal Standards	
GRI 1: Foundation 2021	• Purpose and critical concepts of the Standards • Requirements an entity must comply with to report *'in accordance with the GRI Standards'* • Requirements an entity must comply with to report '*with reference to the GRI Standards*' • Definition of underlying principles: accuracy, balance, clarity, comparability, completeness, sustainability context, timeliness, verifiability
GRI 2: General Disclosures 2021	Contextual information on organisation through disclosures on: • Structure and reporting practice of organisation • Activities and workers • Governance, strategy, policies, practices and stakeholder engagement
GRI 3: Material Topics 2021	• Process to identify material topics of an organisation (including Sector Standards) • Disclosure requirements on material topics: (1) Description of materiality assessment process (2) Management of each material topic

Sector Standards

With the plan to develop different standards for 40 sectors, quality, completeness and consistency of sustainability reporting shall be increased. Currently, sectors with the highest impact such as oil and gas, agriculture and fishing are prioritised. Sector Standards are mandatory[3] for organizations operating in a given industry and include topics and corresponding disclosure requirements expected to be relevant for most organisations in that sector (e.g. specific disclosure requirements from different Topic Standards and where relevant additional sector-specific disclosures).

Each Sector Standard consists of the following elements:

1) Initial section: overview of the characteristics – in particular activities and business relationships – of a sector.
2) Main section: contains probable material topics for a specific sector and describes the most significant impacts, broken down by topics. A link is provided to the relevant disclosures in the Topics Standards for each topic described.

In addition, a Sector Standard may list additional disclosures that are not included in a Topic Standard. This instrument is used in cases where the disclosures of a Topic Standard are not sufficient to adequately reflect an organization's impact in relation to a specific topic. The

[3] If an organization reports in accordance with the GRI Standards.

aim is to consider the expectations of a wide range of stakeholders in connection with the management of impacts in a sector.

Topic Standards

Disclosure requirements for specific topics such as anti-corruption, energy, employment or non-discrimination. Each topical standard consists of the following elements:

1) Overview of the topic
2) Disclosures specific to the topic
3) Management of related impacts

An entity is not required to report on all topics but only those for which the organisation has identified a significant impact in the materiality assessment.

Structure of guidance

Disclosure requirements included in the Standards help to structure the sustainability report of an organization. Within these disclosures, there can be (1) requirements, (2) recommendations or (3) guidance:

1) ‘Requirements’ represent elements where an entity is obliged to provide a specific set of information or act in a certain way.
2) ‘Recommendations’ are of voluntary nature, although the disclosure of specific information or to act in a certain way is supported.
3) ‘Guidance’ refers to the Meta level supporting the understanding of the preparer and may include background information, explanations or examples.

Steps in the reporting process

Applying the GRI Standards, an organization should follow below steps when preparing its sustainability report:

1) Identifying and assessing impacts:
   Identification of own impacts and evaluating (GRI 3) their significance within an organization’s context (GRI 2). The Sector Standards may support in this process describing the characteristics of an industry explaining the root causes of the observed impacts.
2) Determining material impacts:
   After having evaluated and eventually defined the significance of its impacts, an organization needs to prioritise and determine the impacts it will include in the sustainability report. This process is to be documented in case an entity reports in accordance with the GRI Standards. Summarizing individual impacts into topics (Topic Standards) facilitates the understandability of the sustainability report. In GRI 3, this grouping process is explained in detail. Again, the Sector Standards may be useful to check whether the topics listed in the Sector Standards are reflected in the topics selected by an organization. However, the process of identifying and assessing impacts considering the individual characteristics of an entity cannot be replaced by merely copying the topics in the Sector Standards.
3) Reporting disclosures:
   The last step in the process is the preparation and reporting of quantitative and qualitative information in connection with the defined material topics. The Topic Standards together with the Universal Standards (in particular GRI 2 and GRI 3) enable an organisation to report this information in a structured way. Omitting information may be permitted in certain situations, given a valid reason is provided and disclosed in the GRI content index.

8. Equal pay

8.1. Switzerland

The revised Gender Equality Act has been in force since 1 July 2020, requiring companies with 100 or more employees to conduct an equal pay analysis and to have this analysis reviewed by an approved independent auditor. Further regulatory developments on the transparency of pay and gender quotas can also be expected at the European level.

Enactment:
- 1 July 2020, refer to the section on important dates below
- Potential duty to repeat assessment in 2025 calendar year

Revision of the Gender Equality Act

The Federal Council enacted an amendment to the Gender Equality Act to enforce equal pay as of 1 July 2020.

Under the revised legislation, companies and public institutions with 100 or more employees (headcount) had to carry out an equal pay analysis by June 2021 and have it reviewed by an approved independent auditor by June 2022. Companies were also obliged to inform employees and shareholders about the results by June 2023.

During the period of validity, equal pay analyses must be repeated regularly every four years, unless an analysis shows that there is no inexplicable systematic wage difference between women and men. In this case, no further analysis is required.

You can learn more about how PwC can help you comply with the revised Gender Equality Act here:

- PwC Insights on the Gender Equality Act
- Regulatory developments promoting gender balance
- New Swiss equal pay law – how does it fit into today's global landscape of gender pay legislation?

Please also note that companies growing in headcount might become subject to the revised Gender Equality Act over time. Switzerland-based legal entities must assess the number of employees (headcount) each year on 1 January. When companies meet or exceed the headcount of 100, the regulations of the Gender Equality Act become applicable to them, i.e. they must prepare an analysis and have this analysis reviewed by an approved independent auditor. Such companies are also obliged to inform employees and shareholders about the results.

The law does not provide for any sanctions.

Important dates to note

- 1 July 2020: the amended Gender Equality Act entered into force.
- Latest 30 June 2021: companies and public institutions had to complete their first internal equal pay analysis.
- Latest 30 June 2022: companies must have had their internal analysis reviewed by an independent auditor within one year of completing the analysis
- Latest 30 June 2023 : companies must have had informed their employees in writing of the results of the analysis. Companies whose shares are listed on a stock exchange must disclose the results of the equal pay analysis in the notes to the annual financial statements.

- 1 July 2032: the amendment to the Gender Equality Act automatically expires after twelve years in accordance with the sunset clause.

The above obligations therefore apply to the period from 1 July 2020 to 30 June 2032.

Potential duty to act in 2025 calendar year:

An entity that did the first analysis in the time period from 1 July 2020 to 30 June 2021 and that did not meet the equal pay criteria (e.g. red result in Logib) will have to redo an analysis in 2025 (calendar year), followed by an independent audit and communication to the workforce.

Subject to review

The review of equal pay analyses is defined as a formal review. This is designed as a limited assurance engagement: the auditor's report includes therefore a statement on whether any findings exist that would lead to the conclusion that the equal pay analysis does not comply with the law.

The legal requirements are:

- The equal pay analysis was carried out within the period prescribed by law.
- There is evidence that the equal pay analysis was carried out using a scientific and legally compliant method.
- All employees were recorded in full.
- All salary components were recorded in full.
- The required data has been collected in full.

What you need to do

The first internal analysis must be completed by the end of June 2021 at the latest. Companies must provide evidence of the scientific nature and legal conformity of the analytical method used. If the federal government’s standard analysis tool (Logib) is used, the Office for Gender Equality provides a declaration of conformity.

Further information about Logib can be found at www.ebg.admin.ch.

PwC is happy to assist you with any questions you have regarding equal pay and the new legal requirements: PwC Insights on the Gender Equality Act

Are there alternative solutions?

The formal review meets the minimum legal obligation. It does not prove the existence of an effective equal payment regime, nor does it provide a statement from the employer about the related organisational measures in place.

We outline below two alternatives to the minimal legal obligation described above.

- Equal-Salary Certification by the Equal-Salary Foundation, with assurance by PwC
- ESG reporting tailored to specific needs and supporting the company’s social license to operate (SLO) by communicating its purpose and its contributions to economic, ecological, and social areas, including gender equality. Moreover, this message appears even stronger through external assurance.

Gender guidelines

Since 1 January 2023 the Swiss corporate law includes gender guidelines which are mandatory for large companies (Swiss CO art. 727 para. 1 cl. 2). The guideline is for women to make up at least 30 per cent of the Board of Directors and 20 per cent of the Executive Board in large companies with listed shares based in Switzerland.

No sanctions are provided for if the guidelines are not met. However, companies are obliged to explain in the compensation report the reasons and the measures to improve the situation (comply-or-explain approach). The obligation to report gender representation begins five years after the new provisions come into force for the Board of Directors (1 January 2026) and ten years for the Executive Board (1 January 2031).

8.2. European developments

EU Directive on Gender Balanced Boards

On 14 March 2022, The EU Member States' employment and social affairs ministers have reached a preliminary agreement on a European directive to enhance gender equality on corporate boards. The directive proposes that listed companies must have at least 40% non-executive director positions held by the under-represented sex, or 33% if all board members are considered. By 2026, companies are required to take measures to achieve these minimum targets, while countries with existing measures or progress towards the directive's goals may suspend its requirements. However, final implementation across Europe still depends on an agreement between the European Council and the EU Parliament.

The EU Pay Transparency Directive

On 30 March 2023, the European Parliament approved the European Commission's legislative proposal to introduce pay transparency requirements and enforcement mechanisms to reinforce the implementation of equal pay for equal work or work of similar value between men and women. Companies that are located in an EU member state with at least 100 employees will need to comply. The EU Pay Transparency Directive entered into force on 6 June 2023. Swiss companies whose parent company is in the EU are also affected by this new directive.

- Member States will have up to three years to transpose the requirements into local law.

Background

Although gender-based pay discrimination is already prohibited, it has persisted due to insufficient implementation, in part because of the lack of transparency in pay structures. The resulting EU Directive on Pay Transparency could play a crucial role in addressing this issue.

The directive sets out pay transparency measures, such as pay information for job seekers, a right to know the pay levels for workers doing the same work, as well as gender pay gap reporting obligations for companies – public and private – with more than 100 employees.

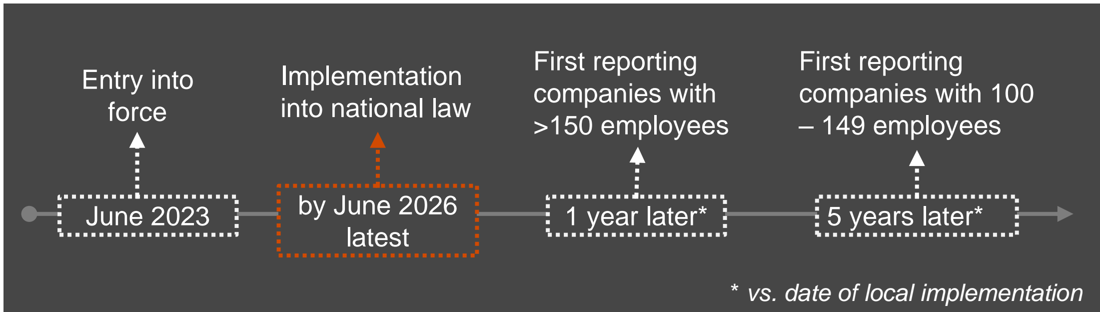
The directive prescribes two areas where employers will need to take action: pay transparency and pay equity.

Pay transparency	
Recruitment:	Employers will be required to inform applicants of a range of starting pay in job postings or prior to an interview and they will not be allowed to ask candidates about their pay history.
Right to information:	Workers will be allowed to ask their employer for information about their pay levels in relation to average pay levels – broken down by gender – for categories of workers doing the same work or work of equal value.
Reporting:	Employers will have to publish different data points (average and median) around the gender pay gap as well as the proportion of workers who benefitted from a pay rise following their return from (maternity) leave.

Pay equity	
Reporting:	On top of the average and median gender pay gaps, employers are required to report on their pay gaps adjusted for gender-neutral criteria, such as experience and performance. Employees have the right to receive such information.
Correct pay inequity:	If the adjusted gender gap is above 5%, then companies need to correct the gap within six months or conduct a joint pay assessment and create a gender action plan.
Burden of proof:	Where the employer did not fulfil its transparency obligations, it will be for the employer, not the worker, to prove that there was no discrimination in relation to pay.
Compensation:	Workers who have suffered gender pay discrimination can receive compensation, including full recovery of back pay and related bonuses or payments in kind.
Sanctions:	Member States should establish specific penalties for infringements of the equal pay rule, including fines – and equality bodies and workers' representatives may act in legal or administrative proceedings on behalf of workers.

Further proceedings

Member States will have up to three years to transpose the requirements into local law, i.e. by June 2026 at the latest. Employers may then be given up to a year to start complying with key provisions, i.e. June 2027 at the latest.



The initial deadline to comply with the pay gap reporting obligations depends on the size of the organisation:

- 100–149 employees – report within 5 years after the date of implementation.
- >150 employees – report within 1 year after the date of implementation.

9. Further regulatory developments

9.1. CS3D – Corporate Sustainability Due Diligence Directive

Binding framework that helps companies to assess and manage sustainability risks and impacts across their value chains. Introduction of a link between variable remuneration of directors and the sustainability targets of a company.

Enactment:	• Not yet enacted – phased-in approach foreseen: Companies with > 5’000 employees on average and > EUR 1’500 million net worldwide revenue must comply within three years after the Directive has entered into force. • Companies with > 3’000 employees on average and > EUR 900 million net worldwide revenue* must comply within four years after the Directive has entered into force. • Companies with > 1’000 employees on average and > EUR 450 million net worldwide revenue* must comply within five years after the Directive has entered into force. * For non-EU companies / parents the revenue thresholds refer to EU revenue. Additionally certain additional thresholds apply (refer to separate chapter below)

The proposed CS3D directive complements various EU initiatives such as the Corporate Sustainability Reporting Directive (CSRD). The CS3D aims to create an EU-wide transparent and predictable framework that helps companies to assess and manage sustainability risks and impacts with respect to core human rights and environmental risks across their to their chain of activities. The chain of activities includes corporate operations, upstream or downstream business relationships (“value chains”)[4]. By introducing a link between variable remuneration of directors and the sustainability targets of a company, this requirement could influence companies’ remuneration strategies.

The due diligence obligation requires companies to identify actual and potential negative impacts on human rights and the environment within their value chain, and to take measures to mitigate those impacts. In addition, companies are required to adjust and align their business plans and strategies with the transition to a sustainable economy and the limitation of global warming to 1.5 degrees Celsius, in accordance with the Paris Agreement.

On 15 March 2024, the EU member states reached an agreement in relation to the CS3D and it was approved by the European Commission. The compromise followed extensive negotiations and includes several last-minute changes. On 24 April, the European Parliament also approved the CS3D. The CS3D will be enacted as soon as it has been approved by the European Council and published in the Official Journal.

Scope

At an earlier stage, the CS3D was intended for companies with an average of 500 employees and a net global turnover of EUR 150 million and additionally also aimed at smaller entities operating in high-risk sectors. These figures were raised to 1’000 employees[5] on average and a global net turnover of EUR 450 million and the additional requirement for companies in high-risk sectors was removed completely. Consequently, only

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[4] Exceptions apply with regards to downstream services in general and for regulated financial undertakings. Refer to Ciph. 19 in the following publication.

[5] The number of part-time employees shall be calculated on a full-time equivalent basis. Temporary agency workers and other workers in non-standard forms of employment, provided that they fulfil the criteria for determining the status of a worker established by the Court of Justice, shall be included in the calculation of the number of employees in the same way as if they were workers employed directly for the same period of time by the company.

one third of the initial population or approximately 5’400 companies are expected to be in scope of the CS3D.

Even though below thresholds relate to one financial year, the CS3D only applies to companies that meet these thresholds in two consecutive financial years. The CS3D shall no longer be applicable if a company does not meet below thresholds for each of the last two relevant financial years.

In its current form the Directive applies to the following entities:

a) Companies formed in accordance with the legislation of an EU Member State and fulfilling one of the following conditions:
   i. having more than 1’000 employees on average and a net worldwide turnover of more than EUR 450 million in the last financial year for which annual financial statements have been or should have been prepared;
   or
   ii. being the ultimate parent company of a group where the group has more than 1’000 employees on average and a net worldwide turnover of more than EUR 450 million in the last financial year for which annual consolidated financial statements have been or should have been prepared;
   or
   iii. having entered into or being the ultimate parent company of a group that entered into franchising or licensing agreements in the EU and earning royalties from third-party companies of more than EUR 22.5 million and the company had or is the ultimate parent company of a group that had a net worldwide turnover of more than EUR 80 million in the last financial year for which financial statements have been or should have been prepared.
b) Companies formed in accordance with the legislation of a third country and fulfilling one of the following conditions:
   i. Generating a net turnover of more than EUR 450 million in the EU in the financial year preceding the last financial year.
   or
   ii. being the ultimate parent company of a group where the group generated a net turnover of more than EUR 450 million in the EU.
   or
   iii. having entered into or being the ultimate parent company of a group that entered into franchising or licensing agreements in the EU and earning royalties from third-party companies of more than EUR 22.5 million in the EU and the company had or is the ultimate parent company of a group that had a net turnover of more than EUR 80 million in the EU in the financial year preceding the last financial year.

If the main activity of the ultimate holding company is the holding of shares of the group entities and it does not take management, operational or financial decisions affecting the group or any subsidiaries, it may delegate its obligations under the CS3D to one of its subsidiaries established in the EU.

Even though companies not meeting above thresholds appear to be out of scope of the CS3D, they may be indirectly affected as part of the value chain of companies that fall within the scope of this Directive.

The proposed due diligence requirements follow a phased-in approach:

	Formed in accordance with the legislation of the Member State	Formed in accordance with the legislation of a third country
With >5,000 employees on average and >EUR 1,500 million net worldwide revenue	In scope within 3 years* after directive enters into force	N/A
With >EUR 1,500 million net revenue in the EU	N/A	In scope within 3 years* after directive enters into force

* Please note that the requirements in connection with art. 11 'Communicating' of this directive enter into force 1 January 2028.

	Formed in accordance with the legislation of the Member State	Formed in accordance with the legislation of a third country
With >3,000 employees on average and >EUR 900 million net worldwide revenue	In scope within 4 years** after directive enters into force	N/A
With >EUR 900 million net revenue in the EU	N/A	In scope within 4 years** after directive enters into force

** Please note that the requirements in connection with art. 11 'Communicating' of this directive enter into force 1 January 2029.

	Formed in accordance with the legislation of the Member State	Formed in accordance with the legislation of a third country
All other in scope companies	In scope within 5 years*** after directive enters into force	In scope within 5 years*** after directive enters into force

*** Please note that the requirements in connection with art. 11 'Communicating' of this directive enter into force 1 January 2029.

Obligations for companies and their directors

The proposed Directive lays down specific risk-based human rights and environmental due diligence obligations for companies within its scope:

Obligations for companies	
Policy	Integration of due diligence into policies and risk management systems. The policies in place should ensure a risk-based approach to due diligence and be developed in collaboration with the company's employees and their representatives. The due diligence policy shall be updated without undue delay if a significant change occurs or in any case at least every 2 years.
Identification and assessment	Take appropriate measures to identify and assess actual and potential adverse impacts on human rights and the environment arising from own operations, from subsidiaries and where related to their chains of activities to those of their business partners.
Prioritisation	Where not feasible to fully prevent, mitigate, end or minimise all identified adverse impacts at the same time, companies prioritise identified adverse impacts based on their severity and likelihood.

	After having addressed the most severe and likely adverse impacts, companies then shall focus on less severe and less likely adverse impacts.
Prevention and mitigation of potential adverse impacts	Take appropriate measures to prevent potential adverse impacts. Where prevention is not (immediately) possible the company shall mitigate potential adverse impacts on human rights and the environment.
End actual adverse impacts	Companies shall take appropriate measures to end actual adverse impacts. Additionally, companies shall remediate actual adverse impacts.
Stakeholder engagement	Carry out effective engagement with stakeholders providing relevant and comprehensive information to enable transparent consultations.
Notification mechanism and complaints procedure	Establish notification mechanism giving possibility to persons and organisations specified in Art. 9 para. 2 to submit complaints if they have legitimate concerns regarding actual or potential adverse impacts on human rights or the environment. This covers the companies' own operations, the operations of their subsidiaries or the operations of their business partners in the companies' chains of activities.
Assessing implementation Monitoring adequacy and effectiveness	Assess implementation as well as monitor adequacy and effectiveness of due diligence policies and measures taken. This is ensured by performing period assessments of own operations and measures, those of their subsidiaries and, where related to the chains of activities of the company, those of their business partners. This assessment should be based, where appropriate, on qualitative and quantitative indicators and carried out without undue delay if a significant change occurs or in any case at least every year.
Public communication	Publish annual statement on their website in an official language of the Union Member State or a language customary in the sphere of international business within a reasonable time period but latest 12 months after the balance sheet date. Communicate publicly on due diligence. For third-country companies the annual statement also includes information on the company's authorised representative. Exemptions to the publication requirement may apply for entities subject to sustainability reporting in the EU (CSRD). From 1 January 2029, companies shall submit that statement to make it accessible on the European Single Access Point (ESAP).

Penalties for violation of requirements

Member States will define the rules on effective, proportionate and dissuasive penalties, including pecuniary penalties applicable to infringements of national provisions (after adopting the CS3D into national law). There shall be at least the following penalties:

- Pecuniary penalties based on the company's (consolidated) net worldwide turnover (maximum possible shall be at not less than 5% of the net worldwide turnover)
- If the company fails to comply with the requirements resulting in a pecuniary penalty within the applicable time-limit, a public statement indicating the company responsible and the nature of the infringement

Any infringement shall be published and remain publicly available for at least 3 years.

When deciding if a penalty is imposed and what form it takes, the following is considered:

- Nature, gravity and duration of the infringement, and the severity of the impacts resulting from that infringement;
- Any investments made and any targeted support provided;
- Any collaboration with other entities to address the impacts concerned;
- The extent to which prioritisation decisions were made;
- Relevant previous infringements of national provisions by the company;
- The extent to which the company carried out any remedial action with regard to the concerned subject matter;
- The financial benefits gained from or losses avoided due to the infringement; and
- Any other aggravating or mitigating factors applicable to the circumstances of the case.

A company can be held liable for a damage caused to a natural or legal person, provided that it:

- Intentionally or negligently failed to comply with the obligations; and
- As a result of a failure a damage to the natural or legal person's legal interest was caused.

Where the company was held liable, a natural or legal person shall have the right to full compensation for the damage occurred in accordance with national law. However, a company cannot be held liable if the damage was caused only by its business partners in its chain of activities.

9.2. SEC (US Securities and Exchange Commission) climate-related disclosure rules

Disclosure requirements for public companies on climate-related risks and risk management including the governance of such risks by both Board and Management. Moreover, the rule requires to disclose the financial effects of severe weather events and other natural conditions in the audited financial statements. The disclosure of information on greenhouse gas emissions is limited to larger registrants and connected to a phased-in assurance requirement.

Enactment:	• Adopted, but as of 4 April 2024 on legal hold.

On 6 March 2024 the SEC adopted final rules aimed at improving disclosures related to risks and impacts of climate-related matters for public companies. Compared to the proposal issued in March 2022, the final rule generally reduced the scope of disclosures to be made, most notably in the areas of financial statement footnote disclosures and the scope and number of issuers covered by the greenhouse gas emission disclosures. Due to pending legal challenges, the SEC as of 4 April 2024 put its climate disclosure rules on legal hold.

On one hand, the objective of the new rules is to provide decision-useful, consistent and comparable information to the investors. Consequently, the focus is on climate-related risks reasonably likely to have a material impact on a company's business strategy, results of operations, or financial condition. On the other hand, it provides registrants with guidance and clear reporting requirements.

For foreign private (Form 20-F) and domestic issuers (Form 10-K), the rules will require disclosures in registration statements and periodic reports.

The following topics reflect the disclosure requirements:

General disclosures	• Actual and potential material impacts of climate-related physical and transition risks on the registrant's strategy, business model, and outlook that have materially impacted, or are reasonably

	likely to have a material impact, on the registrant, including its strategy, financial condition, and results of operations. • Description of the nature and extent of management's role in assessing and managing climate-related risks and the board of director's oversight of such risks. • The processes for identifying, assessing, and managing climate-related risks, whether and how climate-related risks are integrated into the company's overall risk management processes, and any transition plans to manage material transition risks that are part of the company's risk management strategy. • Any climate-related target or goal that has materially affected or is reasonably likely to materially affect the registrant's business, results of operations, or financial condition, including specific quantitative and qualitative disclosures regarding material expenditures and material impacts on financial estimates and assumptions.
Greenhouse gas emissions	• Emerging growth companies (EGCs) and smaller reporting companies (SRCs) are exempt from emissions disclosures. • Large accelerated and accelerated filers are required to disclose: – Scope 1 and Scope 2 emissions, if material (including separate disclosure of any individually material constituent gas). They are material if necessary to allow investors to understand an issuer's transition risks and progress made towards achieving a disclosed target or goal. – Additionally, organisations have to disclose the approach used to determine their organisational boundary and any material differences from the scope of their consolidated financial statements. – The 'protocol or standard' used to report GHG emissions, including information about the methodology, significant inputs, and significant assumptions used to calculate GHG emissions. Apart from the Greenhouse Gas Protocol other standards are also permitted. • Registrants will have additional time after filing their annual reports to disclose their Scope 1 and Scope 2 emissions: – Domestic registrants must file by the due date of the Form 10-Q for the second fiscal quarter; – Foreign private issuers must file required GHG disclosures within a similar time period. • Additionally, registrants must obtain independent attestation of required Scope 1 and Scope 2 GHG emissions. A phased-in approach is taken where initially limited assurance is required. Only large accelerated filers will eventually need to obtain reasonable assurance.
Financial statement disclosures	• Issuers have to disclose certain climate-related financial statement effects and related disclosures in a footnote to the audited financial statements: • Separate disclosure of the impacts from severe weather events and other natural conditions relating to: – Capitalized costs and charges if the absolute value of the aggregated impact is 1% or more of the absolute value of stockholder's equity or deficit as of the end of the relevant fiscal year, subject to a $500,000 de minimis threshold. – Expenditures expensed as incurred and losses if the aggregated impact is 1% or more of the absolute value of income or loss before taxes for the relevant fiscal year, subject to a $100,000 de minimis threshold.

	• If the severe weather event or other natural condition is a significant contributing factor in incurring an expenditure, loss, capitalized cost, charge, or recovery, the entire amount must be included in the disclosure, with separate disclosure of where amounts are presented in the financial statements. • Additional quantitative financial statement disclosures are required for amounts expensed and capitalized, or losses incurred related to carbon offsets and renewable energy credits (RECs) if they are a material component of plans to achieve climate-related targets or goals. • Qualitative disclosures regarding financial estimates and assumptions materially impacted by – severe weather events and other natural conditions; or – disclosed targets or transition plans.
XBRL	Information must be tagged using inline XBRL starting with fiscal years beginning in: • 2026 for large accelerated and accelerated filers (other than EGCs and SRCs), and • 2027 for all others.

Transition and next steps

Disclosure will be required prospectively, with information for prior periods required only to the extent it was previously disclosed in an SEC filing. Although some concepts from the disclosure framework developed by the TCFD are leveraged, the SEC's final rules differ in many ways from other new regulation and standards, such as the European Union's CSRD, the IFRS Sustainability Disclosure Standards, and the California climate disclosure laws. Whilst there is broad interest in interoperability – that is, the ability to use disclosures prepared under another framework to satisfy disclosure requirements – there are no equivalency provisions in the new rules. Instead, the SEC noted that it will *"observe how reporting under international climate-related reporting requirements and practices develop before making any determination whether such an approach would result in consistent, reliable, and comparable information for investors."*[6]

This means that an SEC registrant that has a subsidiary listed in the EU, and a subsidiary in a jurisdiction that requires the IFRS Sustainability Disclosure Standards, may be subject to all three requirements, plus the new California climate disclosure laws. With interoperability not yet in place, companies captured in multiple reporting regimes have a vested interest in understanding which reporting applies.

The earliest effective dates start with reporting on fiscal year 2025 information in 2026. Initial compliance dates are based on the year the registrant's fiscal year begins and vary depending on the particular provisions and type of filer:

Registrant type	Disclosures, other than GHG emissions[7]
Large accelerated filers	Fiscal year beginning in the calendar year 2025
Accelerated filers (other than SRCs and EGCs)	Fiscal year beginning in the calendar year 2026
SRCs, EGCs, and non-accelerated filers	Fiscal year beginning in the calendar year 2027

[6] SEC, the Enhancement and Standardization of Climate-Related Disclosures for Investors, page 805.

[7] There are three specific Regulation S-K disclosures (Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)) related to the qualitative and quantitative impact of material expenditures incurred and material impacts on certain financial estimates and assumptions for which the effective date is one year later than listed in this table.

GHG emissions and related assurance			
Registrant type	Scope 1 and 2 GHG emissions	Limited assurance	Reasonable assurance
Large accelerated filers	Fiscal year beginning in the calendar year 2026	Fiscal year beginning in the calendar year 2029	Fiscal year beginning in the calendar year 2033
Accelerated filers (other than SRCs and EGCs)	Fiscal year beginning in the calendar year 2028	Fiscal year beginning in the calendar year 2031	Not applicable
SRCs, EGCs, and non-accelerated filers	Not applicable	Not applicable	Not applicable

More detailed information is available in the following publications:

- SEC adopts climate-related disclosure rules
- Navigating the SEC climate-related disclosure requirements

9.3. California climate disclosure bills

Disclosure requirements for public and private companies that are 'doing business' in California.	
Enactment:	• Enacted, reporting from 1 January 2026 (on 2025 financial year)

The California climate disclosure bills require:

1. GHG emissions reporting in compliance with the Greenhouse Gas Protocol and
2. climate-related financial risk reporting in line with the recommendations of the TCFD.

They became law in October 2023 and over 10,000 US companies – including both public and private companies as well as subsidiaries of non-US headquartered companies that meet certain revenue thresholds (USD 500 million / 1 billion) and that are 'doing business' in California – are subject to climate disclosure requirements in the near term, with reporting beginning in 2026 on 2025 information.

More detailed information is available in the following publication:
Navigating the ESG landscape – Comparison of the "big three" sustainability frameworks

9.4. CBAM (Carbon Border Adjustment Mechanism)

Organisations operating in the European Union and sourcing production input factors such as aluminium, cement, electricity, fertilisers, iron and steel, hydrogen, precursors or finished products such as screws or bolts from suppliers outside the EU will be affected by CBAM already as early as 2023.	
Enactment:	Phased approach: • October 2023 – December 2025: Transitional period where reporting declarants (importers and/or indirect customs representatives) have a reporting obligation only (no purchase of certificates required yet). Quarterly CBAM report to EU authority based on unverified data collected from suppliers is required. Penalties apply for reporting declarants failing to submit CBAM reports.

	• Starting January 2026: Fully operational period where reporting declarants are required to purchase CBAM certificates and obtain verification of the data collected from their suppliers. After verification, annual CBAM declaration together with certificates needs to be submitted to EU authority.

Starting 1 October 2023, EU-based organisations must report on carbon emission-intensive products imported from outside the EU. These emissions will need to be financially offset from 2026 onwards.

The overarching goal of the EU's Green Deal is the reduction of carbon emissions where CBAM is one of the measures to achieve this. The EU's current Emission Trading System (ETS) where a number of emission allowances are allocated freely to organizations will gradually be replaced until 2034 by CBAM. This change is deemed necessary to ensure the international competitiveness of EU-based organizations compared to businesses based outside the EU which may benefit from less stringent environmental regulations. Essentially, the CBAM aims to establish a competitive level playing field by compensating for the differences in carbon prices between domestic and imported products.

So-called reporting declarants play a key role in the implementation of CBAM. To financially offset the carbon emissions embedded in CBAM-relevant products imported from suppliers outside the EU, declarants may purchase CBAM certificates. The price of such certificates corresponds to the current carbon price in the EU ETS published weekly by the EU authority. Additionally, declarants need to collect the following data when importing CBAM-relevant products:

- Total quantity of imported products
- Actual (1) direct and (2) indirect emissions embedded in the imported products
- Carbon price already paid for the products in the country of origin (this may reduce the number of certificates to be purchased)

As of January 2026 an accredited verifier then has to validate this data before the declarant submits it together with the purchased certificates to the EU authority.

Currently, CBAM is applicable to around 500 production input factors and certain finished products from the following product groups:

- Aluminium
- Cement
- Electricity
- Fertilisers
- Iron and steel
- Hydrogen
- Precursors
- Downstream products such as screws, bolts and similar articles of iron or steel.

This list is not final and likely extended – for instance with organic chemicals and polymers – before the fully operational period starts in January 2026. Such addition would lead to an increase of the CBAM scope by around 800 products with the goal of eventually having all products currently covered by the ETS under the CBAM umbrella.

For now, Switzerland as a member of the EFTA is on the exemption list from this regulation. However, organizations with cross-border activities in the EU sourcing products outside the EU and EFTA-states may be affected by CBAM either directly or indirectly.

More detailed information is available in the following publications:

- EU deal reached on the CBAM – What you need to know
- Regulatory updates – Recent tax developments

9.5. ESEF – European Single Electronic Format

For companies with securities traded on a regulated market within the EU, financial reporting in accordance with the ESEF has already been required since 2020 and is based on the so-called ESEF Taxonomy. With the implementation of the CSRD, this requirement now also applies to non-financial reporting in the management report. The timeline follows the CSRD requiring the first in-scope entities to report in accordance with the ESEF for FY 2024 already. However, given the current status of the project and the steps necessary in the political process it is possible that the requirement will only begin in 2025 reporting year.

Enactment:	• Timeline in accordance with CSRD

When reporting in accordance with the ESEF format, the components of the annual financial report (including the management report) must be prepared in the xHTML format (xHTML, Extensible Hypertext Markup Language). xHTML is a human-readable carrier format for the annual financial report.

Additionally, the consolidated financial statements and the (consolidated) sustainability report must be marked up using iXBRL technology (Inline Extensible Business Reporting Language) where the iXBRL markup is used in particular for machine processing. This means for (consolidated) sustainability reporting that the ESRS are compiled into a corresponding XBRLTaxonomy, forming the basis on which an iXBRL tagging can be performed. It is planned that the iXBRL tagging should be carried out both in detail (data points and individual descriptions) and by means of block tagging (entire sections).

10. Industry- and territory-specific considerations

10.1. Sustainable Finance at FINMA

FINMA places a strong emphasis on sustainable finance as a fundamental component of its mission. The organization's strategic goals for 2021-2024 reflect a commitment to promote the sustainable growth of Switzerland's financial sector.

With its role as a supervisory authority, FINMA actively engages with the challenges presented by sustainability in financial markets. The central focus lies in recognizing and mitigating financial risks associated with sustainability, with particular attention given to climate-related risks, which currently represent the most prominent concerns.

In fulfilling its mandate, FINMA holds supervised institutions accountable for the effective management of climate-related risks. Their approach is designed to be proportionate and consistent with other risk factors. In January 2023, FINMA released guidance to assist in navigating the complexities of climate risk management.

To strengthen transparency, FINMA has clarified disclosure requirements for significant financial institutions regarding climate-related risks, enhancing comparability across balance sheets. These requirements have been in effect since 1 July 2021, and institutions had to comply in 2022. End of 2022, FINMA analysed how the largest banks and insurance companies disclose their climate-related financial risk and set out key findings and recommendations.

Looking ahead, FINMA is poised to refine its expectations for managing climate-related financial risks, issuing more detailed guidance where necessary. This approach aims to provide clarity to institutions while ensuring a consistent and proportionate approach across different sectors. Relevant international developments will also be considered.

Furthermore, FINMA released a draft circular addressing the management of nature-related financial risks. The circular will define FINMA's supervisory practice regarding incorporation and management of material nature-related financial risks. The final version is expected to be released in Q2 2024.

10.2. Developments relevant for entities operating in the financial services industry (incl. funds)

In the following table, we list a selection of key regulatory changes that are imminent which will likely have implications for your organisation:

FINMA - Nature-related financial risks	• On 1 February 2024, FINMA released a draft circular and announced a public consultation on the risk management requirements for financial institutions regarding 'nature-related financial risks'. • The draft circular is based on current recommendations of international standard-setters such as the Basel Committee on Banking Supervisors (BCBS), the International Association of Insurance Supervisors (IAIS), and the Network for Greening the Financial System (NGFS). • The circular is aimed at banks and insurers, helping them holistically and systematically integrate nature-related financial risks into their corporate governance and institution-wide risk management, as well as address supervisory uncertainty.

	• The final version will be released in Q2 2024.
ESMA Guidelines on funds' names	• ESMA started an initial consultation in November 2022 and published an update in December 2023. This update includes proposed changes derived from the industry's feedback to the consultation but refrains from codifying any of the rules due to outstanding changes of the AIFMD and UCITS directives. • The final guidelines incorporating the feedback from the consultation are expected in Q2 2024. They will outline requirements for non-specific sustainability-related terms, and more specific requirements for naming products using terms related to 'governance', 'social', 'impact' and 'transition-related'.
Climate and Innovation Act (Net-zero)	On 18 June 2023, the Climate and Innovation Act was approved by the people of Switzerland. The bill stipulates that Switzerland must become climate-neutral by 2050. In doing so, the consumption of fossil fuels is not to be banned but reduced as far as possible. The following articles are of particular interest to financial institutions: • Article 5: Roadmaps for companies and sectors. Companies shall develop transition roadmaps to reach the net zero emission target by 2050 • Article 9: Targets for climate-friendly orientation of financial flows. The Swiss financial center should make an effective contribution to low-emission and resilient development.
Other PwC publications	Synopsis of the most important regulatory developments

10.3. Principality of Liechtenstein

For companies in the Principality of Lichtenstein, European regulatory frameworks apply (such as SFDR, CSRD, EU Taxonomy). These European directives are still in the process of being incorporated. The consultation is currently being performed to ensure timely implementation ('adoption') of the directives into national law. Transitional provisions provide temporary relief for the sustainability reporting of certain subsidiaries.

10.4. Developments in the Asia Pacific Region

Worldwide developments in the sustainability reporting area are moving at a fast pace. The Asia Pacific region is no exception in this regard. Due to the potential relevance for Swiss entities, we go into more detail for China and Singapore. However, a more granular assessment can be found in this publication (refer to p. 68 for China and p. 75 for Singapore.

	Net zero / carbon neutral	Main bodies driving/ promoting sustainability reporting	Sustainability reporting requirements	TCFD reporting	Mandatory assurance requirements (yes / no)	Climate-related Taxonomy
China	2060	China Securities Regulatory Commission (CSRC) / MOF of the People's Republic of China	Mandatory for listed companies (categorised as key pollutant emission units)	Plan to be mandatory (listed companies)	No	Issued Green Bond Endorsed Projects Catalogue
Singapore	2050	Singapore Exchange (SGX), Accounting and Corporate Regulatory Authority (ACRA)	Mandatory for listed companies from 2017 on a 'comply or explain' basis. Mandatory reporting on climate and diversity for listed companies from 2022. All FIs are required to have Environmental Risk Management disclosures (effective June 2022)	Climate reporting is aligned to TCFD framework and is mandatory from 2022 (listed companies) on a 'comply or explain' basis; mandatory from 2023-2024 for specific industries	SGX listed companies are required to subject sustainability reporting process to internal review. External assurance is encouraged	Published third consultation paper on Green and Transition Taxonomy

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