

Swiss Sustainable Finance consultation response to EU Commission’s interim report on Climate Benchmarks and Benchmarks’ ESG Disclosures

1. Introduction and background

On 18 June 2019, the EU Commission published the [TEG interim report on EU climate benchmarks and benchmarks’ ESG disclosure](#). This is one of the elements outlined within the Commission’s legislative proposals of May 2018¹. The benchmark disclosure requirements and two climate benchmarks are meant to help the flow of assets into more climate aligned investment solutions.

The current feedback round is based on the work of the Technical Expert Group on Sustainable Finance (TEG), made up of representatives of organisations, individuals appointed in a personal capacity or representatives of European entities.²


The interim report sets out the methodology and minimum technical requirements for indices that will enable investors to orient the choice of investors who wish to adopt a climate-conscious investment strategy, and address the risk of greenwashing. The report also sets out disclosure requirements by benchmark providers in relation to environmental, social and governance (ESG) factors and their alignment with the Paris agreement.

The current consultation asks specifically for feedback on the overall ESG disclosure requirements as well as the minimum standards and methodology for “EU climate transition” (CTB) and “EU Paris-aligned” (PAB) benchmarks.

SSF has drafted a response to the 22 questions and has incorporated feedback from its members.

2. SSF feedback on Disclosure requirements for all benchmarks

1. The TEG believes that the sustainability disclosure requirements for all benchmarks in the methodology and in the benchmark statement should be distinguished by type of asset classes. Do you agree with this approach?

Yes	No	Don't know / no opinion / not relevant
		

¹ https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

² <http://ec.europa.eu/transparency/regexpert/index.cfm?do=faq.faq&aide=2>

2. Do you believe that non-significant benchmarks should disclose less information than significant benchmarks, in line with the proportionate approach set out in the [benchmark regulation \(Regulation \(EU\) 2016/1011\)](#)?

Yes	No	Don't know / no opinion / not relevant
	✓	

Please note, SSF has chosen this answer based on the definitions of Critical (> 500 bn EUR linked to benchmark), Significant (> 50 bn EUR linked to benchmark) and non-significant benchmarks (< 50 bn EUR linked to benchmark). It is our feeling that it is often the case that non-significant benchmarks are those that are being marketed as green/ESG and should therefore also be required to disclose along these guidelines.

3.a The TEG has identified different types of KPIs of the benchmarks for the respective asset classes (see Section 3 of the [TEG report on climate benchmarks and ESG benchmarks' disclosures - 'the Report' - Annex I to VII](#)).

On a scale from 1 to 5, please express your view as to the level of satisfaction for the suggested KPIs for the respective asset class of benchmarks (1 indicating the lowest level of satisfaction regarding the KPIs):

	1 (lowest level of satisfaction)	2	3	4	5 (highest level of satisfaction)	Don't know / no opinion / not relevant
Equities (annex I)						
Fixed Income - Corporates & Securitised (ABS) (annex II)						
Fixed Income – SSA (annex III)						
Commodities (annex IV)						
Infrastructure (annex V)						
Private Equity, Private Debt, Infrastructure (annex VI)						
Hedge Funds (annex VII)						


3.b Please indicate any KPI(s) you would not favor to include from the KPIs listed in section 3 of the Report:

- Swiss Sustainable Finance does not have further recommendations at the moment, but will adapt this answer based on member feedback received by 19 July. We encourage our members to indicate which KPIs are not practical and whether your organisation offers benchmarks.

3.c) Please indicate any KPI(s) you would recommend to add to the KPIs listed in section 3 of the Report:

- Swiss Sustainable Finance does not have further recommendations. We do however commend the inclusion of the KPI for weighting of index constituents in controversial weapons. During the last half year, through an investor initiative, we have been in conversation with index providers on this topic. We do recommend that the documentation include a reference to a definition for controversial weapons as the term can be interpreted in multiple ways. Please see our website for such a definition: http://www.sustainablefinance.ch/en/engagement-initiatives-_content---1--3117.html

4. Do you agree with the mandatory disclosure of ESG ratings for equity and fixed-income benchmarks?


Yes	No	Don't know / no opinion / not relevant
		

5. If relevant, please explain the impact of the disclosure of ESG ratings for equity and fixed income benchmarks on you, especially in terms of the costs and benefits implied:

- N/A

6.a The TEG has drawn up templates for the disclosure of ESG information in the benchmark statement and in the methodology (see [templates 1 and 2 in Appendix D](#) of the Report).

On a scale from 1 to 5, please express your view regarding the format of these templates (1 indicating the lowest level of satisfaction regarding the format):

1 (lowest level of satisfaction)	2	3	4	5 (highest level of satisfaction)	Don't know / no opinion / not relevant
					

6.b Would you have any suggestions to improve the format of the templates?

- It is unclear for equity and fixed income indices, where the ESG ratings would be reported.
- It might help to add an additional section: "If you selected equity or fixed income, please also indicate the E+S+G rating and the scale you have selected."

6.c On a scale from 1 to 5, please express your view as to the cost of producing these templates (1 indicating the lowest level of cost of implementation):

1 (lowest level of cost)	2	3	4	5 (highest level of cost)	Don't know / no opinion / not relevant
					✓

7 Do you agree that the template for ESG factors in the benchmark statement should be updated at least on a quarterly basis?

Yes	No	Don't know / no opinion / not relevant
	✓	

If you responded "no" to question 7, what update frequency would you prefer? Do you have any further comments?

- It is our opinion that a quarterly update would put too much of a burden on benchmark providers. Perhaps it would make sense to link the updates to index rebalances (i.e. if > 10% of the universe titles change).
- We would recommend considering an update frequency of between 6 months – 1 Year and upon large rebalances.

8. Do you agree with the disclosures on overall degree of alignment with the objectives of the Paris Climate Agreement ([template 3 in Appendix D](#))?

Yes	No	Don't know / no opinion / not relevant
✓		

9. Do you think that the CTB & PAB should disclose more information than the information requested in [section 4.1 of the Report](#)?

Yes	No	Don't know / no opinion / not relevant
	✓	

10. What is the overall impact of the above technical advice on ESG disclosures, especially in terms of costs to benchmark administrators and benefits to investors? Please provide clear indication to which stakeholder your answer belongs.

- The clear benefit to investors is the comparability that will result. Asset managers and banks will be able to communicate to investors/clients how the benchmarks/indices they use do/do not incorporate ESG factors, how they do so and to what extent. Asset owners will also have an easier time communicating the ESG levels of benchmarks to their stakeholders.
- We would like to stress the point that this will only be the case if also non-significant benchmarks are required to apply ESG disclosure. Many “green”/“sustainable” indices have been launched and do not yet have EUR 50 billion linked to them. This means, many indices would not fall under the jurisdiction of the guidelines, and exactly these indices are those that stakeholders would like to compare.

11. Do you see a need for guidance from the TEG on ESG data related charges similar to what is set out in the shareholder rights directive II.

Yes	No	Don't know / no opinion / not relevant
		✓

3. SSF feedback on methodology of the climate benchmarks

12. Do you think the CTB and the PAB differ methodology-wise sufficiently from each other?

Yes	No	Don't know / no opinion / not relevant
✓		

13.a Please express your agreement with the proposed minimum requirements for CTB. Use the scale from 1 to 5 (with 1 indicating no agreement):

	1 (no agreement)	2	3	4	5 (full agreement)	Don't know / no opinion / not relevant
Minimum Scope 1+2(+3) carbon intensity reduction of 30 % compared to investable universe						
Scope 3 phase-in (2 – 4 years)						
The green brown share ratio shall at least be equivalent to the green share/brown share ratio of the investable universe						
Minimum exposure to sectors highly exposed to climate change issues is at least equal to market benchmark value						
At least 7% of annual decarbonisation: in line with or beyond the decarbonisation trajectory from the IPCC's 1.5°C scenario (with no or limited overshoot)						

13.b Please provide any comments on recommended changes or additions to the minimum requirements listed in question 13.a:

It is clear that scopes 1&2 data is valuable information which is important for investors. But they alone are an incomplete and potentially misleading KPI to base decisions on regarding measuring your risks in terms of Climate change. EU and/or benchmark providers should explain the limits of their Benchmark to capture CO_{2e} risks due to the omissions of data on scope 3. And a warning should be systematically disclosed in order to inform the investor on the limit of the CO_{2e} measures. This is important in terms of credibility of the approach within the scientific community.

To standardize scope 3 data in the future will be a challenge. This dispersion we observe among providers regarding ESG global ratings may damage the credibility of the process. This problem should be addressed directly by the EU. We recommend the EU creates a task force with Data providers to support a common methodology for scope 3 and support an initiative to supply market data on CO_{2e} which are backed by a consensus among specialists.

We feel an adequate information disclosure on the limits of the methodology is very important at this stage.

14.a Please express your agreement with the proposed minimum requirements for PAB.

Use the scale from 1 to 5 (with 1 indicating no agreement):

	1 (no agreement)	2	3	4	5 (full agreement)	Don't know / no opinion / not relevant
Minimum Scope 1+2(+3) carbon intensity reduction of 50 % compared to investable universe						
Scope 3 phase-in (2 – 4 years)						
The green brown share ratio shall at least be significantly larger (factor 4) to the green share/brown share ratio of the investable universe						
Minimum exposure to sectors highly exposed to climate change issues is at least equal to market benchmark value						
At least 7% of annual decarbonisation: in line with or beyond the decarbonisation trajectory from the IPCC's 1.5°C scenario (with no or limited overshoot)						

14.b Please provide any comments on recommended changes or additions to the minimum requirements listed in question 14.a:

It is clear that scopes 1&2 data is valuable information which is important for investors. But they alone are an incomplete and potentially misleading KPI to base decisions on regarding measuring your risks in terms of Climate change. EU and/or benchmark providers should explain the limits of their Benchmark to capture CO₂e risks due to the omissions of data on scope 3. And a warning should be systematically disclosed in order to inform the investor on the limit of the CO₂e measures. This is important in terms of credibility of the approach within the scientific community.

To standardize scope 3 data in the future will be a challenge. This dispersion we observe among providers regarding ESG global ratings may damage the credibility of the process. This problem should be addressed directly by the EU. We recommend the EU creates a task force with Data providers to support a common methodology for scope 3 and support an initiative to supply market data on CO₂e which are backed by a consensus among specialists.

We feel an adequate information disclosure on the limits of the methodology is very important at this stage.

15. Do you think that it would be relevant to extend the minimum requirements to sovereign indices?

Yes	No	Don't know / no opinion / not relevant
	✓	

16. Do you believe that the requirement set out in the amending regulation (article 23a) for CTB & PAB to select, weight or exclude underlying asset that follow a decarbonisation trajectory should be further clarify in a minimum requirement?

Yes	No	Don't know / no opinion / not relevant
	✓	

If you responded “yes” to question 16, which kind of minimum requirement would you like to see in the delegated act?

17. Do you think the scenario selected to drive the decarbonisation trajectory – IPCC 1.5° with no or limited overshoot – is the most appropriate one?

Yes	No	Don't know / no opinion / not relevant
✓		

If you responded “no” to question 17, please provide any further comments and/or suggestions:

18. Do you think the minimum standards suggested in the report leave enough flexibility for market players to further innovate in the field of climate indices aligned with ambitious climate trajectories?

Yes	No	Don't know / no opinion / not relevant
		✓

If you responded “no” to question 18, please provide any further comments and/or suggestions:

19. Do you agree having different denominators (e.g. total capital, revenue) for the calculation of the GHG intensity depending on the use case ([table 6 in Section 5.3.3 in the Report](#))?

Yes	No	Don't know / no opinion / not relevant
	✓	

If you responded “no” to question 19, please provide any further comments and/or suggestions:

- From what we understood from table 6 in Section 5.3.3, two specific denominators are being recommended: revenue and total capital.
- To our knowledge, till now the TCFD has recommended the use of “Weighted average carbon intensity” (<https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf>, page 43), which uses revenue as the denominator. We would recommend to align the disclosure requirements with such metrics as used by widely accepted methodologies.
- We however recognize that the TCFD is in the development phase with companies now beginning to report using the guidelines and therefore expect to see further developments in this area. For instance, through our member network, we know that there is a call for the use of “Value Added” as the denominator to calculate carbon intensity instead of revenue.

20. Do you believe that the definition of total capital (i.e. 'the sum of the book values of common stock, preferred equity, long term debt and minority interest') for the calculation of the GHG intensity is accurate?


Yes	No	Don't know / no opinion / not relevant
		✓

If you responded “no” to question 20, please provide any further comments and/or suggestions:

21. What is the overall impact of the technical advice on CTBs and PABs, especially in terms of costs to benchmark administrators and benefits to investors?

- Indices are one of the backbones of the investment industry. They are used as
 - Benchmarks – to track performance and compare other factors
 - Investment universes – to supply titles for active investors to choose from
 - Passive tracker solutions – to help investors mimic a market, sector etc.
- With a growing level of investments shifting to passive solutions, and a growing number of investors looking for climate-aligned benchmarks, we believe having transparent and comparable standards for investors looking to invest in climate-aligned benchmarks as an important benefit.

22. Do you see merits in further aligning the proposed benchmarks methodologies with the principles of the taxonomy once the latter is approved?

Yes	No	Don't know / no opinion / not relevant
		

4. Provide additional information to the EU

In the report it should be mentioned that a (sustainability assessment) methodology for the index does not prevent index users from applying a different (sustainability assessment) methodology . We feel it is important for the industry to continue to develop improved methodologies and not to focus solely on the methodologies developed by the index providers.

5. Further information

Links to important documents

Documents linked to the consultation can be found at:

https://ec.europa.eu/info/publications/sustainable-finance-teg-climate-benchmarks-and-disclosures_en

- [Interim report](#)
- [Summary of the interim report](#)
- [Call for feedback document](#)

Zurich, 25 July 2019