Contribution ID: 7b28702d-86e2-46ea-bec0-eab3e1970af5
Date: 03/08/2019 00:53:18

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):

- (x) 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

* Name of your organisation:

MSCI Limited

* Contact email address:

The information you provide here is for administrative purposes only and will not be published

jamie.pawliczek@msci.com

* 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?)

- (x) Yes
- ( ) No

* If so, please indicate your Register ID number:

012146830944-03

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)

3000 employees

AuM benchmarked:

euros

AuM owned:

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?

- (x) 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
- (x) 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)	( )	( )	( )	(x)	( )	( )
Fixed Income - Corporates & Securitised (ABS) (annex II)	( )	( )	( )	(x)	( )	( )
Fixed Income – SSA (annex III)	( )	( )	( )	(x)	( )	( )
Commodities (annex IV)	( )	( )	( )	( )	( )	(x)

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

MSCI largely supports the ESG factors to be disclosed. However, as the TEG points out, if an administrator does not have ready access to the ESG data, then disclosures may be a challenge for the benchmark administrator. The disclosures should be voluntary with a "comply or explain" regime, and if the administrator is unable to disclose the information, the benchmark adminstrator should be requried to explain why. Unavailability should be reviewed annually by the benchmark administrator.

For additional comments related to fixed income indexes, please see our separate response document which accompanies this questionnaire.

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

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

With regards to the Consolidated ESG and E, S, G Ratings, MSCI supports the disclosure of the consolidated ESG ratings, as well as the sub-pillars, i.e. the Environmental, Social and Governance ratings.

While MSCI supports the disclosure of ESG ratings, as the TEG points out, if an administrator does not have ready access to the ESG ratings data, then disclosures may be a challenge for the benchmark administrator. The disclosures should be voluntary with a "comply or explain" regime, and if the administrator is unable to disclose the information, the benchmark adminstrator should be requried to explain why. Unavailability should be reviewed annually by the benchmark administrator.

Further, the delivery mechanism of this information must be flexible, and as the TEG recommended should be permited with a link in the benchmark statement.

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

Sources and reference standards must be removed from the templates. There will be a different sources and different standards for the different data points. Listing them will make it unclear on what is coming from where and listing it per data point will be unmanageable. This will be confusing for investors. It will also be administratively burdensome and costly for administrators, especially as sources (and reference standards) change over time. Further, there is no Level 1 requirement for sources or reference standards to be listed, so this exceeds the Level 1 mandate.

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?

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

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
- [x] 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

The benefit to investors of the metrics and templates will be the harmonization of information so that investors have a "like for like" basis on which to compare benchmarks. While templates can be used to support harmonization, the delivery mechanism must be flexible enough to allow for proper automation. We fully support the TEG’s recommendation that links in the benchmark statements be allowed. For example, links can be to portals where the information can be called up. Requiring the ESG data to be included in the benchmark statements themselves violates the Level 1 text because the Level 1 text specifically allows

benchmark statements to apply to families (as well as individual benchmarks). Being inflexible on the delivery mechanism (e.g., inclusion of factors in static PDFs in benchmarks statements) will lead to much higher costs because it reduces the ability to automate. This is especially acute for large administrators that produce hundreds and thousands and hundreds of thousands of benchmarks, resulting in millions of pages of static PDF benchmark statements that need to be produced each quarter. There are better, more efficient and less costly ways to present the ESG data, which should be permitted and supported through the flexibility in delivery mechanisms.
Additionally, with respect to methodologies, there may be series or “stack” of methodologies that may apply to a single index, and it would be unworkable to require the ESG disclosure template be included in the methodology itself. Instead, a more workable solution would be to allow it to be a separate document that can be included within the methodology "stack" for that particular index.

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

Please see our separate response document which accompanies this questionnaire.

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	2	3	4	5	Don't know / no opinion /

	(no agreement)				(full agreement)	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)	○	○	○	○	●	○

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 agree in principle with all of the requirements proposed for PAB. However, based on our analysis we think the required increase of at least 4x in green share/brown share in addition to the targets on carbon intensity reduction and self decarbonization could prove challenging to meet for certain narrow benchmarks with large constituent weights. For example, as of 29th May 2019, CHINA EVERBRIGHT INTL which is a constituent of MSCI EM Index, had 94% of its revenues attributable to "green" sources and has a relatively high carbon emission intensity of 845 tCO2/M€ Total Capital. Relative to the MSCI EM Index constituent, China Everbright Intl was placed in the top quartile of stocks by both green revenue and carbon emission intensity. An heuristic based index methodology will find it challenging to reweight in China Everbright Intl in such a way that it simultaneously contributes to decrease in carbon emission intensity reduction and increase in the green share/brown share ratio.

We think that in order to meet all requirements proposed for PAB, a 'light touch' heuristics based reweighting of benchmark will not be sufficient and the PAB may incur large turnovers and in worst cases fail to satisfy all requirements on certain rebalance dates. We think that to construct a PAB, an optimization based index methodology will be required to ensure that all requirements can be met with reasonable amount of turnover and tracking error. However, optimization risks contradicting the BMR and the requirements around transparency.

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
- ○ No
- ○ Don’t know / no opinion / not relevant

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:

2000 character(s) maximum

Please see our separate response document which accompanies our response.

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?

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

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

The benefit to investors of the metrics and templates will be the harmonization of information so that investors have a "like for like" basis on which to compare benchmarks. However, as the TEG recommended, the delivery mechanism should be flexibile. Forcing the delivery mechanism to be archaic and static benchmark statements per benchmark introduces unnecessary cost and administrative burden, unnecessarily consuming energy and computing power to produce millions of pages of static benchmark statements.

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
- [x] 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:

003e46fa-f835-4484-9f76-4fd1e8b9e347/MSCI_CONSULTATION_RESPONSE_TO_THE_TEG_REPORT_ON_CLIMATE_BENCHMARKS_AND_BENC 01-19_V4jp.pdf

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