Venture Capital

The Impact of the European ESG Framework on Swiss Startups: Growing Requirements from VCs

The integration of Environmental, Social, and Governance (**ESG**) criteria into the investment strategies of the European venture capital (**VC**) funds is profoundly reshaping the way investors approach, among others, also Swiss startups. Central to this shift are European regulations, based on the UN 17 Sustainable Development Goals, aiming to foster sustainable investment, enhance transparency, and combat greenwashing within the financial sector. With a significant portion of funding coming from the EU, aligning their activities with evolving ESG expectations from investors became a strategic necessity for Swiss startups.

Recently, the European Union has introduced a comprehensive regulatory framework to promote sustainable finance and enhance transparency in investments. As part thereof, the Sustainable Finance Disclosure Regulation (**SFDR**), which categorizes funds based on their sustainability focus and imposes them to publish their policies, is likely to have the most impact on Swiss startups.

According to the SFDR, funds that do not incorporate sustainability factors in their investment strategy, so-called Article 6 funds, must expressly disclose it and justify the non-consideration of principal adverse impacts (**PAIs**). Article 8, or "light green" funds, promote environmental or social characteristics, focusing on good governance practices and transparency around their ESG strategies. Article 9, or "dark green" funds, are products with explicit sustainability objectives, aligned with the definition of "sustainable investment" of the SFDR by having a positive impact on society and environment and to align with measurable sustainable goals, such as contribution to the EU climate transition and the Paris Agreement. Article 8 and 9 funds must publish, on their websites, in their fund prospectuses and in their annual reports along with the corresponding documentation, notably the strategy to achieve the sustainability objectives, the index or criterion used as a reference benchmark, as well as the policy to mitigate PAIs.

Together with the EU Taxonomy and the CSDR, these regulations drive transparency, accountability, and sustainability across the financial and corporate sectors, leading a growing number of European VCs to introduce specific ESG undertakings in investment documentation. These include, in particular, measurable evidence of ESG performance and milestone, entailing committing to strategic and business plans and regularly reporting on both impact and financial KPIs.

STARTUP & VC DESK

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VCs are further requested to evaluate whether their portfolio companies have incorporated ESG oversight into their governance structures. Consequently, some of them push for specific majorities or veto rights on decisions linked to ESG and specific roles on boards, within dedicated committees, or on the C-level.

Finally, ESG consideration is becoming a substantive component of VC due diligence, during which the target's exposure to sustainability risks is specifically assessed. Consequently, VCs increasingly demand specific ESG-related representations and warranties or covenants to implement corrective measures. Non-compliance or breaches of these undertakings can trigger significant financial consequences, whether in the form of indemnification claims, valuation adjustments, or restrictions on access to follow-on funding, thereby impacting both existing shareholders and the target company.

To meet these expectations, Swiss startups must adapt their structures, governance, and operations. While certain investors provide access to experience and network to ensure compliance, it is in the startups' best interest that ESG priorities are set early on to attract such investors in the first place. Implementing a transparent ESG tracking and reporting system will enable them to develop optimally and prevent the need for future catch-up efforts.

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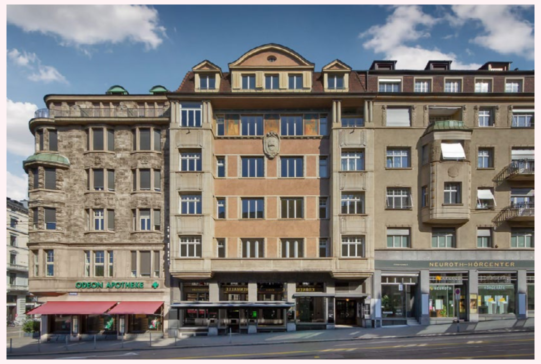

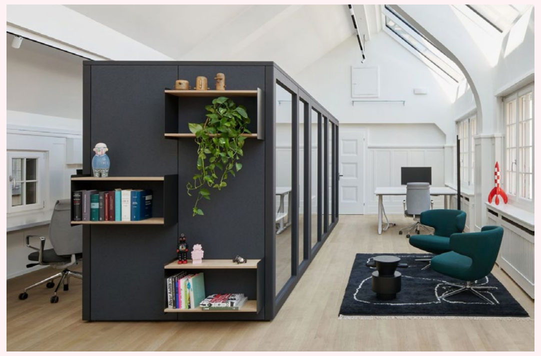

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With offices in Basel, Bern, Geneva, Gstaad, Lausanne, Lugano, Sion and Zurich, we operate at the core of Switzerland's innovation hubs, supporting high-tech startups across industries such as life sciences, engineering, ICT, fintech, etc.

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Our extensive investor network and strong industry ties allow us to facilitate connections and add value beyond legal counsel.

At Kellerhals Carrard, we do not just offer legal services — we are committed partners in the startup ecosystem. Our tailored pricing models, international reach, and business-first mindset ensure that our clients receive pragmatic, high-quality support at every stage of their journey.

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