Contribution ID: cbefab6f-9b31-4b54-9908-38fada1c3789
Date: 31/07/2019 15:17:14

Feedback on the draft technical advice on minimum requirements for the EU climate-transition benchmarks and the EU Paris-aligned benchmarks and benchmarks' ESG disclosures

Fields marked with * are mandatory.

Introduction

Disclaimer

This call for feedback is part of Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Directorate-General for Environment, Directorate-General for Climate action and Directorate-General for Energy ongoing work on sustainable finance, for which the European Commission has set up a dedicated technical expert group (TEG).

This feedback process is neither an official Commission document nor an official Commission position. Nothing in this feedback process commits the Commission nor does it preclude any potential policy outcomes.

In 2018 the European Commission (EC) published its action plan on financing sustainable growth (action plan). In action 5 of the action plan, the European Commission commits to put forward, subject to the outcome of its impact assessment, an initiative for harmonising benchmarks comprising low-carbon issuers, based on a sound methodology to calculate their carbon impact. On 24 May 2018 the Commission published its proposal for a Regulation on 'low carbon' and 'carbon positive' benchmarks amending the benchmark regulation (Regulation (EU) 2016/1011).

On 25 February 2019, the European Parliament and the Council reached a political agreement on the creation of two new categories of benchmarks, the 'EU climate transition benchmark' and the 'EU Paris-aligned benchmark'. The establishment of EU climate transition and EU Paris-aligned benchmarks, underpinned by a methodology linked to commitments regarding carbon emission of the Paris Climate Agreement, would contribute to better transparency and help prevent greenwashing. The two new categories of benchmarks are voluntary labels designed to support investors who wish to adopt a climate-conscious investment strategy in choosing an appropriate benchmark.

The amending Regulation requires the European Commission to adopt delegated acts laying down minimum standards as to the methodology of 'EU climate transition' and 'EU Paris-aligned' benchmarks; and minimum content of disclosure explaining how the benchmark methodologies of all benchmarks (with the exception of currency and interest rate benchmarks) reflect ESG factors.

The TEG received a mandate from the European Commission to assist it in the development of the above-mentioned delegated acts.

The TEG is publishing its interim report, subject to the call for feedback.

Section 3 details the technical advice on minimum ESG disclosure requirements to improve transparency and comparability of information across benchmarks.

Section 4 and section 5 include the technical advice on the minimum requirements for the two climate benchmarks.

For the purposes of this call for feedback, **'CTB' means climate-transition benchmark** and **'PAB' means Paris-aligned benchmarks**.

Following the call for feedback and taking into account the feedback received, the TEG will publish a final version of the report by the end of September 2019. The Commission reserves the right to revise and/or supplement this report. The advice received should not prejudge the Commission's final policy decision and the content of the future delegated acts.

Financial market participants are invited to give their feedback on the key elements of this interim report as flagged in the below.

The deadline for providing feedback is 2 August 2019 cob.

Please note: In order to ensure a fair and transparent feedback process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact ec-teg-sf@ec.europa.eu.

Useful documents and links:

- More on EU climate benchmarks and benchmarks' ESG disclosures
- Interim report
- Summary of the interim report
- Call for feedback document

- [Specific privacy statement]

1. Information about you and your organisation

* Are you replying as a(n):

- ○ index provider
- ○ institutional investor/ asset owner
- ○ public sector issuer/ borrower (sovereigns, regions, municipalities, government backed entities)
- ○ multilateral or bilateral financial institution, government backed agency or development bank
- ○ corporate issuer/borrower
- ○ financial institution acting as issuer/borrower
- ○ financial institution acting as intermediary
- ○ financial institution acting as lender
- ○ NGO
- ○ sustainability consultancy
- ○ credit rating agency
- ○ auditing/assurance firm
- ○ academic
- ○ stock exchange
- ◉ other

* Please specify in what other capacity your are replying:

As the representative of 65 institutional investors.

* Name of your organisation:

Eumedion

* Contact email address:

The information you provide here is for administrative purposes only and will not be published

martijn.bos@eumedion.nl

* Is your organisation included in the Transparency Register?
(If your organisation is not registered, we invite you to register here, although it is not compulsory to be registered to reply to this consultation. Why a transparency register?)

- ◉ Yes
- ○ No

* If so, please indicate your Register ID number:

65641341034-11

If relevant, please provide us with the following characteristics of the organisation in which capacity are you answering:

Number of employees:

Please round the number to thousands. If it is above 50.000, just indicate 50.000)

5 employees

AuM benchmarked:

5000000000000 euros

AuM owned:

0 euros

* Where is your organisation based?

- (x) EU member State
- ( ) Europe, but non-EU
- ( ) North America
- ( ) Latin America
- ( ) Asia
- ( ) Africa
- ( ) Other

Important notice on the publication of responses

* Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?
(see specific privacy statement)

- (x) Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- ( ) No, I do not want my response to be published

2. Your opinion

1.1 Overall ESG disclosure

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

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

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:

1000 character(s) maximum

The KPIs suggest that tobacco and controversial weapons are aggregated into a single number. For quite a number of investors there is still a significant difference between the two sectors.

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

1000 character(s) maximum

There should be a governance factor that overall indicates how well the company respects shareholder rights. This indicator should for example take into account to what extent a company deviates from the one-share-one-vote principle, and measures that indicate the effectiveness of the board/governance structure. We would consider the governance factor to be as important as the other two factors. In practice, good governance seems to be beneficial for many companies to become more multi-stakeholder aware.

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:

3000 character(s) maximum

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?

2000 character(s) maximum

The proposed approach may invite certain benchmark assessors to set light criteria so on each factor, a high percentage score can be shown. Such outcome would provide rather meaningless results. A different approach could be considered that is likely to provide more insightful outcomes for investors:
The template could require what percentage of index constituents have been excluded based on both the overall and the individually applied E, S and G criteria. Such percentages would provide tangible proof how discriminating the ESG factors turn out to be in practice. There may be factors should be excluded from qualifying as an E, S, or G factor. For example, the proportion of free float shares should not qualify as a Governance factor.
We see this approach mirroring the actual benchmark setting process where there first are inclusion criteria and subsequently there are exclusion criteria.

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
- (x) 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
- (x) 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?

2000 character(s) maximum

Investors don't choose benchmarks on a quarterly basis, but on a much longer term basis. Much of the ESG information provided by companies is updated only annually. However, if ESG factors are included in the actual composition of benchmarks, all the information that the benchmark statement holds should already be readily available. An annual requirement to disclose, together with a requirement that a quarterly update is only required if there are material changes in the effects of ESG factors on the index composition.

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)?

- (x) 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.

3000 character(s) maximum

In our response we prefer to elaborate on the benefits for investors as it is beyond our capacity to estimate the costs to benchmark administrators.

The desire to take ESG factors into account has become main stream for investors. Many investors will therefore benefit from the proposed ESG disclosures, as we expect the measures to significantly contribute to providing insight in how benchmarks measure ESG factors and how they perform on these factors. The disclosures help investors distinguish between benchmarks that in name take ESG into account and benchmarks that in actual composition perform well on ESG factors. This allows investors to choose more appropriate benchmarks which will directly affect major capital allocation decisions. The ESG disclosures can also allow for a more meaningful discussion between investors and benchmark providers. The disclosures can clearly be expected to help mitigate 'ESG' washing. We do reiterate our observation that the Governance factor needs to be much further refined before it starts to add to the insight for investors.

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

1.2 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 C T B .

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:

3000 character(s) maximum

We consider the 30% cutoff as a quite arbitrary. In that sense, the CTB benchmark feels little more than a PAB-light version. The methodology is the same, just with less stringent criteria.

It is not so clear from the document how granular the sectors will be defined. If the sectors are too narrowly defined, it will be quite difficult for index builders to build meaningfully different indexes from each other. Some methodologies split an index in 120 subsectors, other methodologies in three. An approach that would provide clarity is to state that the weight of a sector should on the moment of definition not be below 5%. If in the subsequent years the weight of a sector falls below a certain level, for example 2.5%, the sectors should be redefined.

The decarbonisation target of 7% should be measured as a compound average decline rate over three years. The carbonisation should be measured as the carbon intensity of the turnover per operating segments of a company. A company that grows 20% and keep its carbon footprint equal is doing a better job than its competitor that loses 20% turnover and 'only' loses 20% of its carbon footprint. A second problem of this 7% target is that leading companies that already or soon operate at a very low carbon intensity may no longer qualify as green in these indexes, as a further reduction of 7% per annum may not be feasible. It would not be right to provide an index incentive to exclude these green leaders.

14.a Please express your agreement with the proposed minimum requirements for P A B .

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				X		
Scope 3 phase-in (2 – 4 years)				X		
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)	○	○	○	○	○	○

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

3000 character(s) maximum

We assume the questionaire contains two errors. The underlying document requires a 50% lower footprint than the investable universe, not 30%. The ratio green/brown is 4/1, not 1/1. Again the levels of these requirements seem rather arbitrary, but illogical and quite more distinguishing.

We refer to our respone on question 13b on the other topics.

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

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

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
- (x) No
- Don’t know / no opinion / not relevant

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

2000 character(s) maximum

We disagree with the use of total capital. The amount of book equity differs greatly among companies that can be quite similar in their economic footprint. Book equity is not supposed to represent the value of a company. Revenues as a measure should work quite well for most companies. Only if a company qualifies as a financial institution or an investment company there should be an option to use market value of equity (not book value), debt and minority interests.

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
- (x) No
- Don’t know / no opinion / not relevant

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

2000 character(s) maximum

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:

2000 character(s) maximum

We refer to our response to question 19.

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?

3000 character(s) maximum

In our response we prefer to elaborate on the benefits for investors as it is beyond our capacity to estimate the costs to benchmark administrators.

The CTB and PAB provide a valuable indication how ambitious the companies in a benchmark in aggregate are. Especially in combination with the proposed ESG disclosures we expect investors to be able make more informed capital allocation decisions with this information.

We note that the composition is dependent on factors for which there is not yet an independent authoritatitve standard setter and for which there are quite limited safeguards in terms of audit. A major question that remains is 'How credible are the numbers that are used?'.

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

- [x] Yes
- [ ] No
- [ ] Don’t know / no opinion / not relevant

3. Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

Useful links

TEG interim report on EU climate benchmarks and benchmarks ESG disclosures (https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-climate-benchmarks-and-disclosures_en)

Summary of the interim report (https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-overview-climate-benchmarks-and-disclosures_en)

Call for feedback document (https://ec.europa.eu/info/files/190618-sustainable-finance-teg-interim-report-climate-benchmarks-and-disclosures-call-feedback_en_en)

Specific privacy statement (https://ec.europa.eu/info/files/190618-sustainable-finance-teg-interim-report-climate-benchmarks-and-disclosures-privacy-statement_en)

More on EU climate benchmarks and benchmarks ESG disclosures (https://ec.europa.eu/info/publications/sustainable-finance-teg-climate-benchmarks-and-disclosures_en)

Contact

ec-teg-sf@ec.europa.eu