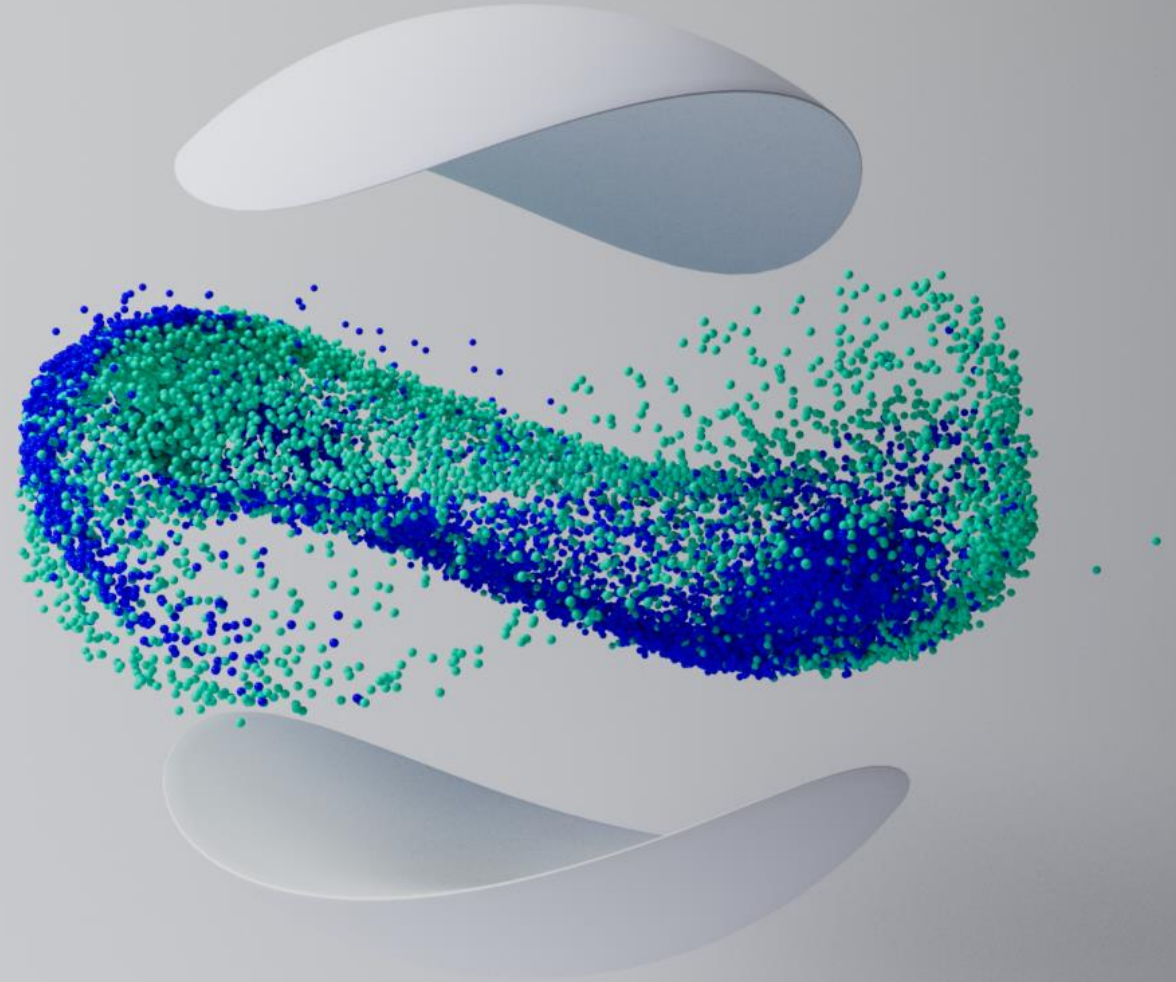


Mastering Transparency: Global Trends in ESG

Uplifting SET ESG through Global Partnerships
30 July 2024

Helena Fung
Head of Sustainable Finance and
Investment, APAC



Overview

Sustainable Investment at LSEG

The Importance of ESG in Global Markets

Investor Priorities in Sustainability

FTSE Russell's ESG Scoring Methodology





LSEG is a leading global financial markets infrastructure and data provider. We play a vital social and economic role in the world's financial system.

With our trusted expertise, global scale, and foundational financial and transaction services — data, analytics, risk, collateral and processing solutions, capital formation and trade execution — we enable the sustainable growth and stability of our customers and their communities.



LSEG FX



LSEG DATA &
ANALYTICS



LSEG RISK
INTELLIGENCE



LSEG POST
TRADE



**LONDON
STOCK
EXCHANGE**

An LSEG Business



**FTSE
RUSSELL**

An LSEG Business

LSEG

Our purpose is driving **financial stability**,
empowering economies and enabling
customers to create **sustainable growth**.

Three strategic pillars of our sustainability approach:



Accelerate the just transition to net zero

Decarbonising the whole global economy is critical to minimise the worst consequences of climate change. We are leveraging LSEG's unique market position, capabilities, products, and services to support a global reallocation of capital which shares the costs and benefits of reaching net zero fairly between and within countries.



Enable growth of the green economy

To deliver sustainable economic growth, more economic activity must focus on creating, scaling, and delivering solutions to the world's environmental and social challenges. LSEG has a pivotal role in helping those solutions to thrive by enabling more capital to flow towards sustainable economic activity.

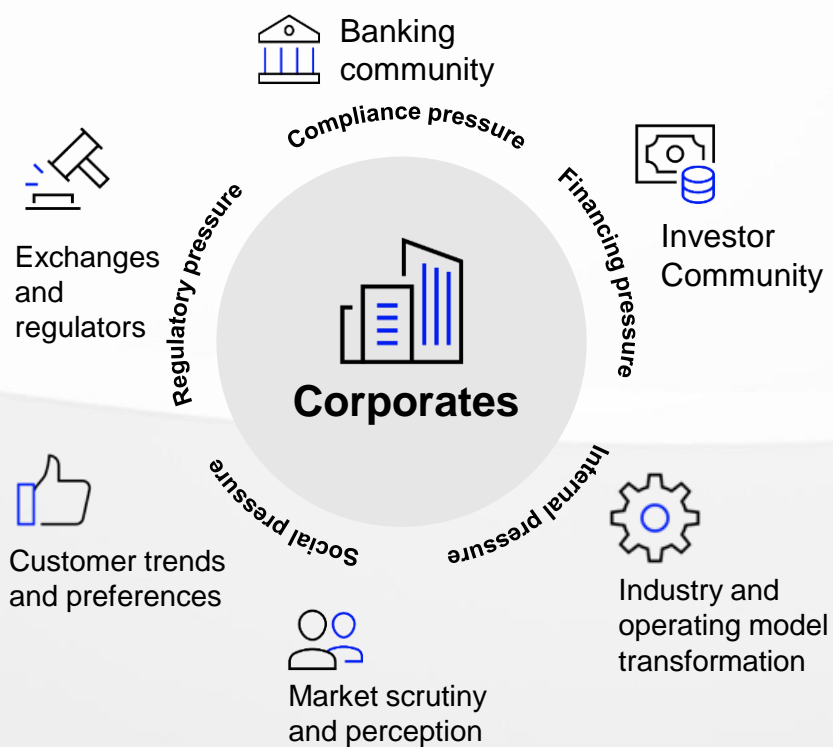


Create inclusive economic opportunity

Inclusive economies enable more people to participate in, and benefit from, economic growth, regardless of their gender, ethnicity, social background, political or religious beliefs. We aim to empower economies, communities and individuals by championing inclusion and opening up economic opportunity.

LSEG's trusted sustainable finance data and expertise....

Positioned at the heart of capital markets, LSEG understands that providing complete and reliable information on climate and sustainability can enhance a company's access to capital and business opportunities

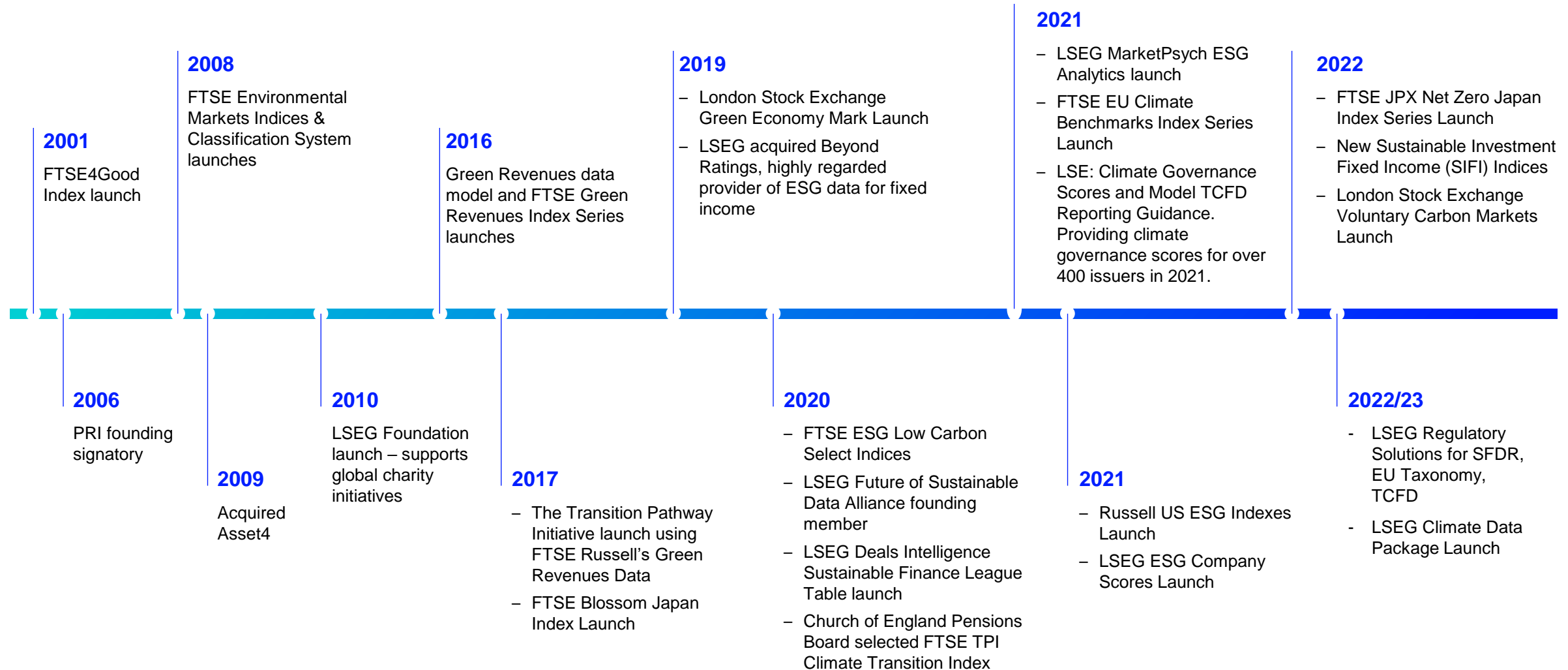


... driving transparency and supporting the climate transition

Challenges for the Real Economy

- Responding to the roll-out of sustainability reporting requirements (ISSB/ TCFD globally, CSRD in EU), especially when expertise is not accessible at reasonable cost
- Access to capital and financing to support the transition to a low carbon economy
- Acquire know-how and operationalize sustainable best practices within the company operating model
- Meet changing expectations of the public, investors and local communities

Enabling sustainable growth: our sustainable finance milestones



The importance of ESG in global markets

An interconnected global ecosystem for ESG disclosure standards

International Policies

International Policies and focus on Climate Change

Challenges

Diverse political agendas and readiness across the world cause a non-homogeneous implementation of international policies.

Opportunities

The international community is ultimately aligning around KPI driven frameworks for sustainability disclosure and reporting, starting with TCFD.

Source: Refinitiv Workspace

	Americas	APAC	Europe	MEA
Number of listed corporates	11,000	24,000	6,000	3,000
Expected to be subject to mandatory ESG reporting by 2025	1,000	18,000	5,500	600
Expected TCFD-aligned reporting by 2025	1,000	10,000	5,500	600

Exchanges and regulators

Challenges

Respond to international policy without jeopardizing the attractiveness of the local economy and continue to ensure capital flow and economic growth.

Opportunities

Collaboration establishes consensus across multiple jurisdictions and enable green economies to thrive.

Compliance and integration

Banking community

Challenges

Gather data from corporates and acquire sustainability assessment capabilities to respond to industry specific regulatory requirements.

Opportunities

Present in more than 70 countries, LSEG's technological and data management capabilities to provide scalable and all-around data solutions.

Investor Community

Challenges

Sustainability reporting and assessment is not standardized, hence is very hard to compare and take sound investment decisions based on ESG data.

Opportunities

Global baseline disclosure standards such as ISSB promote a common language for comparable sustainability metrics.

Regulatory drivers

Corporate Community

Challenges

Responding to the implementation of sustainability disclosure, awareness of investor priorities and market scrutiny.

Financing drivers

Opportunities

Leverage international frameworks and insights to develop best practices while gathering and distributing data to the wider financial community.

Sustainability Disclosures: The new company fundamentals?

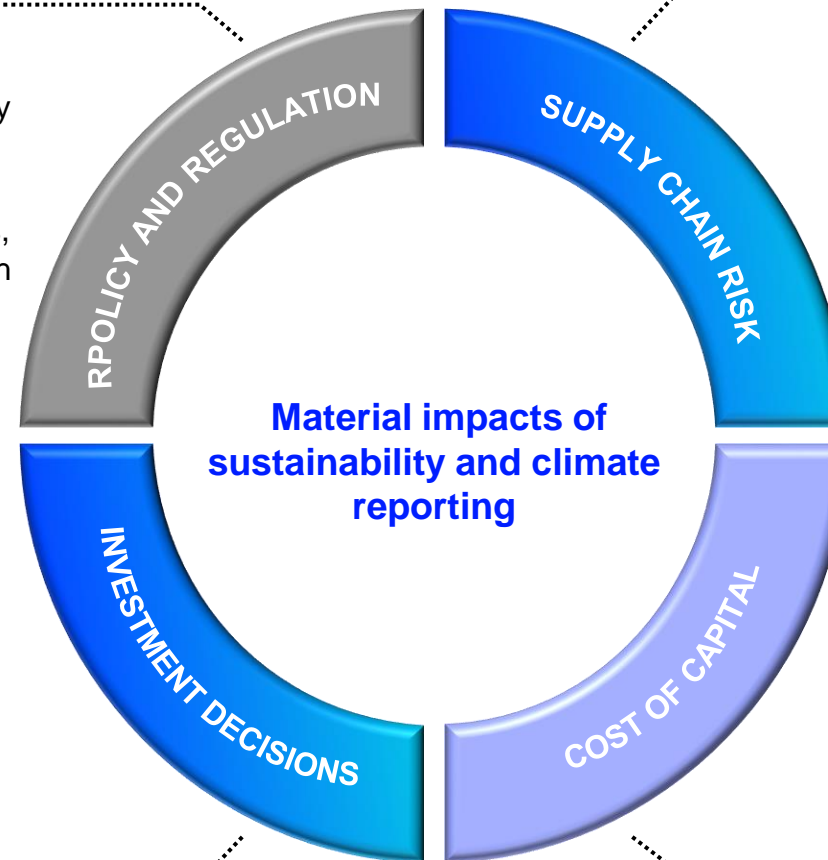
ISSB brings corporate sustainability disclosures in line with financial materiality

REGULATORY DRIVERS

- Climate is becoming a driver of regulatory policy: e.g., stress testing and FI environmental risk policy requirements.
- Stock exchanges, as front-line regulators, require climate reporting in alignment with TCFD (now ISSB).
- Securities regulators scrutinising product labelling and reporting for greenwashing.

INVESTMENT ALLOCATIONS

- Institutional investors are increasingly engaged with climate performance, particularly in hard to abate sectors.
- Measurement and impact along with credible transition planning and scenario analysis play a critical role in investment decision making.



CORPORATE CLIMATE COMMITMENTS

- Net Zero and SBTI commitments are leading corporates to engage with their suppliers on climate and requiring them to set and report on their own targets.
- Supply chain risk from disruption due to physical risk, policy and consumer risk: large corporates demanding ESG, climate and controversies data on their suppliers

FINANCIAL AND INSURANCE RISK

- Transparent, auditable ESG data used as an input to risk and compliance assessment.
- Cost of capital therefore reflects the level of assessed risk with sustainability measures as an input.
- Insurance cost and availability

IOSCO Recommendations and ICMA Code of Conduct for ESG Ratings and data product providers

- To promote consistency further, an ESG Data and Ratings Working Group, initiated by the UK FCA and led by ICMA, developed an international Code of Conduct that is entirely aligned with IOSCO’s recommendations.
- LSEG co-chaired the development of the ICMA Code of Conduct, hosted its launch in January 2024, and supports its adoption across global markets.

The Code is structured around four key outcomes:

Good Governance	ESG ratings and data products providers are expected to ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code.
Systems and Controls	ESG ratings and data products providers are expected to adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG ratings and data products.
Management of Conflicts of Interest	ESG ratings and data products providers are expected to identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and objectivity of ESG ratings and data products providers’ operations.
Transparency	ESG ratings and data products providers are expected to make adequate levels of public disclosure and transparency a priority for their ESG ratings and data products. This includes their methodologies and processes to enable users to understand the product and any associated potential conflicts of interest, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

Investor priorities in sustainability

Sustainable investment data – required information for investors

SI is being implemented across asset classes, whilst many asset owners are incorporating sustainability within SAA models or frameworks

Asset classes for which SI considerations have been implemented or are being considered

86%

of asset owners globally are implementing SI in their investment strategies

44%

are currently considering how to incorporate climate or sustainability within SAA models or frameworks, 24% already do

Derived through a series of more specific questions: 1) AD1. Is your organization (or office) currently implementing any form of sustainability considerations in your investment strategy (i.e., exclusions, climate risk, fossil fuel/ high carbon divestment, green investment, thematic ESG investing, impact investing, social factors, ESG integration etc.); 2) AD2. Is your organization (or office) currently evaluating or has it previously evaluated implementation of sustainability considerations in your investment strategy?

AP7. Are you incorporating sustainability or climate considerations into your strategic asset allocation (SAA) framework, including around long-term market returns forecasting and investment risk?

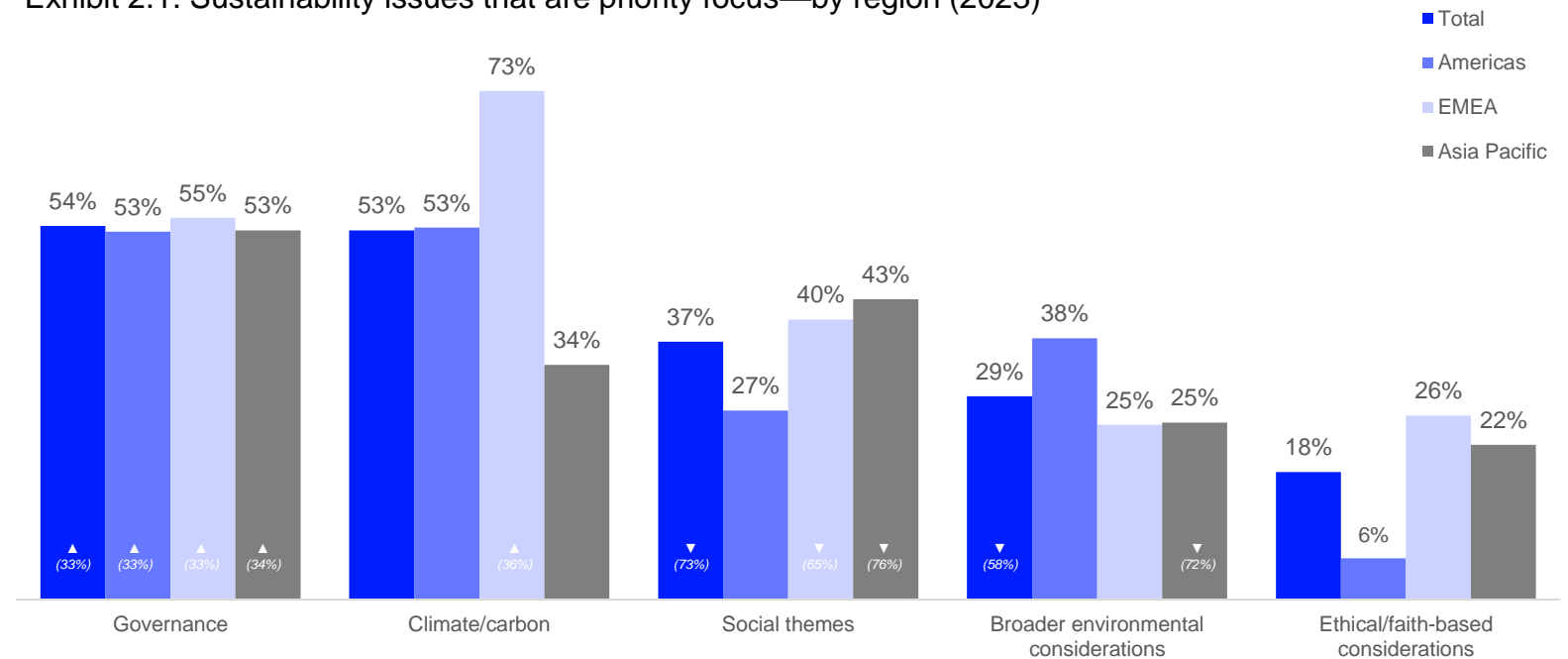
Total Respondents (Total n=184; Asset Owners only)

FTSE Russell 2023 Asset Owners Survey: Sustainability as a priority focus

Governance is a priority that has significantly risen across all regions, the first year we have seen complete regional alignment on the top priority. The priority level of governance increased notably to 54% globally (exhibit 2.1).

Climate/carbon is an enduring priority that is reflected in a large spike this year with 73% of asset owners in EMEA citing this focus area, compared with just 36% in 2022. The low level of stated prioritisation for climate/carbon among EMEA respondents last year can be explained because asset owners had not fully factored in the impact of the war in Ukraine on energy prices and the impact on their investment strategies. However, for this year's research, asset owners have fully acknowledged the impact of the war in Ukraine. Hence, why climate/carbon is a top priority.

Exhibit 2.1. Sustainability issues that are priority focus—by region (2023)



Multi-pick. MB2. Which sustainability issues does your organisation consider as a priority focus?

▲ ▼ = Significantly higher/lower than 2022 at the 95% confidence level

(xx%) = 2022 percentage

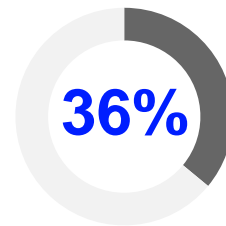
Segment = Currently implementing, evaluating, or plan to evaluate sustainable investment (Total n=275; Americas n=110; EMEA n=66; Asia Pacific n=99).

Greenwashing: Asset owners raise concerns

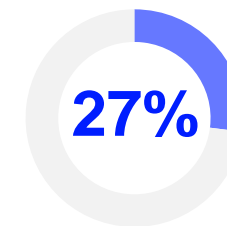
Marking the first year that we have asked asset owners about greenwashing—that is, the concept of making false environmental claims (intentionally or unintentionally) to mislead customers, our research underscores some concerns. We wanted to investigate if the rapid rise in sustainable investment has indeed resulted in certain financial firms overrepresenting or misrepresenting the qualifications and credibility of sustainable finance products to the asset owner community.

In our research, asset owners flag that reputational risk of greenwashing may negatively impact their sustainable investment strategies. More than a third (36%) of those who have not yet implemented sustainable investment say they are concerned about potential reputational risk of greenwashing linked to sustainable investment. Similarly, 27% of those who have implemented some sustainable investment considerations agree that it's a barrier to further increase in sustainable finance (exhibit 2.2).

Exhibit 2.2. Concerns around greenwashing are evident



of those who have not yet implemented sustainable investments say they are concerned about potential reputational risk of greenwashing linked to sustainable investments



of those who have implemented some sustainable investment considerations agree that it's a barrier to further adoption

*Multi-pick. B2. Why have you not or not yet implemented sustainability considerations in your investment portfolio?
B2 Segment = Previously evaluated & didn't implement sustainable investment/no plans to evaluate (n=53) Segment = Currently implementing, evaluating, or plan to evaluate sustainable investment (n=275)*

FTSE Russell's ESG Scoring Methodology

Key pillars of our approach to sustainable ESG data



Quantitative

Trust indices built with credible ESG and climate data, quantitative methodologies, tested frameworks and next-generation forward-looking metrics

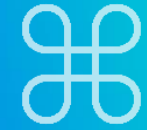
- Based on FTSE Russell and LSEG's long history in producing market leading ESG & climate data series
- Relying on quantitative methodologies and tested ESG & climate frameworks
- Forward-looking metrics and datasets



Material

Measure and quantify the materiality of ESG and climate issues based on deep knowledge of the sustainability challenges

- Based on deep knowledge of the sustainability challenges
- Accelerating the integration of Environment, Social and Governance criteria and climate in the risk assessment and investment strategy of investors
- Solutions for determining ESG integration & climate transition activities and managing risk and opportunity is central to our approach on sustainability
- Actionable insights to measure and quantify the financial materiality of ESG and climate factors

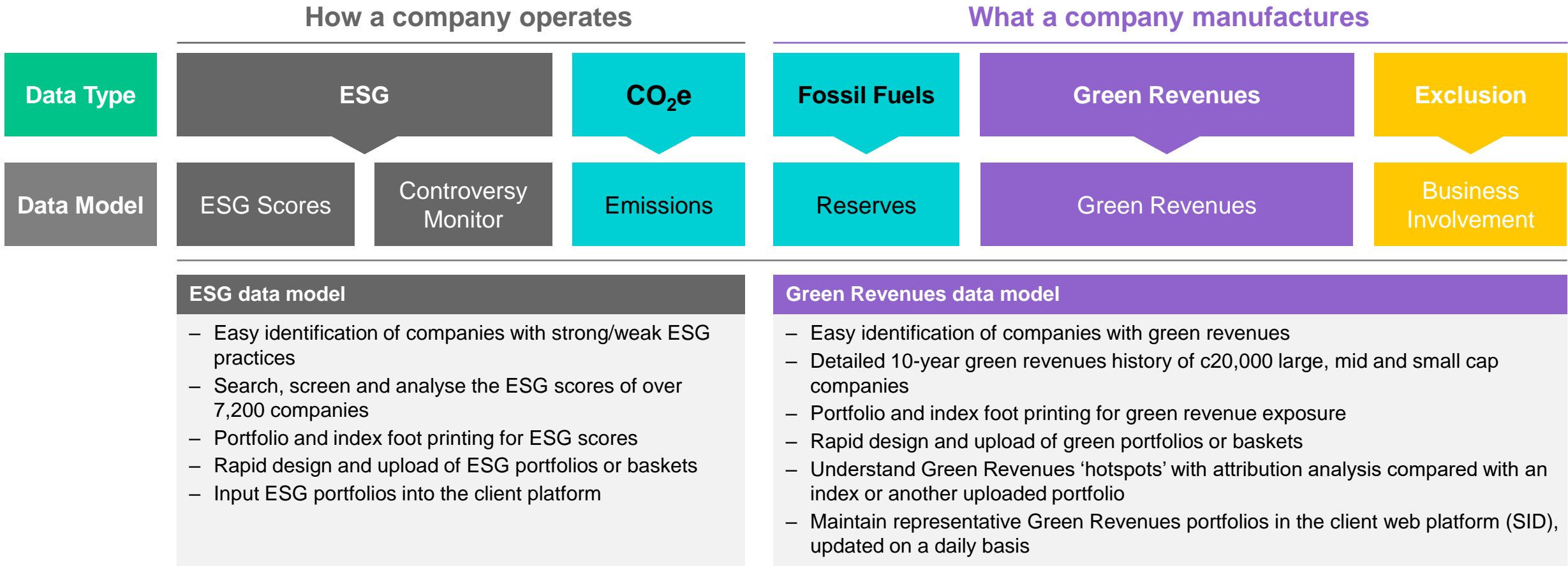


Consistent

Rules-based methodology allows for transparency and objectivity and adherence to market regulation or policy guidance

- Innovative, multi-asset class approach to meeting regulatory objectives
- Powering index, data, analytics and thematic solutions for investors who want to build a selective portfolio
- Aligned with emerging climate and sustainability standards and regulatory requirements (TCFD, SFDR, EU Taxonomy)

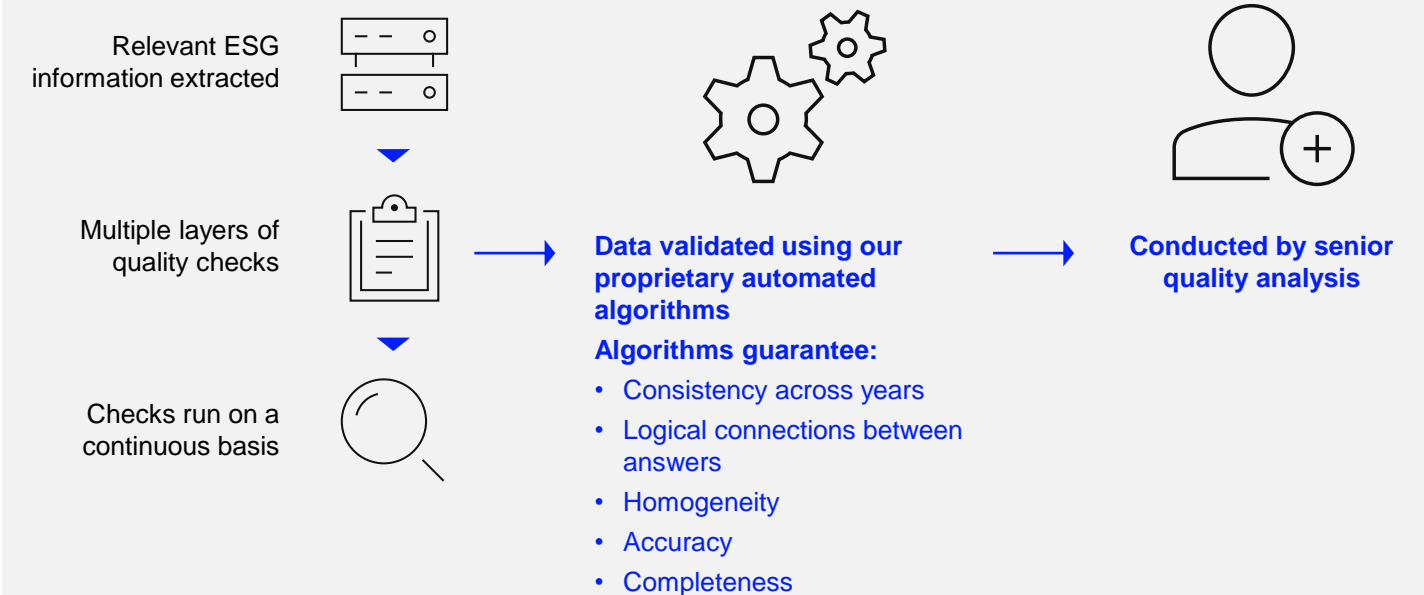
FTSE Russell sustainability framework



Data gathering and verification process

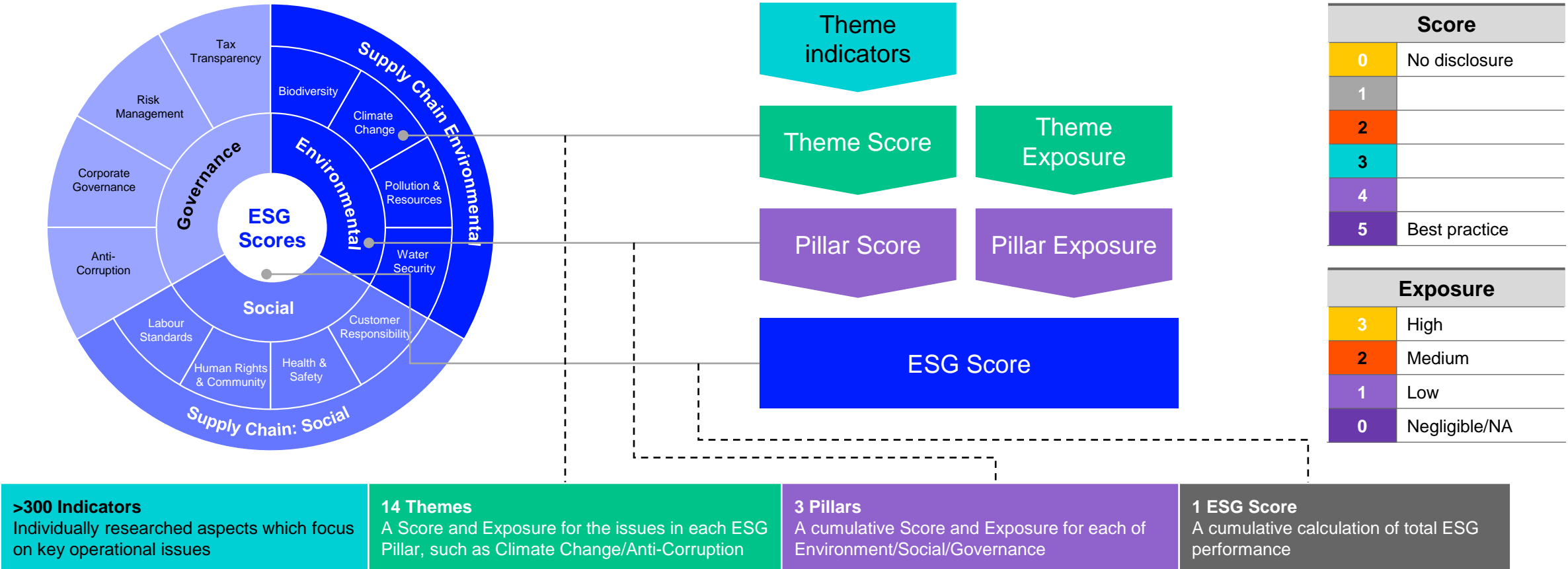
- All company updates are conducted manually by our ESG analysts, who carefully go through all source documents and extract any relevant ESG information.
- We conduct multiple layers of quality check analysis in order to ensure that our final data quality is as close to 100% accurate as possible.

The extensive manual process that our ESG analysts take to process the data and information collected:



Manual and automatic processes evolve and improve continuously to maximize efficiency and quality.

ESG Scores – How do companies operate?



FTSE Russell ESG Scores

Assessment process (worked example)

Step 1.
Understanding characteristics
of company

Sector	Technology, Financial Services
Country of operation	Taiwan, India, Vietnam
Company status	Multinational

Step 2.
Materiality (Exposure)
assessment based on
company characteristics

E		S		G	
EBD	n/a	SCR	n/a	GAC	Med
ECC	Med	SHS	n/a	GCG	Med
EPR	n/a	SHR	Med	GRM	n/a
EWT	High	SLS	High	GTX	Med
ESC	High	SSC	High		

Exposure	
3	High
2	Medium
1	Low
0	Negligible/NA

Step 3.
Assessment of actions taken
against ESG risk exposures

E		S		G	
EBD	n/a	SCR	n/a	GAC	3
ECC	2	SHS	n/a	GCG	4
EPR	n/a	SHR	1	GRM	n/a
EWT	0	SLS	3	GTX	2
ESC	4	SSC	3		

Exposure	
5	Best practice
4	
3	Good practice
2	
1	
0	No disclosure

Information for illustrative purposes only.

ESG score – Calculating the ESG Score

ESG Scores are calculated as an Exposure-weighted average of the three **Pillar Scores**

A Pillar that is **Medium Exposure (2)** will have twice the weight as a Pillar that is **Low Exposure (1)**

Pillar	Exposure (0–3)	Score (0–5)
Environmental	2.0	1.2
Social	2.3	2.3
Governance	2.0	5.0

$$\frac{(\text{Env Exp } 2.0)(\text{Env Score } 1.2) + (\text{Soc Exp } 2.3)(\text{Soc Score } 2.3) + (\text{Gov Exp } 2.0)(\text{Gov Score } 5.0)}{(\text{Env Exp } 2.0) + (\text{Soc Exp } 2.3) + (\text{Gov Exp } 2.0)}$$

$$= 2.8$$

**ESG
Score**

2.8

Source: FTSE Russell. For illustrative purposes only.

A bottom up, materiality-based assessment

ESG Rating: 2.5

ICB Supersector: Automobiles & Parts

Percentile rank: 43

Environment Score: 3.3

ICB Supersector decile rank: 7

Pollution & Resources Score: 3

Climate Change Score: 4

Water Use Score: 4

Environmental Supply Chain Score: 2

Social Score: 1.9

ICB Supersector decile rank: 4

Labour Standards Score: 2

Healthy & Safety Score: 2

Social Supply Chain Score: 1

Human Rights & Community Score: 3

Governance Score: 2.2

ICB Supersector decile rank: 4

Risk Management Score: 3

Anti-Corruption Score: 1

Corporate Governance Score: 5

Tax Transparency Score: 0

ESG Rating: 2.5

ICB Supersector: Insurance

Percentile rank: 33

Environment Score: 3.0

ICB Supersector decile rank: 4

Climate Change Score: 3

Social Score: 1.6

ICB Supersector decile rank: 4

Social Supply Chain Score: 2

Labour Standards Score: 1

Human Rights & Community Score: 1

Governance Score: 2.9

ICB Supersector decile rank: 3

Risk Management Score: 2

Corporate Governance Score: 5

Anti-Corruption Score: 2

For illustrative purpose only

Constantly evolving criteria



Thank you