Press release

Sustainability reports: Ethos considers the quality insufficient and supports stronger regulation

Geneva, 10 October 2024

Ethos analysed the sustainability reports and objectives of the 140 companies listed in Switzerland that are required to prepare such a report. Ethos found major shortcomings in the published reports and insufficient comparability. In particular, the reports often a lack independent verification, ambitious targets or key information. Too many companies submit their reports to a consultative vote at the general meeting instead of a binding vote as required by the law. Ethos therefore supports the Federal Council's proposal to strengthen the Swiss regulation on the preparation of sustainability reports.

In the context of a review of the 2024 general meetings of Swiss listed companies, Ethos published today an analysis of the first application of the legal provisions on sustainability reports (Art. 964a et seq. of the Swiss Code of Obligations). The survey reveals a considerable backlog in companies' sustainability reporting and ambitions. In 2024, 140 listed companies in Switzerland had to submit their sustainability report to approval of their shareholders for the first time. Ethos analysed these reports, formulated voting recommendations for these agenda items and exercised its voting rights accordingly as an investor.

Insufficient compliance with standards

This year, only 75 of the 143 reporting companies published a sustainability report that were prepared in accordance with an internationally recognised standard (GRI, SASB or ESRS). Although 46 were guided by such a standard (with reference to the standard), they did not apply it in full. These included five SMI companies (Alcon, Nestlé, Partners Group, Swiss Re and Zurich Insurance Group). 19 companies did not mention any standard at all. Compliance with a recognised standard for sustainability reporting - similar to financial reporting - is a key quality feature, as it enables comparison between companies and the assessment of non-financial performance.

The audit of reporting by an auditing company was equally uncommon. Only six SPI companies stated this year that they had had their full sustainability report audited ‘with limited assurance. 55 companies submitted some of their published sustainability indicators to a reasonable assurance, while 82 did not required any independent verification.

Insufficient transparency and ambition

As a result of the lack of application of reporting standards and an external audit, the quality of the sustainability reports was poor. For example, when it came to climate change, only 44% of companies published the CO2 emissions of their supply chain and only 15% published those associated with the use of their products and services. Without these elements, however, it is not possible to define a sufficiently ambitious and credible environmental and climate strategy that meets the global climate targets. In terms of the actual climate targets, only 25 companies have set a short-term reduction target that is consistent with a 1.5 degree of global warming scenario and has been confirmed by an independent organisation (Science Based Target Initiative).

Other environmental data was also only partially collected and disclosed: 56% of companies provided information on the amount of waste they produced in the year under review and only 39% on their water consumption. There was slightly more information on energy consumption: 81% publish this.

In terms of workforce disclosure, companies focus on indicators relating to employee motivation and workplace safety. One important indicator, for example, is the staff turnover rate, particularly voluntary departures. This provides information about the social climate within the company and its popularity among employees. Of the companies analysed, 67% published the staff turnover rate for 2023, but only 26% published the turnover rate of voluntary departures. GAM Holding (18%) and Datwyler (19%) had the highest rates. Roche (4.6%) and SKAN Group (4.8%) had the lowest rates.

Sustainability report approval: binding vote expected

Swiss law requires sustainability reports to be approved by the shareholders. However, it does not provide for this vote to be consultative. Surprisingly, in 2024, 40% of companies still held this vote on a consultative basis. 57% had the annual general meeting cast a binding vote on the sustainability report. Three companies, BVZ Holding, Swatch and Swiss Prime Site, submitted the sustainability report to a vote together with the annual report and annual financial statements. Of the SMI companies, only nine out of twenty companies allowed a binding vote. This is clearly inadequate and not in line with good corporate governance.

Tighter legislation required

In view of the urgency of the current climate situation, Ethos fully supports the Federal Council's proposal to amend the Code of Obligations to bring the Swiss legislation on sustainability reporting into line with European developments (Corporate Sustainability Reporting Directive). The Federal Council's draft aims to extend the scope of application to all listed companies and private companies above a certain size and to require compliance with a reporting standard and the monitoring and validation of the sustainability report by an external auditor. While the Federal Council's position on the consultation explicitly provides for the binding approval of the sustainability report by the general meeting, Ethos considers that the law should also specify the consequences of a possible rejection. Ethos therefore proposes that, in the event of a rejection of the report, this should be indicated on the report itself. Furthermore, the board of directors should be obliged to enter into a dialogue with the most important shareholders and to report on the findings of the consultation.

Link to survey

About Ethos :

The Ethos Foundation is composed of more than 250 Swiss pension funds and other tax-exempt institutions. Ethos was founded in 1997 and aims at promoting socially responsible investment as well as a stable and prosperous socio-economic environment. The company Ethos Services conducts asset management and advisory mandates in the field of socially responsible investment (SRI). Ethos Services offers institutional investors a wide range of SRI-funds. The company also provides analyses of general meeting agendas including voting recommendations, shareholder engagement programmes, as well as sustainability and corporate governance ratings and analyses of listed companies. Ethos Services is owned by the Ethos Foundation and several of its members. www.ethosfund.ch

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