
Enhanced Sovereign ESG scores in the FTSE ESG Government Bond Index Series

Consultation on the impact of using the enhanced Sovereign Risk Monitor in FTSE ESG Fixed Income Indices



The Evolution of the FTSE Sovereign Risk Monitor and the Impact to FTSE ESG Fixed Income Indices

Following the [notice issued on the 22 February 2023](#) on the proposed enhancements to the Environmental Pillar Score of the FTSE Russell Sovereign Risk Monitor (SRM), FTSE Russell is seeking feedback on using these enhanced scores in relevant FTSE ESG fixed income indices. The enhanced SRM scores are referred to as '2SRM' scores.

The FTSE ESG Government Bond Index Series incorporates a tilting methodology to adjust the index weights of government bonds according to each country's relative ESG score. The weight of each country is based on the market capitalisation of its index-eligible debt and relative ESG performance, measured across three distinct and quantitative Environmental, Social, and Governance pillars (E, S and G pillars) using the SRM methodology.

This consultation provides the projected impact of the proposed use of 2SRM ESG scores in this index series and invites index users to provide feedback on their preferences for implementation. Index users and other stakeholders are invited to respond to info@ftserussell.com by **Thursday 04 May 2023**.

The consultation will be run according to [FTSE Russell's Policy for Benchmark Methodology Changes](#). Any potential changes will be subject to further review by FTSE Russell's internal governance forums and decided by FTSE Russell's Index Governance Board. FTSE Russell reserves the right to conduct further consultations as necessary.

Should you have any questions regarding the consultation, please contact info@ftserussell.com.

Evolution of the Sovereign Risk Monitor

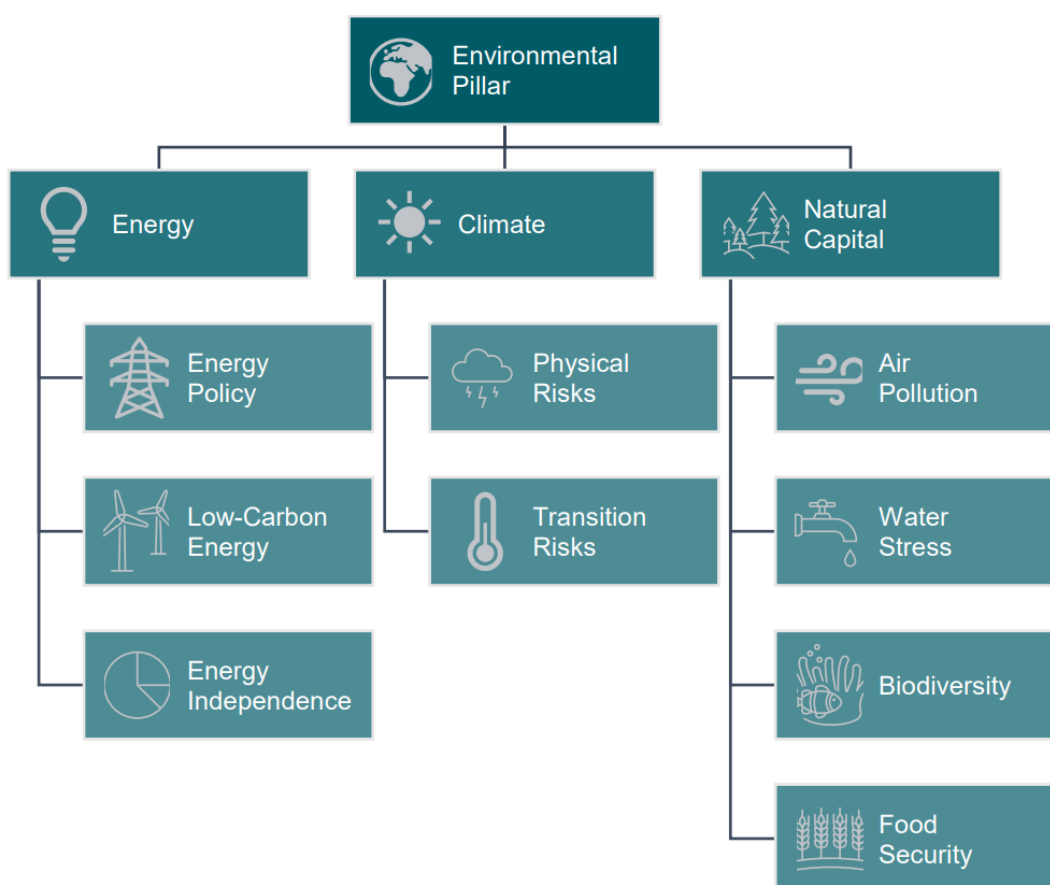
In February 2023, FTSE Russell [published a research paper detailing its proposal for comprehensive enhancements to the Environmental Pillar Score of the FTSE Russell Sovereign Risk Monitor \(SRM\)](#).

The SRM is designed to measure material financial risks from ESG factors for sovereign issuers, with data available for 151 countries from 1999 onwards. SRM scores are incorporated into the methodology for thematic FTSE fixed income ESG government bond indices.

Following increasing market maturity, customer feedback, and the World Bank Group's review of sovereign ESG models, FTSE Russell developed the following enhancements to the environmental pillar of the SRM:

- Improved integration of forward-looking climate risks, including temperature alignment and physical risk.
- The inclusion of increasingly important themes such as biodiversity and food security.
- An adjustment to eliminate income bias in environmental scores.

Figure 1. An overview of the enhanced Environmental pillar



Projected Impact to FTSE ESG Government Bond Indices

FTSE Russell offers a variety of sustainable investment fixed income indices, designed to help investors to integrate their sustainable investment strategy into their fixed income investments. Within this thematic family of indices, the FTSE ESG Government Bond Index Series measures the performance of global government bonds while incorporating a tilting methodology which adjusts index weights relative to each country's Environmental, Social, and Governance (ESG) performance.

The ESG performance assessment that underpins the FTSE ESG Government Bond Index Series is designed to achieve improved ESG performance scores for the sovereign bond asset class utilising geometric tilts on E, S, and G pillars. The ESG pillars are based on ESG factors developed by Beyond Ratings as part of the Sovereign Risk Monitor (SRM) model.

According to published index methodology, the market value weights for each country within the FTSE ESG Government Bond Index Series are rebalanced at each month-end based on their respective country index ESG score. The index ESG scores are re-calculated monthly using E, S and G pillar scores, which are updated and made available in the month following each quarter-end.

The proposed enhancements to the SRM, resulting in what is referred to as '2SRM' scores, would impact the E pillar score for relevant FTSE fixed income indices once implemented. Details of the project impacted as overleaf.

The figures below provide the projected impact to country weights for selected indices that comprise the FTSE ESG Government Bond Index Series, using 2SRM scores to calculate the index ESG market value weighting tilt, instead of the SRM scores currently being used in the indices.

These projections are based on February 2023 index profiles (with index data, such as market value weight, as of January month-end) and are tilted using the latest Q4 2022 SRM and 2SRM updated scores.

Figure 1. Projected Impact for the FTSE ESG World Government Bond Index

Country	Market Value Weight	SRM Raw Score			2SRM Raw Score			SRM	2SRM	Difference in ESG weight
		E	S	G	E	S	G	ESG Index Weight	ESG Index Weight	
United States of America	42.88%	56.87	77.09	86.34	58.23	73.83	79.91	40.07%	40.63%	0.56%
Japan	13.81%	50.05	80.51	93.29	52.79	82.29	88.46	9.60%	13.75%	4.14%
France	7.40%	68.89	70.58	88.24	73.31	70.78	81.09	11.11%	10.01%	-1.10%
Italy	6.52%	59.10	49.35	69.85	61.10	46.04	62.67	1.70%	1.76%	0.06%
Germany	5.66%	67.55	79.88	94.04	63.84	83.35	91.07	11.04%	9.30%	-1.74%
Spain	4.34%	66.57	53.97	80.69	67.22	55.85	71.69	2.52%	2.36%	-0.16%
United Kingdom	4.26%	71.75	73.93	91.64	71.39	76.19	86.97	7.82%	7.11%	-0.72%
China	3.79%	56.12	62.93	42.56	45.93	61.04	39.89	0.80%	0.54%	-0.26%
Canada	1.80%	66.80	72.88	95.12	68.97	71.15	92.32	3.02%	2.71%	-0.31%
Belgium	1.63%	56.40	76.04	90.15	62.63	80.30	83.58	1.54%	2.22%	0.68%
Australia	1.41%	68.99	75.30	95.25	63.09	76.99	93.41	2.67%	2.11%	-0.55%
Netherlands	1.31%	64.57	82.50	96.53	58.02	84.05	96.80	2.45%	1.86%	-0.58%
Austria	1.04%	66.67	76.68	93.32	69.05	77.76	90.36	1.86%	1.79%	-0.06%
Mexico	0.73%	55.28	47.66	31.65	58.73	43.75	35.75	0.08%	0.11%	0.03%
Ireland	0.56%	63.05	64.59	94.23	62.34	64.47	90.63	0.59%	0.55%	-0.04%
Malaysia	0.49%	53.96	57.28	65.66	49.55	59.05	60.52	0.10%	0.11%	0.01%
Finland	0.44%	64.81	72.10	98.01	77.43	74.72	99.16	0.70%	0.88%	0.19%
Singapore	0.40%	54.62	70.98	95.04	44.55	68.14	94.15	0.31%	0.21%	-0.10%
Poland	0.40%	57.51	60.41	71.50	60.66	64.12	64.62	0.15%	0.21%	0.06%
Israel	0.30%	61.11	77.59	77.29	49.43	79.11	69.92	0.31%	0.17%	-0.14%
Denmark	0.28%	71.56	76.36	97.66	67.66	79.96	98.92	0.59%	0.54%	-0.05%
New Zealand	0.20%	62.04	72.86	97.39	65.34	71.81	97.93	0.28%	0.29%	0.02%
Sweden	0.17%	71.35	70.08	96.78	83.87	76.02	97.21	0.30%	0.36%	0.06%
Norway	0.17%	76.22	81.38	97.61	91.88	85.21	99.03	0.40%	0.42%	0.02%
Turnover										5.83%

Index	Effective Duration	Yield to Maturity (%)
Market Value Weight WGBI	7.55	3.13
SRM Scores ESG WGBI	7.62	3.10
2SRM Scores ESG WGBI	7.81	3.02

Data as of January 2023 month-end. Source: FTSE Russell.

Figure 2. Projected Impact for the FTSE ESG EMU Government Bond Index

Country	Market Value Weight	SRM Raw Score			2SRM Raw Score			SRM	2SRM	Difference in ESG weight
		E	S	G	E	S	G	ESG Index Weight	ESG Index Weight	
France	25.61%	68.89	70.58	88.24	73.31	70.78	81.09	34.14%	37.10%	2.97%
Italy	22.54%	59.10	49.35	69.85	61.10	46.04	62.67	2.12%	3.02%	0.90%
Germany	19.58%	67.55	79.88	94.04	63.84	83.35	91.07	36.83%	30.33%	-6.50%
Spain	15.01%	66.57	53.97	80.69	67.22	55.85	71.69	6.06%	6.81%	0.75%
Belgium	5.64%	56.40	76.04	90.15	62.63	80.30	83.58	2.93%	6.22%	3.29%
Netherlands	4.54%	64.57	82.50	96.53	58.02	84.05	96.80	7.79%	4.02%	-3.76%
Austria	3.60%	66.67	76.68	93.32	69.05	77.76	90.36	6.07%	7.02%	0.95%
Ireland	1.94%	63.05	64.59	94.23	62.34	64.47	90.63	1.78%	1.69%	-0.10%
Finland	1.53%	64.81	72.10	98.01	77.43	74.72	99.16	2.29%	3.80%	1.51%
Turnover										10.36%

Index	Effective Duration	Yield to Maturity (%)
Market Value Weight EGBI	7.27	2.92
SRM Scores ESG EGBI	7.53	2.61
2SRM Scores ESG EGBI	7.54	2.66

Data as of January 2023 month-end. Source: FTSE Russell.

Figure 3. Projected Impact for the FTSE ESG Emerging Markets Government Bond Index – Capped

Country	Market Value Weight	1SRM Raw Score			2SRM Raw Score			1SRM	2SRM	Difference in ESG weight
		E	S	G	E	S	G	ESG Index Weight	ESG Index Weight	
Indonesia	10.00%	56.28	31.73	49.40	59.09	29.14	47.16	3.20%	3.38%	0.18%
Thailand	10.00%	48.67	54.57	41.99	52.52	58.95	41.35	1.33%	2.51%	1.18%
China	10.00%	56.12	62.93	42.56	45.93	61.04	39.89	3.77%	1.34%	-2.43%
Mexico	10.00%	55.28	47.66	31.65	58.73	43.75	35.75	0.27%	0.51%	0.23%
South Africa	9.66%	50.00	33.07	53.00	46.95	29.81	51.75	2.42%	3.82%	1.39%
Malaysia	8.44%	53.96	57.28	65.66	49.55	59.05	60.52	20.27%	19.62%	-0.65%
Saudi Arabia	7.33%	48.22	53.08	47.69	36.54	51.32	42.92	2.06%	1.30%	-0.76%
Poland	6.83%	57.51	60.41	71.50	60.66	64.12	64.62	27.74%	28.79%	1.05%
Philippines	6.44%	54.68	35.41	38.21	60.87	34.99	39.04	0.38%	0.56%	0.18%
Brazil	4.46%	59.78	58.06	40.80	71.13	49.25	41.21	1.47%	1.75%	0.28%
Colombia	3.59%	61.05	48.65	42.84	68.64	39.70	43.22	1.35%	1.27%	-0.08%
Romania	3.19%	61.59	49.27	61.29	72.79	50.24	56.54	8.24%	8.19%	-0.04%
Hungary	2.78%	62.12	66.27	69.16	69.17	69.94	62.55	13.71%	13.46%	-0.25%
Turkey	2.52%	57.06	41.22	32.47	56.88	40.38	34.25	0.07%	0.06%	-0.01%
Chile	2.47%	61.50	59.69	78.97	67.47	57.88	71.85	13.15%	12.75%	-0.41%
Peru	2.30%	61.04	46.33	40.76	60.51	37.80	43.52	0.55%	0.70%	0.15%
Turnover										4.65%

Index	Effective Duration	Yield to Maturity (%)
Market Value Weight EMGBIC	5.65	6.49
SRM Scores ESG EMGBIC	5.22	6.17
2SRM Scores ESG EMGBIC	5.19	6.31

Data as of January 2023 month-end. Source: FTSE Russell.

Figure 4. FTSE ESG Emerging Markets US Dollar Government Bond Index Projected Impact – Top 10 Countries by Market Value Weight

Country	Market Value Weight	SRM Raw Score			2SRM Raw Score			SRM	2SRM	Difference in ESG weight
		E	S	G	E	S	G	ESG Weight	ESG Weight	
Chile	2.56%	61.50	59.69	78.97	67.47	57.88	71.85	9.84%	11.02%	1.17%
Uruguay	2.06%	63.32	65.25	85.72	67.12	66.08	78.65	8.61%	9.59%	0.99%
Qatar	5.40%	50.52	63.47	69.74	39.46	63.57	63.26	12.55%	8.32%	-4.23%
Hungary	1.78%	62.12	66.27	69.16	69.17	69.94	62.55	6.31%	7.10%	0.78%
Argentina	4.64%	57.91	60.00	41.87	62.87	57.64	43.26	3.99%	5.51%	1.51%
Panama	3.52%	62.98	40.32	53.18	63.32	37.10	51.15	4.96%	5.09%	0.13%
Romania	1.71%	61.59	49.27	61.29	72.79	50.24	56.54	4.19%	4.95%	0.76%
Indonesia	6.56%	56.28	31.73	49.40	59.09	29.14	47.16	4.74%	4.93%	0.19%
Brazil	4.41%	59.78	58.06	40.80	71.13	49.25	41.21	3.57%	4.27%	0.70%
Dominican Republic	2.75%	54.80	48.35	49.94	62.30	47.63	47.50	3.26%	4.01%	0.75%

Index	Effective Duration	Yield to Maturity (%)
Market Value Weight EMUSDGBI	7.58	7.98
SRM Scores ESG EMUSDGBI	8.46	6.54
2SRM Scores ESG EMUSDGBI	8.32	7.04

Data as of January 2023 month-end. Source: FTSE Russell.

Consultation Feedback

FTSE Russell would like to seek feedback from index users on implementation preferences, such as the notice period, for the incorporation of the 2SRM data scores within FTSE ESG government bond indices. We also welcome the views of index users on any other aspects of the index methodology related to the use of SRM scores.

Market participants are also invited to share feedback on the technical details of the proposed enhanced Environmental Pillar Score of the Sovereign Risk Monitor.

Index users and other stakeholders are invited to respond to info@ftserussell.com by **Thursday 04 May 2023**.

For more information about our indices, please visit ftserussell.com.

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