

Market consultation

The FTSE Russell logo consists of a light teal circle containing the text "FTSE" stacked above "Russell" in a white, sans-serif font.

FTSE
Russell

FTSE Russell Sustainable Investment Consultation



FTSE Russell consultation on planned enhancements to sustainable investment products

Introduction

FTSE Russell is committed to ensuring that our benchmarks and data solutions remain representative of the markets they are intended to track, and continue to address the needs of our users. As part of that, we would like to consult with market participants to understand how they use our sustainable investment products and how we can implement enhancements to further support clients.

The feedback received from this consultation will assist FTSE Russell in making decisions related to the topics considered. We value your input and participation.

Responding to the Consultation

The proposals set out in this consultation document are included in order to gather feedback and may or may not result in changes to our indexes or data solutions.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.co.uk/r/7JWWRNZ>

All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation results, but no individual responses will be published and no respondents will be named.

If you have any questions about this survey, or if you encounter any technical issues, please contact rpawson@ftserussell.com.

Background to the consultation

In this first section we would like to know a bit more about your firm and the way in which you use sustainable investment data or indexes.

Contextualising your feedback

FTSE Russell Sustainable Investment products can be used for a range of purposes. To help us understand how different clients interact with our products, it would be useful to understand the nature of your main role:

Question 1: Business sector

- Academic, Asset manager, Asset manager (predominantly passive), Asset owner, Corporate Advisory/consultant, Investment consultant, Sell-side broker, Other

Question 2: Business type

- Consulting role, Investment role, Lending role, Stewardship role, Other

Question 3: Main working location

- Asia-Pacific, Europe, Middle-East and Africa, North America, South America

Question 4: Sustainable investment integration

The following questions seek to understand your firm's approach to sustainable investment as:

- Do you offer specific sustainable products or options?
- Do you integrate sustainability data into investment decisions within some asset classes?
- Do you integrate sustainability data into investment decisions across most asset classes, for example: equities, fixed income and alternatives?

Question 5: Your source of sustainable investment (SI) data and indexes

Does your firm source sustainable investment data or indexes:

- Mostly from FTSE Russell
- A combination of FTSE Russell and others
- My firm does not use FTSE Russell SI data or indexes, but does use SI data from other providers
- My firm uses SI data developed in-house
- My firm does not use sustainable investment data or indexes from any source

FTSE Russell's capabilities

In this section of the consultation FTSE Russell is seeking the views of stakeholders as to the direction of its current and new capabilities.

FTSE Russell has developed a broad offering of products including sustainable investment indexes, ESG data, and green revenue data. Further information about these can be found here:

<https://www.ftserussell.com/financial-data/sustainability-and-esg-data>

Question 6: Sustainable investment data types

We wish to seek market feedback on the relative priorities that clients place on the following. We appreciate that some of these categories could overlap. Please indicate the relative priority of these for your institution, using the ranking tool in the online answer form:

- Asset-level data (including from satellite or geo-spatial sources)
- Broad/comprehensive ESG data (drawn from company disclosures)
- Carbon data and metrics
- Corporate controversies
- Ethical negative product screens
- Green revenues (revenue from products that provide environmental solutions)
- New, technology-led insights (AI, sentiment or other "Big Data")
- Social revenues (including towards the Sustainable Development Goals)

Question 7. We would be grateful to receive further comments on the sustainable investment data types that are important to you

Question 8: Emerging sustainable investment topics

We also wish to seek market feedback on other emerging themes within the sustainable investment space that clients would like to see available in data or index solutions. Please indicate the relative priority of these for your institution:

- Animal welfare
- Civil liberties (e.g. comms & tech companies protecting freedom of expression and association)
- Social inequality
- Technology risks (incorporating cyber security, data privacy and the ethics of alternative intelligence)
- Use of plastics
- Other

Question 9: We would be grateful to receive further comments on your views on emerging sustainable investment topics:

Question 10: Using sustainable investment data

We wish to seek market feedback on the ways in which clients use sustainable investment data. Please choose all that apply to your institution:

- Active investment decisions
- An input into investment research
- As a tool to assist engagement with portfolio holdings
- Exclusions in passive and/or active portfolios
- Portfolio monitoring and/or risk control
- Tilting security weights in passive investment

We would be grateful to receive further comments on this question or other requirements not set out above:

Question 11: Quality and transparency of quantitative sustainability data

Given the large gaps in ESG information reported by corporates, some quantitative data such as carbon emissions need to be estimated for approximately 50% or more of listed large and mid cap companies. We wish to seek market feedback on this data, and hence whether FTSE Russell should help provide solutions.

Please tick all with which you agree:

- Existing estimated quantitative data is of high quality
- There is a high level of transparency of how estimation models work
- I believe existing data estimation models are not transparent and/or of poor quality
- I do not have a strong preference on this issue

We would be grateful to receive further comments on this question or other requirements not set out above:

Question 12: Using sustainable investment data

We wish to seek market feedback on the asset classes we should prioritise for sustainable investment data collection. Please indicate the relative priority of these for your institution, where 1 is greatest:

- Corporate fixed income
- Equities
- Real estate
- Sovereign, municipal, or supranational fixed income

We would be grateful to receive further comments on this question or other requirements not set out above:

Question 13: Any other feedback

If you have any other feedback on this survey, questions we could have included, or the market for sustainable investment in general we would be grateful to receive these here:



FTSE4Good Index Rules

The following questions are specifically for users of the FTSE4Good Index Series.

Throughout its history the FTSE4Good Series has helped to catalyse improvements in corporate practices with respect to global environmental, social and governance standards. This has been achieved through incremental enhancements to the methodology that have raised the bar for index inclusion over time.

FTSE Russell supports companies in the index through a programme of positive engagement, giving them a clear timeline to meet the enhanced requirements and to avoid index deletion. More details on this can be found in our Step Change report [here](#)¹.

Since inception in 2001, the FTSE4Good Developed index has seen approximately half of the companies² in the underlying indexes qualifying for index inclusion. This has been achieved through gradual changes to the index inclusion methodology and through improving corporate practices³. The introduction of the new ESG methodology with phased company deadlines to meet the new thresholds was completed in 2017. With no additional significant threshold or criteria changes, the proportion of companies included has recently grown to approximately 60%³ indicating that the criteria should be strengthened further.

A number of indexes' rules are aligned to that of the FTSE4Good Index Series, including the FTSE Blossom Japan Index, FTSE4Good TIP Taiwan ESG Index, and the FTSE JSE Responsible Investment Series. This alignment supports clarity of communication with companies and positive engagement.

In order to continue to raise the bar for inclusion in the FTSE4Good Index Series, FTSE Russell would like to receive feedback on the following proposals.

Question 12: Increasing the ESG Ratings inclusion thresholds

There are a number of criteria to enter and maintain inclusion in the FTSE4Good and related indexes; central to these are the achievement of a minimum ESG Rating.

¹ http://www.ftserussell.com/sites/default/files/ftse_russell_step_change_2018_report.pdf

² Measured by free-float market capitalisation

³ Note that although over the years hundreds of companies have been deleted for not keeping pace with the enhancements in criteria these have been replaced by others newly meeting the criteria for the first time.

Proposal: Consistent with the aim of the indexes to encourage further improvements in ESG practices over time **FTSE Russell would like to gradually increase these Ratings thresholds in the coming years, whilst allowing sufficient time to clearly communicate and explain the change to clients and assessed companies.**

The communication of this change to constituent companies facing potential deletion is expected to catalyze companies to improve to meet the higher threshold before implementation. This is a continuation of the FTSE4Good approach to raise the bar over time.

Please provide your response below.

- A; I support the principle of raising the ESG Ratings thresholds over time;
- B: I do not support these proposals.

We would be grateful to receive further comments on this question:

Question 13: Engaging with the weakest companies

The FTSE Russell ESG Ratings assess companies on up to fourteen Themes, covering a range of ESG topics. For each of the Themes a company receives an Exposure assessment, to determine the relevance of the ESG issue to its operations, and a Score that captures how well the company's controls, practices and performance are for that particular area.

As part of their inclusion criteria, the FTSE4Good Developed and FTSE Blossom Japan Indexes do not admit companies that for any of the 14 Themes receive a combination of the highest Exposure (materiality) assessment with the lowest Score (0 or 1). This rule prevents a company from entering the indexes that performs poorly in an ESG Theme that is highly relevant, even if their overall ESG Rating is above the threshold.

At present this rule only applies to potential entrants to the Developed market indexes and not current constituents (or to those from emerging markets).

FTSE Russell is proposing two changes to this rule:

- Apply this rule to existing FTSE4Good Developed constituents to harmonise with the entry rule. This would lead to FTSE Russell communicating to Developed constituents, with an assessment of a Exposure level of 3 and a Score of 0 or 1, that they could be deleted following a significant notice period.
- Apply this rule to entry in the FTSE4Good Emerging Markets indexes as well as the Developed indexes. This would prevent Emerging market constituents being added to the Indexes if they fail the same criteria.

Please provide your response below.

A; I support these proposals

B: I do not support these proposals

We would be grateful to receive further comments on this question:

Q12 History

FTSE Russell continually reviews its sustainable investment methodologies to ensure they capture the evolution of market standards (e.g. TCFD, SASB, EU Taxonomy). Within this process we aim to find a balance between consistency in our methodologies whilst also incorporating important new datapoints and methodology enhancements. All of this occurs in consultation with our independent advisory committees. A key decision when collecting new data is the length of history required.

When you are considering using a sustainable investment index, what length of history should be provided?

Please tick the box for each one that you feel is appropriate for each level of history:

1 Year: Not acceptable/ desirable/ essential

- 3 Years: Not acceptable/ desirable/ essential
- 5 Years: Not acceptable / desirable/essential
- 10 Years: Not acceptable/ desirable/essential
- I do not use sustainable investment indexes
- Comment

For more information about our indexes, please visit ftserussell.com.

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FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

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