



FTSE Russell Sustainable Investment Technical Advisory Committee

Wednesday 01 March 2023

ATTENDEES

Members: fifteen (15); apologies: two (2)

FTSE Russell: fourteen (14) including the Chair and Committee Secretary

Attendees were reminded of their obligations in relation to confidentiality of information, conflicts of interest and competition law. There were no declarations.

1.0 Statutory Governance Matters and Committee Information

1.1 Membership Changes

1.1.1 FTSE Russell welcomed three new committee members to the advisory committee.

1.1.2 A committee member informed the Secretariat of his departure after the committee meeting had concluded. FTSE Russell thanked the committee member for his contributions during his tenure serving on the advisory committee.

1.2 Minutes

1.2.1 The minutes of the meeting held on Monday 28 November 2022 were approved as presented.

1.2.2 The public minutes of the meeting held on Monday 28 November 2022 were approved as presented.

1.3 Governance

1.3.1 The committee endorsed the latest version of the Terms of Reference.

1.4 Action Points and Matters Arising

1.4.1 There were no action points.

1.5 Key Notices and Updates

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- 1.5.1 Recent, key notices, and research reports were highlighted for the committee’s benefit. There were no comments.
- 2.0 Index Methodology and Product Update: Equity**
- 2.1 EU Climate and net zero benchmarks – key questions and considerations (presented for discussion)
- 2.1.1 EU Benchmarks Regulation (BMR) rules on minimum standards for EU Climate Benchmarks came into force from December 2020. The objective of the rules was to define methodologies based on the Paris Agreement commitments and improve comparability between indices. FTSE Russell launched the FTSE EU Climate Benchmarks Index Series, aligned with the BMR minimum requirements, and went further regarding green revenue targets and exclusions. Notably, if the economy does not decarbonise or decarbonises at too slow a pace, CTB/PABs will experience an increasing divergence from the benchmark (the aim of which is to represent the economy or a part of the economy), leading to further concentration and tracking error. FTSE Russell explained that it was keen to ensure that the framework works to achieve net zero outcomes.
- 2.1.1.1 The committee was asked for their responses to and views relating to the practicalities of the frameworks, broader objectives, and related implications.
- 2.1.1.2 A discussion ensued and the committee member provided feedback.
- 2.1.1.3 FTSE Russell thanked the members for their comments and said it would reflect on the feedback.
- 2.2 Controversies – trade policies and forced labour (presented for discussion)
- 2.2.1 FTSE Russell explained that governments are increasingly using trade policy tools to promote certain goals related to human rights. This includes banning the import of certain products which are assumed to use forced labour. This is separate from economic sanctions which subject entities to restrictions on, or the prohibition of, the trading or holding of their securities.
- 2.2.2 FTSE Russell said that it is interested in gathering feedback from committee members on how these issues are approached within the committee member’s firms, with the caveat that data collection on the issue can be challenging.
- 2.2.2.1 A discussion ensued and the committee members provided feedback. FTSE Russell thanked the members for their comments and said it would reflect on the feedback.
- 2.3 ESG fund labels and minimum standards – UK, Europe, and the US (presented for discussion)
- 2.3.1 FTSE Russell continues to monitor the range of rules and proposals for ESG fund labels and disclosures to determine whether there could be an indirect impact to FTSE Russell index methodologies or design. Key developments in the UK, EU, and US require further discussion and consideration. A number of rules are already in force (EU SFDR) and are being supplemented, while other proposals are being consulted on (UK, US). A key theme is the introduction of minimum standards, and varying approaches to ‘sustainable investment with impact’ vs. ‘ESG integration’. FTSE Russell explained that it was interested in the members’ views.
- 2.3.1.1 A discussion ensued and the committee members provided feedback. FTSE Russell thanked the members for their comments and said it would reflect on the feedback.
- 2.4 FTSE UK ESG Index Series launch (verbal update given for information): FTSE Russell explained that it would soon launch the [FTSE UK ESG Risk-Adjusted Index Series](#), the aim of which would be to address key ESG issues, align to EU SFDR Article 8, and broaden FTSE Russell’s product suite.

2.5 Minimum exclusions for standard sustainable investment indices – implementation update (verbal update given for information): FTSE Russell highlighted the [technical notice \(published 06 February 2023\)](#). There were no comments.

3.0 Index Methodology and Product Update: Fixed Income

3.1 Rethinking the sovereign environmental score – enhancement to the Sovereign Risk Model (SRM) (presented for discussion)

3.1.1 FTSE Russell explained that it would be introducing a comprehensive enhancement to the Environmental pillar score of the FTSE Russell Sovereign Risk Monitor (SRM). The SRM is designed to measure financially material risk from ESG factors for sovereign issuers with data available for 151 countries from 1999 onwards. The model is transparent, rules-based, and uses historic and forward-looking indicators to measure risk in the short and long term. The SRM is used in the FTSE ESG Government Bond Index Series (e.g., WGBI, EGBI, EMUSDGBI), and ‘tilted’ based on the weights of the individual indicators.

3.1.2 FTSE Russell [published a technical notice on 22 February 2023](#) with a request for market participant feedback, alongside the [2SRM methodology document](#) and a [research paper](#) highlighting the design decisions. It was noted that a market consultation covering the switch from SRM to Sovereign Risk Monitor 2 (2SRM) would also be issued in due course. The versions which had been announced thus far were noted as proving the predictive powers of sovereign risk, better statistical data transformation techniques, and suit the needs of asset owner and other clients.

3.1.3 The committee was kindly requested to share any feedback or comments on this proposed enhancement to the SRM, including the technical notice. There were no comments.

3.1.4 *Post-meeting note:* the link to the consultation can be found [here](#).

3.2 Sustainable fixed income product update (verbal update given for information): a member of FTSE Russell said that it would soon launch [PAB and CTB indices for the fixed income](#), and had adopted a thoughtful, differentiated approach to creating useful investor toolkits and addressing different fixed income client needs, hence why it also produces research to supplement its new products. An ESG sovereign index series was launched in the last year [2022/2023], as well as custom sustainable development goal-aligned sovereign indices using SRM key performance indicators on SDG goals. There were no comments.

4.0 AOB

4.1 None.

5.0 Meeting Dates

5.1 2023: 11 September / 04 December

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