Overview

Sovereign credit risk analysis poorly manages to systematically integrate climate and ESG metrics. There is a growing demand from investors, regulators and academics to better consider the importance of ESG metrics on solvency analysis. Since 2013, Beyond Ratings has pioneered a new quantitative risk monitoring methodology combining ESG factors and financial risk.

Based on an advanced quantitative methodology covering 151 countries, the Sovereign Risk Monitor offers an augmented assessment of the sovereign credit risk. Calibrated and back tested since 2000, this exclusive quantitative model has demonstrated a high correlation to financial market data (5 years CDS, 2 year and 10 year yields).

Benefits

• **Integrates new risk factors**: ESG indicators are retained in the model based on their financial materiality on sovereign credit default risk.

• **Increased correlation & prediction vs risk metrics**: our model allows for greater representation of borrowing costs (yields) than traditional credit assessments.

Features

**Comprehensive coverage**

151 countries covered, with historical data covering over 85 quarters from Q4 1999 to present.

**Data granularity**

Scores available on multiple levels, allowing insights to be drawn at pillar, sub-pillar, and theme levels.

**Transparent methodology**

Our quantitative framework provides clarity on the materiality of ESG factors in sovereign credit risk assessment.

**Flexible access**

Access our data directly via sftp. Yield Book clients can access data within the Yield Book Add-In and API as well as in Refinitiv Datastream to facilitate incorporation of sustainability into investment decision-making.
Sovereign Risk Monitor: model structure

The Sovereign Risk Monitor combines traditional macro-financial data with the ESG factors that present material risk to sovereign solvency. The quantitative model is comprised of two profiles, covering both Economic/Financial and Sustainability considerations. The weights for each indicator are estimated using an econometric modelling technique called Partial Least Squares (PLS) regressions. Country exposure to ESG and financial risks is weighted according to its level of wealth (Developed market vs Emerging).

<table>
<thead>
<tr>
<th>Economic performance</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal flexibility</td>
<td>30/25%</td>
</tr>
<tr>
<td>Financial system</td>
<td>20/10%</td>
</tr>
<tr>
<td>External performance</td>
<td>10/25%</td>
</tr>
</tbody>
</table>

- Economic prosperity
- Monetary policy
- Fiscal policy
- Budget balance
- Credit quality
- Credit gap
- External balance sheet
- Exchange

- Climate physical risk
- Energy policy
- Air & Water
- Societal
- Health
- Employment
- Corruption
- Political stability
- Regulatory quality

Using Sovereign Risk Monitor

The Sovereign Risk Monitor can be used to integrate ESG considerations in sovereign bond investments, including active portfolio management and improved pricing models.

Risk Management

The Sovereign Risk Monitor enables investors identify the ESG risks that present a material risk to sovereign credit risk, offering a complement to traditional credit assessments.

Portfolio evaluation and manager due diligence

When selecting and evaluating asset managers, institutional investors are increasingly assessing how they integrate ESG aspects into their processes. The Sovereign Risk Monitor can help assess the range, average and variance of asset manager portfolios with respect to ESG integration on sovereign bonds.

Improved Pricing Models

By integrating new factors with material impact on sovereign credit risk not currently captured by CRA ratings, the Sovereign Risk Monitor allows investors to improve internal pricing models.

Active Portfolio Management

The Sovereign Risk Monitor data set can be used to define ESG eligibility criteria for an investment universe or can be applied into a proprietary quant or fundamental model.

Internal research

The risk and return relationships of different ESG aspects will vary. The Sovereign Risk Monitor provides a granular and comprehensive data set for research and analysis that allow users to develop their own views on how, or how not, to integrate new risks such as climate change on sovereign debt.
For more information about our indexes, please visit ftserussell.com.


FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, MTSNext, Mergent, FTSE FI, YB and BR. “FTSE®”, “Russell®”, “FTSE Russell®”, “MTS®”, “FTSE4Good®”, “ICB®”, “Mergent®”, “The Yield Book®”, “Beyond Ratings®” and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, FTSE Canada, Mergent, FTSE FI, YB or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by the LSE Group, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided “as is” without warranty of any kind. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness of any information or of results to be obtained from the use of the FTSE Russell products, including but not limited to indexes, data and analytics or the fitness or suitability of the FTSE Russell products for any particular purpose to which they might be put. Any representation of historical data accessible through FTSE Russell products is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcibing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of the LSE Group is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing contained herein or accessible through FTSE Russell products, including statistical data and industry reports, should be taken as constituting financial or investment advice or a financial promotion.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group data requires a licence from FTSE, Russell, FTSE Canada, MTSNext, Mergent, FTSE FI, YB, BR and/or their respective licensors.

The above information may compare credit scores issued by Beyond Ratings with credit ratings issued by registered Credit Rating Agencies. As per EU Regulation 1060/2009: ‘credit score’ means a measure of creditworthiness derived from summarising and expressing data based only on a pre-established statistical system or model, without any additional substantial rating-specific analytical input from a rating analyst; and ‘credit rating’ means an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.
About Beyond Ratings

Founded in 2014, Beyond Ratings, a highly regarded provider of Environmental, Social and Governance (ESG) data for fixed income, provides innovative services to assist the financial sector in the transition towards a sustainable economy. Beyond Ratings leverages in-house expertise on climate/ESG, data science, and financial risk assessment for over 175 countries and 10,000 companies.

Beyond Ratings is part of the Data & Analytics Division (D&A) of London Stock Exchange Group (LSEG), which also includes the global index provider, FTSE Russell and the financial market data & infrastructure provider, Refinitiv.

Beyond Ratings is wholly owned by London Stock Exchange Group.

For more information, visit ftserussell.com.