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## **FTSE Fixed Income Index Market Consultation: FTSE Climate-Risk Adjusted Government Bond Indices**

11 April 2024

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FTSE Russell offers a variety of sustainable investment fixed income indices designed to help investors integrate their sustainable investment strategy into their fixed income investments. We are committed to ensuring that these thematic fixed income indices continue to meet their stated objectives and evolve to incorporate more appropriate, transparent, and stable Key Performance Indicators (KPIs) with the ambition to incorporate more forward-looking and fewer lagged metrics. In line with this objective, a robust governance and consultative process exists to facilitate engagement between FTSE Russell and market participants regarding changes to index methodology.

FTSE Russell announces that it is opening a market consultation to understand the views amongst market participants regarding the evolution of the methodology for the FTSE Climate-Risk Adjusted Government Bond Indices with respect to the underlying sustainable finance metrics that are used in index construction.

### **FTSE Climate-Risk Adjusted Government Bond Indices**

The FTSE Climate Risk-Adjusted Government Bond Index Series is designed to measure the performance of fixed-rate, local currency government bonds that are eligible for flagship FTSE indices, such as the FTSE World Government Bond Index (WGBI), incorporating a tilting methodology that adjusts index weights according to each countries' relative climate risk performance. As described in the index [methodology](#) documents, individual country scores are assigned across three core pillars (transition risk, physical risk and resilience), each having several underlying indicators.

Since the launch of these thematic indices, the fixed income sustainable finance market continues to mature, which is highlighted by customer feedback and the World Bank Group's review of sovereign ESG models, which incorporates the risks due to climate change. To keep pace with such market evolution, FTSE Russell would like to canvass views on a series of proposed enhancements to the underlying methodology for the FTSE Climate Risk-Adjusted Government Bond Index Series, including:

- Improved integration of forward-looking climate risks, including temperature alignment and physical risk.
- The inclusion of increasingly important themes, such as nature and biodiversity, into a dedicated Territorial and Ecosystems Resilience sub-pillar.

These enhancements would be implemented through a series of structural changes to the current methodology, and ensure consistency, where possible, with other internal models such as our Sustainable Sovereign Risk Methodology, which is used in the construction of the FTSE ESG Government Bond Index Series.

### **Upcoming Scheduled Annual Rebalance for the FTSE Climate-Risk Adjusted Indices**

According to published index methodology, the country climate scores used within the FTSE Climate Risk-Adjusted Government Bond Index Series are updated on an annual basis. Since the launch of the indices, these updates have been applied at each May month-end rebalance, and effective for June index profiles. In light of the changes being considered to the country scores as part of this market consultation, FTSE Russell

announces that the 2024 update will be reflected at October 2024 month-end, and effective for November 2024 index profiles. Further details on the implementation of changes to the methodology for assignment of country scores will be published shortly after this consultation closes. The indices will continue to reflect the monthly rebalancing mechanics of the standard FTSE government bond indices with respect to security-level index membership.

### **Consultation Approach**

Market stakeholders are encouraged to contact us at [info@ftserussell.com](mailto:info@ftserussell.com) to discuss the topics outlined above and provide their feedback. All responses will be treated as confidential, however, FTSE Russell may publish a summary of the results in the interest of transparency of process for any ultimate decision it takes.

The consultation will close on 15 May 2024.

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For further information please contact FTSE Russell Client Services at [info@ftserussell.com](mailto:info@ftserussell.com) or call:

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