



Via electronic submission

May 14, 2020

Mr. Robert Sidman
Deputy Secretary of the Commission
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St, NW
Washington, DC 20581

Re: Climate-Related Market Risk Subcommittee Under the Market Risk Advisory Committee

Dear Mr. Sidman,

London Stock Exchange Group (“LSEG”)¹ welcomes the opportunity to respond to the Notice from the Commodity Futures Trading Commission (“CFTC” or “Commission”) on topics and issues being addressed by the Climate-Related Market Risk Subcommittee (“Subcommittee, or “MRAC Climate Subcommittee”) of the Market Risk Advisory Committee (“MRAC”).²

We commend the leadership of Commissioner Behnam, as sponsor of MRAC, as well as the focus and support of the Commission, CFTC staff, and the Subcommittee’s members on this important topic. As one of the world’s most diversified financial market infrastructure groups, LSEG recognizes its role in the global financial markets to leverage a broad set of tools and experience in addressing the challenges and opportunities regarding financial-related climate risk mitigation. Our goal is to strengthen our ability to operate resilient and stable financial markets that support long-term sustainable growth.

Through FTSE Russell, a leading index, data and analytics provider, we have both longstanding and innovative capabilities to support market participants as they respond to developing financial risks. As a large exchange operator of equity and fixed income markets, we are also working to better support our issuers, including a high proportion of natural resources firms, who are key components of the transition to a lower carbon economy.

In response to the Notice and to assist the Subcommittee in their development of their report and recommendations, we provide greater detail below on the following summary points:

- I. **Climate risk data** –The availability of high quality, innovative and decision-useful data, and derived products, is a key factor in helping market participants to better manage climate risk.

¹ LSEG is majority owner of LCH Group, which consists of two clearing houses, LCH Ltd in London and LCH SA in Paris. LCH Ltd and LCH SA are both CFTC registered Derivatives Clearing Organizations. LSEG also owns LSEDM, a CFTC registered Foreign Board of Trade.

² CFTC, Climate-Related Market Risk Subcommittee Under the Market Risk Advisory Committee, 85 FR 20678, available at <https://www.cftc.gov/sites/default/files/2020/04/2020-07860a.pdf>

- II. **Initiatives to support companies** – Companies of all sizes face complexities and costs in responding to climate risk in their overall operations. Equipping companies to better understand and adapt to climate risk through a range of tailored methods, depending on differing external factors, will play an important role in efficient risk management.
- III. **Sustainability and climate-related risk disclosures** – While a one-size-fits-all approach to disclosure cannot account for the heterogeneity of companies and sectors, encouraging globally coherent, comparable and pragmatic climate-risk disclosures will improve the quality, utility and integrity of climate risk reporting.

Climate risk data

A widely acknowledged challenge for market participants to evaluate and manage different types of climate risk is the availability of high quality, innovative and decision-useful financial data. The indicators and the level of granularity in many types of conventional financial data are still regarded by many market participants as insufficient to identify and monitor climate risk effectively. However, the demand for decision-useful, climate-related financial information on how companies have prepared or are preparing for a lower-carbon economy continues to grow significantly.

Our index, data and analytics business, FTSE Russell, supports and partners with market participants on the integration of climate risk into investments with reliable, comparable and consistent climate data. The FTSE4Good Index Series, launched over two decades ago, provides data on the performance of companies demonstrating strong ESG practices.³ This has led to a deep set of climate data of public companies worldwide, which supports investor and company dialogue on ESG risks and opportunities.

For equities, FTSE Russell's Green Revenues data model is a tool designed to measure the revenue exposure of public companies to climate risk, including all companies in the Russell 3000 Index, which represents 98% of U.S. public equity market.⁴ For example, a Green Revenues percentage is calculated for each company between zero and 100 per cent. This and other established models can be helpful in underpinning data for the development of ESG taxonomies.

FTSE Russell is also a data partner to the Transition Pathway Initiative ("TPI") that was organized by asset owners and the London School of Economics Grantham Institute.⁵ The TPI is a global tool to assess companies' preparedness for the transition to a low carbon economy, by investors with \$18 trillion in assets.

The application of data in the sovereign markets is also being used to better understand broader financial stability risks. Beyond Ratings' Sovereign Risk Monitor⁶ is a risk framework assessment methodology, which combines traditional macro-financial analysis with the

³ FTSE Russell, FTSE4Good Index Series, available at <https://www.ftserussell.com/products/indices/ftse4good>.

⁴ FTSE Russell, Green Revenues data model, available at <https://www.ftserussell.com/data/sustainability-and-esg-data/green-revenues-data-model>.

⁵ Transition Pathway Initiative, available at <https://www.transitionpathwayinitiative.org/>.

⁶ Beyond Ratings, Sovereign Risk Monitor, available at <https://beyond-ratings.com/www-site/uploads/2019/03/sovereign-credit-risk-scores-brochure.pdf>.

integration of ESG factors that present material risk to sovereign solvency. This data has been the foundation for launching the FTSE Climate Risk-Adjusted World Government Bond Index (“WGBI”), which allows investors to incorporate climate risk considerations into their sovereign debt investment decision-making process.

Initiatives to support companies

Global capital allocation continues to focus on factors such as climate risk – FTSE Russell’s annual survey⁷ of almost 200 asset owners globally notes the following statistics:

- 58% of asset owners either already incorporate ESG into their investment strategy or are currently considering application and;
- One sixth of the world’s economy is covered by net zero emissions targets impacting firms through higher taxes and input prices, according to Energy and Climate Intelligence Unit.

Responding to these trends will require equipping public and private companies of all sizes with more information and tools to successfully adapt and respond to climate risk, both operationally and in terms of access to capital.

The suitability of initiatives can depend on a number of external factors (geography, sector and business model, etc.). The London Stock Exchange (“LSE”) has introduced several tools to increase awareness and support companies in addressing climate risk:

- **ESG Disclosure Scores** – ESG Disclosure Scores⁸ allow issuers to understand what the key metrics for disclosure in their sector are and to benchmark against their industry peers, as well as linking to developing global standards.
- **Good Practice Guidance** – LSE first issued guidance for issuers in 2017⁹, setting out recommendations for good practice in ESG disclosures.
- **Access to Climate-Risk Capital** – LSE was the first exchange to create a dedicated green bond segment in 2015, which has evolved to LSE’s current Sustainable Bond Market.¹⁰
- **Visibility** – Utilizing FTSE Russell’s green revenues data model, LSE launched the Green Economy Mark for issuers.¹¹ This allows the market to identify issuers in our markets that generate greater than 50% of their revenues from green products and services.

We recognize that markets vary substantially across the world and the tools and resources applied in one market may not necessarily be suitable for other markets. However, we believe that transparent innovation, in partnership with all participants in the investment ecosystem, will continue to build and refine the tools and capabilities necessary to more efficiently assess and manage climate risk.

⁷ FTSE Russell Annual Survey results, June 10, 2019, available at <https://www.ftserussell.com/press/global-smart-beta-adoption-reaches-record-high-58-percent>.

⁸ London Stock Exchange Group, Estimate your ESG Disclosure Score, available at <https://www2.lseg.com/sustainablefinance/ESGdisclosure-assessment>.

⁹ London Stock Exchange Group, Your Guide to ESG Reporting, available at <https://www.lseg.com/esg>.

¹⁰ London Stock Exchange Group, Sustainable Bond Market Factsheet, October 11, 2019, available at https://www.lseg.com/sites/default/files/content/documents/Sustainable_Bond_Market_Factsheet_FINAL%20%2811_10_2019%29.pdf.

¹¹ London Stock Exchange Group, Green Economy Mark Factsheet, October 8, 2019, available at https://www.lseg.com/sites/default/files/content/documents/Green%20Economy%20Fact%20Sheet%20issuer%20version_FINAL_0.pdf.

Sustainability and climate-related risk disclosures

As regulators and the industry increasingly contemplate frameworks and taxonomies for disclosing sustainability and climate-related risk, we recognize the need for pragmatism, comparability and consistency in climate disclosures. While a one-size-fits-all approach does not take into the account the heterogeneity of companies and sectors, there is also a risk that multiple jurisdictions considering disclosure frameworks in an uncoordinated manner could lead to duplicative, fragmented and contradictory regimes. This would undermine the utility of disclosures and would increase costs and burdens on companies, particularly on small companies.

Since its inception in 2017, we have supported the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD"). LSEG is a member of the UN's Sustainable Stock Exchange Initiative and chaired the development of their "*Model ESG Reporting Guidance*" which aimed to provide a basis that each exchange could use to develop consistent ESG reporting guidance for their respective markets.

We note that many issuers and asset owners already make voluntary TCFD-consistent disclosures. We believe that TCFD has led to more standardized and globally consistent, decision-useful disclosure regarding climate risk.

We believe further focus on encouraging globally coherent, comparable and pragmatic climate-risk disclosures will improve the quality and integrity of climate reporting, allowing market participants to evaluate and understand climate risk.

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LSEG is grateful for the opportunity to share our views on these issues and the tools and capabilities we are developing to assist the market in evaluating and managing climate risk. We would be happy to provide further information related to the issues described in this letter at the Commission's request.

Sincerely,



Jonathan Jachym
Head of Government Relations and Regulatory Strategy, Americas
London Stock Exchange Group

cc: David Gillers, Chief of Staff to Commissioner Rostin Behnam, CFTC