

Greenpeace Schweiz & Luxembourg

Sustainability Funds Hardly Direct Capital Towards Sustainability

A Statistical Evaluation of Sustainability Funds in Switzerland and Luxembourg

Summary

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Summary

Aim and scope of the study

This study elaborates on whether or not sustainable investments¹ have a positive capital allocation effect on investment portfolios, and which framework conditions are needed for an effective capital allocation. The research questions are as follows:

1. Are sustainability retail funds in Switzerland and Luxembourg able to effectively *channel capital* into sustainable economic activities? To what extent are they still invested in activities that are problematic from a sustainability perspective?
2. How effective is the application of different *sustainability approaches* (best-in-class, exclusions, ESG² integration, engagement, etc.) by asset managers for achieving a positive capital allocation?
3. What *framework conditions* are needed for an effective capital allocation? What could the current EU regulatory framework contribute in this regard?

For research questions one and two, we conducted a statistical evaluation of a sample of retail funds available in Switzerland and Luxembourg. The elaboration of the third research question is based on the results of the statistical evaluation, literature review, and expert knowledge.

Conceptual framework

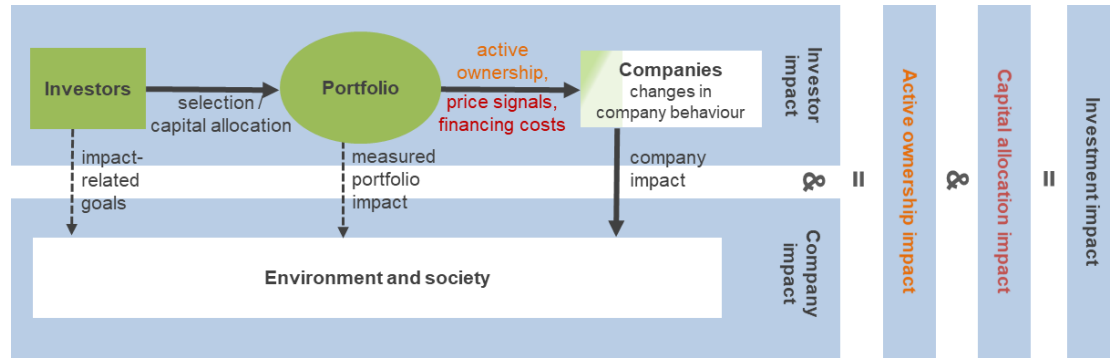
Investments can contribute to sustainable development – create a positive “investment impact” on the environment and society – in the following way (see Figure 1):

- *Investor impact*: Firstly, investments influence company behaviour in the economy by changing or enforcing certain company activities (see upper part of Figure 1).
- *Company impact*: Then, secondly, the different company behaviour and potentially further systemic effects in the economy in sum have a positive “company impact” on the environment and society (see lower part of Figure 1).

¹ Sustainable investments are defined as investments in which environmental, social and governance (ESG) factors are integrated into investment decisions. See Swiss Sustainable Finance (SSF) 2020: Swiss Sustainable Investment Market Study 2020, Zurich.

² “ESG” stands for environmental, social and governance factors.

Figure 1: Capital allocation impact and active ownership impact



This figure shows that investment impact can be achieved via *capital allocation impact* – where capital allocation changes financial market prices and/or financing costs and, this way, improves company impact – and / or *active ownership impact* – where engagement or (proxy) voting improves company impact over time. Further indirect investment impacts are not included in the figure.

Source: Inrate 2021, based on Kölbel et al. 2019: Can Sustainable Investing Save the World? Reviewing the Impact of Investors on Companies.

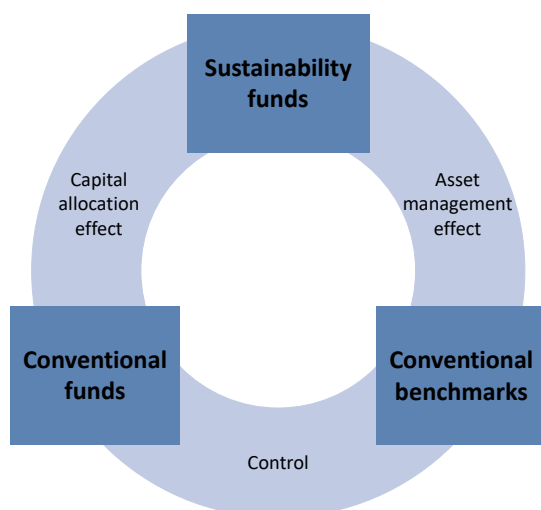
Investors can influence company behaviour and achieve positive *investor impact* mainly by using the following levers (see Figure 1):

- **Capital allocation:** Capital allocation resp. selection steers capital away from certain investments (shares, bonds, real estate, etc.) with a negative impact – via divesting or underweighting – towards investments with a positive impact – via investing or overweighting. Such selection improves the “*portfolio impact*”, i.e. the impact of invested companies (or other assets such as real estate) on the environment and society. Provided that the market power of sustainable investors is large enough, capital allocation increases the relative share and/or bond prices of sustainable companies. Such a *price signal* strengthens the competitiveness of sustainable companies and enables them to expand their activities relative to their competitors and, this way, drives structural change towards a more sustainable economy.
- **Active ownership:** With engagement or (proxy) voting, investors aim to advance incremental improvements in company operations and, this way, to improve company impact. Thus, active ownership does not necessarily result in a better portfolio impact right away, but usually in incremental portfolio impact improvements over time.

Scope of the empirical analysis

Figure 2 provides an overview of the three types of comparisons that we performed to attain a comprehensive picture concerning the capital allocation effect on portfolio impact:

Figure 2: Statistical comparisons



Source: Inrate.

- *Capital allocation effect on portfolios*³: Firstly, to investigate whether sustainability funds are able to actually allocate capital into sustainable activities, we compared the group of sustainability funds with the group of conventional funds in our sample. To do so, we focused on whether sustainability funds have a positive capital allocation effect on portfolios (“*portfolio impact*”), i.e. if and how far sustainability funds are invested in portfolios with a significantly better impact than conventional funds. With this we cover the first part of the entire capital allocation impact (Figure 3).⁴
- *Asset management effect on portfolios*⁵: Secondly, we made a pairwise comparison between each sustainability fund that used a conventional index as benchmark with its respective benchmark. This way we measured how asset managers influenced the impact of the sustainability fund as compared to the index impact of its conventional benchmark.⁶ It helped to better understand why a certain capital allocation effect was (not) occurring.
- Thirdly, we compared the group of conventional funds with the group of conventional benchmarks used by the sustainability funds in our sample as a *control*.

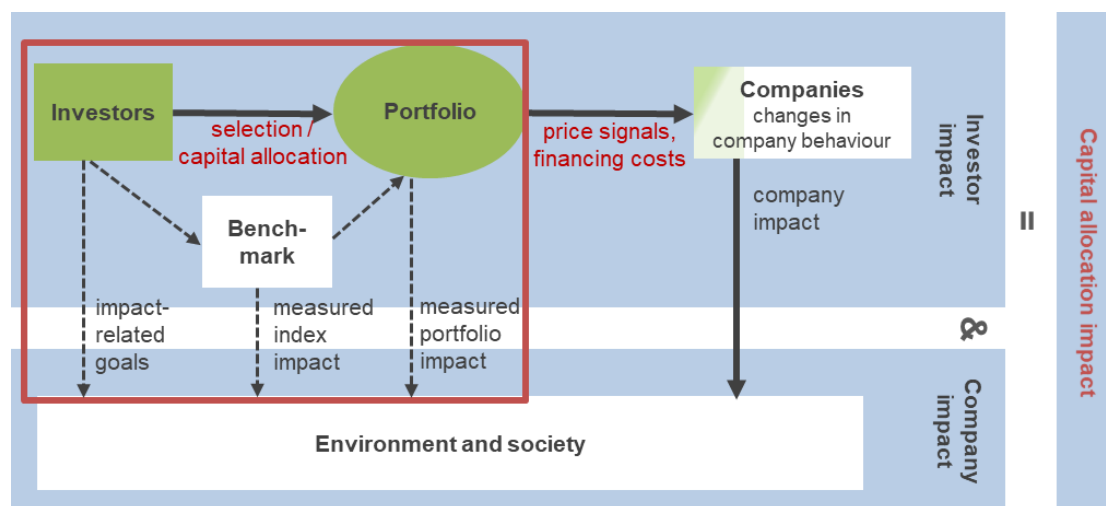
³ In the following, we use “*capital allocation effect*” as an abbreviation, implying that we mean the capital allocation effect on portfolio impact, not the entire capital allocation impact.

⁴ With this study design, we could not measure the capital allocation effect of engagement and (proxy) voting, which aims at generating a positive company impact over time.

⁵ In the following, we use “*asset management effect*” as an abbreviation, implying that we again mean asset manager’s effect on portfolio impact, not on company impact.

⁶ Fund managers usually base their investment decisions on indices. Often, a large proportion of fund assets is taken from these indices, and the indices serve as benchmarks for measuring the fund managers’ investment performance. The actively managed sustainability funds in our sample were mostly (28 out of 31 actively management sustainability funds) based on conventional benchmarks, e.g. the MSCI world, while all of the passively managed sustainability funds – the ETFs – replicated sustainability indices, e.g. the MSCI world SRI.

Figure 3: Capital allocation impact and study focus



This figure shows the capital allocation impact of investments via capital allocation and price signals resp. changes in financing costs (in red). This study focuses on assessing the *capital allocation effect of sustainability funds on portfolios* (red rectangle), i.e. whether sustainability funds have a significantly better portfolio impact than conventional funds. Due to the importance of benchmarks for asset management decisions, we also investigate if sustainability funds using conventional indices as benchmarks have a significantly better portfolio impact than their respective conventional benchmark.

Source: Inrate 2021, based on Kölbel et al. 2019.

Finally, we used a regression analysis to investigate if the application of *sustainability approaches* (best-in-class, exclusions, ESG integration, engagement, etc.) significantly contributes to a positive capital allocation. Here, we controlled for the benchmark type – conventional vs. sustainable vs. no or unknown benchmark – as well as for commonly used parameters: the regional investment focus, portfolio concentration and tracking error.

To assess the portfolio impact of the funds and benchmarks, we used the four sustainability impact measurements as *dependent variables*⁷:

- The weighted average *ESG Impact* score, based on the Inrate ESG Impact score [0; 1]. For descriptive reasons we transferred these into ESG Impact grades [D-; A+].⁸
- The weighted average *carbon intensity* (WACI), based on the carbon intensity in tCO₂/million USD revenue.

⁷ To calculate the dependent impact variables of the funds, we aggregate the sustainability impact of the holdings according to the weights in the respective fund.

⁸ An ESG Impact score of zero corresponds to a very negative net impact on environment and society, a score of one to a very positive net impact. ESG Impact grades from A+ to B- show a positive net impact, grades from C+ to D- a negative net impact.

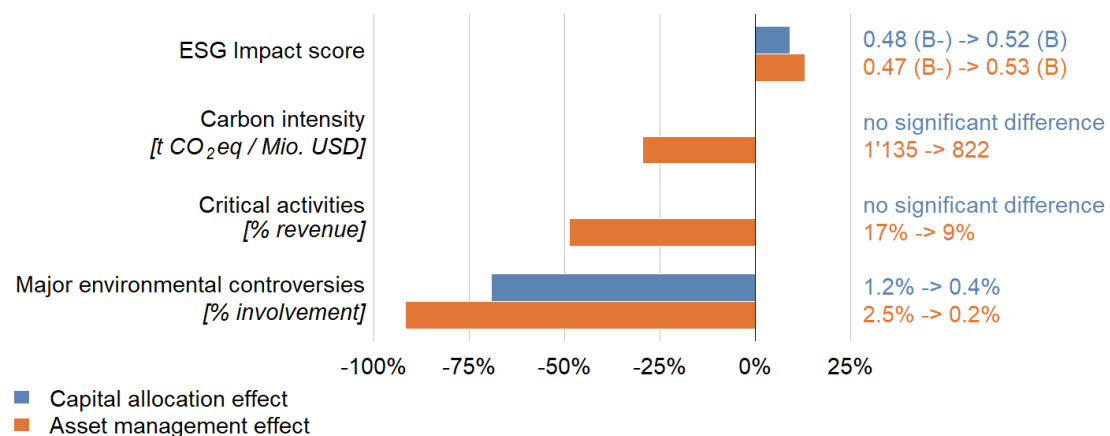
- The weighted percentage of revenues derived from *critical economic activities*⁹, based on the revenue share (in %) derived with critical economic activities of invested companies.
- The weighted involvement in *major environmental controversies*, based on the share of companies (in %) in a portfolio being involved or not involved [yes; no].

These impact variables are based on Inrate impact data as of October 2020. The conceptual basis are extra-financial assessments of external effects that, due to market failures, are not internalized into market prices. Each of these impact measures considers the encompassing impact along entire value chains (scope 1, 2 and 3).

Results of the empirical analysis

In this chapter, we discuss the main empirical findings, summarized in Figure 4.

Figure 4: Main results



This figure displays in blue the mean difference between sustainability funds and conventional funds (as a measure of the capital allocation effect) in percentage of the mean of the conventional funds, and in orange the mean difference between sustainability funds and their respective conventional benchmarks (as a measure of the asset management effect) in percentage of the mean of the benchmarks.

Source: Inrate ESG Impact data and Climate Impact data as of October 2020.

Capital allocation effect hardly existent

Figure 4 reveals that, so far, sustainability funds in Switzerland and Luxembourg have hardly been able to steer capital towards portfolios containing (more) sustainable economic activities.

⁹ The following economic activities were labelled as critical due to their detrimental impact on the environment and society: agricultural industry and fishing (meat, dairy/eggs, seafood/fish, fertilizer & pesticides), defence industry, fossil fuels, mining and production of metal, nuclear energy, production of cement, transportation industry (road transportation, excl. public transport, and air transportation).

The capital allocation effect comparing sustainability funds with conventional funds was only partially significant and thus demonstrable: The involvement in major environmental controversies was quite effectively reduced by 0.8 percentage points on average, i.e. by more than two thirds (or 69%). The improvement of the overall ESG Impact on the environment and society was also significant, but, in contrast, hardly relevant. It improved only slightly by 9% resp. 0.04 and thus by half a notch, i.e. half the difference between the ESG Impact grades C- and C.

Our study did not reveal any significant capital allocation effect in terms of climate impact (encompassing scope 1-3). Furthermore, we discovered no significant capital allocation effect for the overall involvement in problematic economic activities.

It appears that significant and relevant portfolio impact improvements of sustainable funds compared to conventional funds were revealed only for a few individual issues: for major environmental controversies, cement production (minus 0.2 percentage points resp. 69%) and defence (minus 0.3 percentage points resp. 50%). This suggests that the sustainability funds did not effectively shift capital towards a climate-neutral and overall (more) sustainable economy. A small ESG Impact improvement of half a notch is certainly not enough to bring about effective structural change through capital allocation.

Asset management effect present, but of limited relevance

To better understand the reasons for the lack of an effective capital allocation, we examined whether asset managers improved the impact of the sustainability funds as compared to their respective conventional benchmarks. Whereas the capital allocation effect (above) determines the actual capital flows, the asset management effect is a purely arithmetical effect. It provides insight into important factors influencing asset management decisions, as the aims and the success of asset management decisions are usually defined and assessed in relation to the benchmark used.

In contrast to the capital allocation effect, which was hardly visible and only relevant to a very limited extent, we were able to find a highly significant asset management effect, see Figure 4. We consider the effect to be partly relevant: The ESG impact was improved at least slightly: on average by 0.06 or +13%, i.e. by three quarters of the distance e.g. from C- to C. The carbon impact was improved by 313 tCO₂/million USD resp. 30% and the involvements in critical activities by 8.1 percentage points resp. 49% and in major environmental controversies by 2.3 percentage points, i.e. almost entirely (by 92%).

The results concerning the asset management effect suggest that asset managers were indeed noticeably selecting assets in the sustainability funds studied according to sustainability considerations, thus improving the portfolio impact compared to their own conventional benchmarks. However, this improvement was still hardly relevant in terms of overall impacts

on the environment and society, measured with the ESG Impact, and, thus, effective contributions to the SDGs. Relevant portfolio impact improvements compared to the benchmarks were nevertheless visible for more specific impact indicators - climate impact and even more so for involvements in problematic economic activities and major environmental controversies.

Sustainability approaches mostly without steering effect

Surprisingly, the regression analysis showed that the application of the studied sustainability approaches – best-in-class, engagement, ESG integration, exclusion, impact-investment, positive selection, sustainable thematic approach – did not significantly influence the portfolio impact. We only found two very specific exemptions: Thematic approaches improved the ESG Impact on average by 0.04 or half a notch, i.e. half the distance from e.g. C- to C. Positive selection approaches significantly reduced the involvement in major environmental activities by 0.9 percentage points. None of the other sustainability approaches had a significant effect on any of the dependent impact variables, and thematic approaches and positive selection each improved only one out of four dependent impact indicators. This shows that the application of sustainability approaches made mostly no or, in the case of thematic and positive selection approaches, hardly any difference for the funds studied.

This is quite remarkable because sustainability approaches have been the primary focus of attention in the sustainable investment industry to date. Our results raise the question of whether their importance and/or effectiveness have been overestimated. Even sustainability approaches that implicitly or explicitly signal a steering effect – best-in-class, exclusion, impact-investment, positive selection, and sustainable thematic approaches¹⁰ – did not develop such an effect in our sample.

Interpretation: Possible causes

Asset managers more concerned with specific rather than encompassing sustainability issues

Our results concerning the asset management effect suggest: The more specific the impact indicator, the more selective asset managers were. Selectivity was highest for major environmental controversies (reduced by 92%), lower for involvements in problematic economic activities (reduced by 49%) and climate impact (reduced by 30%) and lowest for ESG Impact (improved by 13%).

¹⁰ These approaches suggest short-term improvements of the portfolio impact through rule-based selection. For instance, thematic funds may aim to be invested in companies contributing to a sustainable energy transition, exclusion approaches at not being invested in companies infringing upon the UN Global Compact standards.

The selection concerning specific critical economic activities could mean that significant capital selection took place primarily concerning issues with higher reputation or transitional risks and/or concerning issues that are rather easy to measure (cement production, fossil fuels, critical means of transportation). By contrast, nuclear energy, genetic engineering, agribusiness & fisheries, and mining & metal production were not significantly reduced by asset managers in comparison to their benchmarks.

The overall portfolio impact on the environment and society along entire value chains as measured by the ESG Impact was hardly improved by asset managers. The reasons for this could have been:

- The ESG data used did not reflect such comprehensive impact (sufficiently). Most ESG data on the market do not reflect the comprehensive impact reliably, as to do so, holistic and scientific-based definitions, concepts, and data models are needed. Instead, ESG ratings mostly focus on management-related data, and/or apply simple equal weightings of indicators or sustainability issues. Impact assessments often do not cover entire value chains (scope 1-3).
- Asset managers deliberately did not improve the overall portfolio impact much to limit deviations from the benchmark and minimize tracking error.
- No clear and measurable goals were set and controlled for concerning the overall portfolio impact on the environment and society.
- Awareness and education concerning impact and useful data were lacking.

The role of benchmarks

The following two findings, in particular, shed light on the importance of the benchmarks used: (a) The asset management effect, despite its significance, was hardly relevant for the overall ESG Impact. (b) Despite the significant asset management effect, there was hardly any capital allocation effect. In other words: Asset managers apparently achieved a significant improvement in the portfolio impact of the sustainable funds studied compared to their specific conventional benchmark, but not overall compared to the group of conventional funds.

Our results suggest the following possible reasons: The orientation by means of conventional benchmarks led to asset managers deviating from the benchmark concerning specific sustainability issues, but hardly regarding the overall impact on the environment and society, measured with the ESG Impact. Therefore, even for sustainability funds, conventional benchmarks might restrict asset managers' freedom of action too much. This thesis is supported by the finding that, with increasing concentration, the portfolio impact of funds significantly improved: the ESG impact significantly increased and both the carbon impact and the share of critical economic activities were significantly reduced.

Therefore, it seems advisable for asset management to (a) either accept larger deviations from the conventional benchmark for a significant and relevant improvement of the portfolio impact, or (b) to apply sustainability benchmarks that also deviate to a large extent from broad market benchmarks. In the first option (a), asset managers receive a higher risk budget resp. tolerance to deviate from a conventional, broad market benchmark in order to improve the sustainability characteristics of the portfolio. In the second option (b), the index providers implement sustainability aspects in the indices, and asset owners decide on the sustainability index used as benchmark and control for its sustainability characteristics.

For both options, our research revealed another important finding: Assessing and controlling the sustainability characteristics of a portfolio (option a) or a sustainability benchmark (option b) merely in comparison with a conventional benchmark can be misleading and entail significant reputation risks. A – merely arithmetical – portfolio impact improvement compared to the conventional benchmark might not correspond to positive capital allocation in the comparison with conventional funds and, accordingly, might not contribute to improving company impact.

Sustainability approaches lack effectiveness or are inconsistently applied

Sustainability approaches are the basis for ESG-related investment rules. Our regression analysis revealed that the application of sustainability approaches had mostly no significant effect on the portfolio impact. This raises the question whether the importance and effectiveness of sustainability approaches have been overestimated. The following examples are particularly striking:

- Exclusions did not significantly reduce investments in critical economic activities or major environmental controversies.
- Best-in-class and positive selection did not significantly improve the ESG impact, climate impact, or involvements in critical economic activities.
- The thematic funds studied – despite their focus on environment, climate or sustainable energy – neither reduced the climate impact nor involvements in critical economic activities or major environmental controversies.

The only two exemptions were: (a) Positive selection approaches significantly reduced the involvement in major environmental activities by 0.9 percentage points. However, for all other broader dependent impact variables, no significant improvements could be found. (b) Thematic approaches improved the ESG Impact score significantly, but only to a small extent, i.e. by 0.04. For the more specific dependent impact variables, however, no significant improvements could be revealed for thematic approaches.

This shows that – in the short term – sustainability approaches mostly failed at allocating capital towards companies with a positive impact both significantly and relevantly.¹¹ As a possible cause for this, we would rule out the missing implicit or explicit claim for a short-term capital allocation: None of the sustainability funds assessed in this study exclusively applied ESG integration or engagement. Almost all sustainability funds applied exclusions, many used positive selection, and some also best-in-class approaches.

Therefore, for the non-existent or insufficient effect on capital allocation towards sustainable economic activities and, thus, on improving the portfolio impact, we principally see the following causes:

- *Lack of effectiveness*: Sustainability approaches may lack effectiveness if they are not strict enough or if the data used for selection is inappropriate, esp. by not reflecting the encompassing impact along entire life cycles.
- *Lack of consistency*: Sustainability approaches may not be consistently applied to all assets, but just to a share of assets within a portfolio.

Conclusions and consequences

The sustainability funds assessed in this study hardly channelled capital towards sustainable economic activities. It seemed that, overall, sustainability funds are only effective when it comes to divesting from companies involved in major environmental controversies, but not effective in terms of climate and sustainability portfolio impact improvements. This suggests that the funds' contribution to achieving the SDGs and the Paris climate target is not yet sufficient.

Our empirical research results suggest that the missing intention for short-term capital shifting was not the reason, as all of the assessed sustainability funds applied sustainability approaches that – implicitly or explicitly – aimed at short-term capital allocation. Therefore, we suspect that the following necessary prerequisites for effective capital allocation were not (fully) given¹²:

- Methods and data used for portfolio selection may not have reflected the actual and encompassing impact of a portfolio on the environment and society.
- So far, investee companies do not fully report relevant, encompassing and reliable data. Therefore, for an encompassing impact assessment, expert-based assumptions are necessary. So, possibly, an encompassing impact measurement may have been difficult.
- During our desk research of the fund documentations, we saw that sustainability funds lacked the necessary transparency, esp. concerning measurable impact-related goals, clear

¹¹ We want to stress again (a) that we did not assess in our study if, by active ownership activities with invested companies, portfolio impact could be improved over time, and (b) that ESG integration does not aim at improving the portfolio impact.

¹² The new sustainable finance EU regulations signify steps into the right direction.

investment rules, the actual ESG portfolio impact, the method and data used to assess this impact, and the effects of impact-related investment strategies on financial risk-return.

- Sufficient and clear standards – in terms of transparency, methodologies and minimum impact-related standards for sustainable investments – were basically lacking. Existing labels are still very diverse, and the different standards of these can be challenging to understand, esp. for retail clients. Here, the EU regulations might partly help closing the gap.
- Last but not least, we suspect that another reason, also for the points listed above, might have been an insufficient sustainability-related education in the financial system.

The consequences are not only the already mentioned insufficient capital allocation effect and contribution to a sustainable development. Financial actors themselves can be affected negatively: (a) Due to the lack of credibility of financial ESG products, the market potential cannot fully be exploited.¹³ (b) Most sustainability funds implicitly or explicitly signal improved portfolio impacts. Not fulfilling this promise poses reputational risks and legal risks due to greenwashing and decreases client loyalty.¹⁴

Current regulations point into the right direction but have major shortcomings

The EU has recently brought about major regulatory changes related to sustainable finance, in particular the EU Taxonomy, the Sustainability-related Disclosure in the Financial Services Sector Regulation (SFDR), amendments to the benchmarking regulations, the Non-Financial Reporting Directive (NFRD) and the Markets in Financial Instruments Directive (MiFID II).

These regulations are quite far-reaching with regard to their focus on sustainability impacts of investments and on the economic activities being financed, as well as their extensive reporting and transparency requirements by various actors in the investment chain. This way, they might serve as game-changers in the market for responsible investments.

However, it is also important to emphasise that the regulatory framework has gaps and shortcomings. Some of them are quite crucial and must be overcome to deliver the desired results – namely to channel financial flows into sustainable environmental activities and to prevent greenwashing. For further details, see the recommendations below.

¹³ See also Federal Office for the Environment (FOEN) 2016: Proposals for a Roadmap towards a Sustainable Financial System in Switzerland, Berne.

¹⁴ See also Federal Office for the Environment (FOEN) 2016.

Recommendations

Based on our study results, we derive the following set of recommendations for asset owners and managers as well as regulators:

Asset owners and managers

Stop defining sustainability resp. “ESG” through merely naming certain norms or loosely applying sustainability approaches. Investors should deliberately take the following decisions and steps:

- *Impact-related goals*: Set both short-term and longer-term impact-related goals, e.g. to reduce the climate-intensity of the investment portfolio by 20% in two years in accordance with the investor’s overall market and sustainability strategy in place. Identify and solve potential trade-offs with other goals such as diversification of risk characteristics of investments and portfolios.
- *Benchmark*: Choose a conventional market benchmark or a sustainability benchmark; define a risk budget allowing for a certain deviation tolerance in relation to the benchmark.
- *Investment rules*: Set and implement investment rules concerning selection, engagement and voting activities that are appropriate to reach the goals. Investment rules might or might not relate to the sustainability approaches in place. If the set goals are ambitious, the investment rules will have to be strict enough and applied consistently.
- *Impact-related controlling and reporting*: Measure, control and report the portfolio impact, using the appropriate encompassing and reliable ESG impact data. Adjust investment rules or goals, if necessary. This ensures that selection and active ownership can be directed both effectively and efficiently toward reaching the set goals.
- *Awareness and education*: Build up and maintain awareness and up-to-date knowledge of the relevant actors, esp. asset managers, institutional investors and client advisors.

Such a systematic approach is generally advisable, both for private and institutional investors and well as for all asset classes.

Regulators in the EU

- It is crucial that the EU Taxonomy is exclusively based on science, leaving aside political interests.
- As planned, the Taxonomy should be extended to include the other relevant environmental goals such as biodiversity and ecosystems, the protection of water and marine resources, pollution and circular economy.

- Should the Taxonomy prove to be useful in practice, the following developments could be advisable: (a) move beyond a mere “green” Taxonomy towards a “sustainable” Taxonomy by including social and, if applicable, governance goals; (b) in addition to a taxonomy with sustainable economic activities, elaborate a corresponding taxonomy with economic activities that have negative impacts ("Dirty Taxonomy"). This could be a way to fix the current blind spots concerning the sectors that are not yet covered by the Taxonomy.
- The ESG-related KPIs to be reported according to the SFDR and the amendments to the benchmark regulations should generally include entire value chains, if applicable.
- In our opinion, it could make sense for the EU Ecolabel to define different impact-related quality levels, e.g. bronze, silver, and gold. A corresponding label for positive sustainability impacts, including environmental and social impact, would also be important.
- Financial actors can only readily apply the Taxonomy and perform impact assessments when the informational prerequisites are created. A first best alternative, in our opinion, would be that invested companies get legally obliged to publish the relevant sustainability-related information.¹⁵ A review of the core information – both on the part of investors and invested companies – should be made mandatory and carried out by credible, i.e. independent and competent bodies. The other alternative represents the current situation and seems merely second best: The legislator waits and sees whether the market creates a corresponding offer via investor demand. Here, the risk remains that published data stays incomplete and both the quality and comparability questionable.
- In any case, there should be regular reviews of whether the EU regulations are proving themselves, i.e. whether they are effective, practical and pragmatic enough. If necessary, the regulations should be adapted or further developed according to the review results.

Regulators in Switzerland

The EU regulations already now have an impact on Switzerland. Particularly financial actors with subsidiaries in the EU, EU products or EU clients need to be on top of the regulations. Other financial actors follow the developments closely because of market pressure and reputation.

Nevertheless, in order to improve the capital allocation effect of Swiss sustainable investments and to ensure that the Swiss financial system remains competitive and at the forefront of sustainable finance, the Swiss regulator should also take regulatory measures. These regulations should take into account the developments in the EU, but also the shortcomings mentioned in this report (see chapter **Fehler! Verweisquelle konnte nicht gefunden werden.**).

¹⁵ See also proposal by the European Commission in April 2021 for a Sustainability Reporting Directive.

Certain provisions in EU regulations could immediately find their way into Swiss regulations, particularly aspects of the EU regulations that require increased reporting and the provision of reliable data, e.g. on the indicators in the SFDR and the benchmark regulations or on the economic activities and thresholds according to guidelines of the NFRD. This would allow to have relevant information at hand for market actors to improve sustainability assessments and measure the overall impact of investments.

Other aspects of EU regulations might need more extensive assessments. For example, while the EU Taxonomy certainly provides valuable methodological foundations, its suitability in practice should be further analyzed. Instead of a complete adoption of the EU Taxonomy, Swiss regulation might instead focus on implementing certain principles such as the inclusion of economic activities in impact measurements.