

---

# Minimum Exclusions for Sustainable Investment Indices

---



# A minimum set of exclusions for sustainable investment indices

---

FTSE Russell is consulting index users on whether a minimum set of exclusions<sup>1</sup> should apply to FTSE Russell's standard<sup>2</sup> sustainable investment indices and is soliciting feedback on the following:

- i. whether there should be a minimum set of exclusions for FTSE Russell's sustainable investment indices and what this 'minimum' should be;
- ii. how subsidiaries, instances of minority ownership, and missing or incomplete company data should be treated; and
- iii. the implementation of a minimum set of exclusions.

This consultation has in its scope FTSE Russell's standard equity and fixed income<sup>3</sup> sustainable investment indices.

The potential application of a minimum set of exclusions 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.

This consultation will close on **25 February 2022** and will be run according to [FTSE Russell's Policy for Benchmark Methodology Changes](#).

---

<sup>1</sup> 'Exclusions' are defined in this consultation as business activities that lead to a company being removed from an index. Exclusions and screening are terms that are often referred to interchangeably

<sup>2</sup> Does not include bespoke or custom indices

<sup>3</sup> In particular, the scope of this consultation includes corporate universes i.e., not sovereign bond indices

## Responding to the consultation

The proposals set out in this consultation document are included in order to gather feedback and may or may not result in changes to our indices or data solutions.

Index users and other stakeholders are invited to respond by **25 February 2022**. The responses will be reviewed by the FTSE Russell Index Governance Board and an update on FTSE Russell's proposed approach will be communicated in due course.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.co.uk/r/minimumexclusions>

All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation results, but no individual responses will be published and no respondents will be named.

If you have any questions about this survey, or if you encounter any technical issues, please contact [committeesecretary@ftserussell.com](mailto:committeesecretary@ftserussell.com).

# Introducing a minimum set of exclusions

Market conventions, fund labels and regulation in the sustainable investment market have evolved, and continue to evolve, at pace. To reflect these developments and investors' sustainable investment product requirements, FTSE Russell is considering whether a minimum exclusion standard should be applied to all standard sustainable investment indices, irrespective of geography and asset class.

## Proposal

Building on its [Guide to the Construction and Maintenance of FTSE Exclusion Lists](#), FTSE Russell's current thinking and latest proposal is outlined below. This proposed minimum set of exclusions references the EU Benchmark Regulation exclusions for EU Climate Benchmarks and the activities that FTSE Russell's clients frequently request to be excluded. Additional exclusions can be applied above this minimum standard to fulfil additional investment objectives, mandates or restrictions.

Business activity	Scope of exclusion	Rationale
<b>Tobacco production</b>	0% revenue threshold: all companies engaged in the production of tobacco and/or tobacco products are excluded	<p>The use of tobacco generates a significant health and economic burden on society. Tobacco is routinely excluded from sustainable investment portfolios and indices (e.g., it is in the EU Benchmark Regulation Climate Benchmark exclusions).</p> <p>For the purposes of this set of minimum exclusions, tobacco retail activity is not in scope.</p>
<b>Thermal Coal extraction</b>	Companies that generate 50% or more of their total revenue from the extraction of thermal coal are excluded	In order to limit global warming to two degrees Celsius or below, investor and wider market guidance – such as the <a href="#">IIGCC Net Zero Investment Framework</a> and the <a href="#">IEA Net Zero by 2050 Roadmap</a> – support limiting or reducing investments in thermal coal extraction.
<b>Controversial Weapons production</b>	0% revenue threshold: all companies engaged in the production of controversial weapons are excluded	<p>Although there is no universal understanding of what the term 'controversial weapons' includes, weapons are normally considered controversial where they are disproportionate, indiscriminate and are restricted under international agreements.</p> <p>For the purposes of this minimum set of exclusions, controversial weapons are defined as anti-personnel mines, cluster munitions, and chemical and biological weapons. The minimum standard does not exclude other categories of weapons such as nuclear weapons, conventional military weapons, and firearms.</p>
<b>Controversial Conduct</b>	Companies deemed to be acting in a way that is inconsistent with global norms are excluded	<p>Investors increasingly exclude companies that face allegations of controversial conduct. This can be due to ethical considerations, to avoid the financial risks associated with corporate controversies, or to prevent reputational risk associated with companies facing allegations of controversial business conduct.</p> <p>Violations of the United Nations Global Compact Principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises is a required exclusion in some regulatory standards (e.g., EU Sustainable Finance Disclosure Regulation, EU Benchmark Regulation).</p>

## Application

The expectation is that this minimum set of exclusions would be applied by default to new, standard sustainable investment indices, whereas the transition of existing, standard sustainable investment indices will be gradual, and subject to further client engagement. Many existing standard sustainable investment indices such as the [Russell US ESG Indices](#) and the [FTSE EU Climate Benchmarks Index Series](#) already include these minimum and other exclusions.

The proposed minimum set of exclusions would follow FTSE Russell's existing approach to parent companies, subsidiaries, financial firms, and the treatment of companies with "no data". The approach to both of these is outlined in FTSE Russell's [Guide to the Construction and Maintenance of FTSE Exclusion Lists](#) ("Exclusion Guide") and is also included below.

### *Parent/subsidiaries*

- FTSE Russell's current approach is outlined in the Exclusion Guide as follows:
  - if a parent company holds shares contributing 50% or less of the ownership of a subsidiary company that is involved in an excluded product or conduct-related activity, it will **not** be placed on the FTSE Exclusion List in relation to that activity (as the parent company is deemed not to have effective 'control' over the subsidiary company);
  - where a parent company engages in an excluded product or conduct-related activities, a subsidiary company will **not** be placed on the FTSE Exclusion List provided that the subsidiary itself does not engage in the excluded product or conduct-related activities. This is regardless of the level of ownership by the parent (as the subsidiary company is deemed not to have effective 'control' over the parent company).

### *Financial firms*

- FTSE Russell's current approach is outlined in the Exclusion Guide as follows:
  - financial firms (e.g., banks, asset management, insurance) are **not** placed on the FTSE Exclusion List if they invest in, or provide loans to, a company that engages in excluded product or conduct-related activities; and
  - Investment Trusts are **not** placed on the FTSE Exclusion List if invested in companies that engage in excluded product or conduct-related activities.

### *Treatment of companies without data*

- FTSE Russell's current approach is outlined in the Exclusion Guide as follows:
  - in addition to the FTSE Exclusion Lists that are maintained for each excluded product or activity, FTSE Russell maintains an additional "No Data" FTSE Exclusion List of companies for which their exclusion status has yet to be ascertained; and
  - this No Data FTSE Exclusion List contains companies that are new to the Research Universe, including IPOs, and new entrants to the Underlying Indices that have yet to be researched.

# Consultation questions

---

1. Should a minimum set of exclusions be applied to FTSE Russell's sustainable investment indices?

- Yes
- No
- Do not have an opinion

Please enter any comments here:

2. Should the same minimum set of exclusions be applied to FTSE Russell's equity, fixed income and multi-asset indices?

- Yes
- No
- Do not have an opinion

Please enter any comments here:

3. Should the same minimum set of exclusions be applied across all geographies, including both emerging and developed markets?

- Yes
- No
- Do not have an opinion

Please enter any comments here:

4. Do you agree with the proposed 0% revenue approach to excluding all companies engaged in the production of tobacco and/or tobacco products? (Please see page four)

- Yes
- No
- Do not have an opinion

Please enter any comments here:

5. Regarding thermal coal extraction, do you agree with the proposed 50%+ revenue threshold for exclusion, as a minimum standard? (Please see page four)

- Yes
- No
- Do not have an opinion

Please enter any comments here:

6. Do you agree with the proposed 0% revenue approach to excluding all companies that produce or manufacture controversial weapons? (Please see page four)

- Yes
- No

Do not have an opinion

Please enter any comments here:

7. Do you agree that companies deemed to be acting in a way that is inconsistent with global norms should be excluded as standard? (Please see page four)

Yes

No

Do not have an opinion

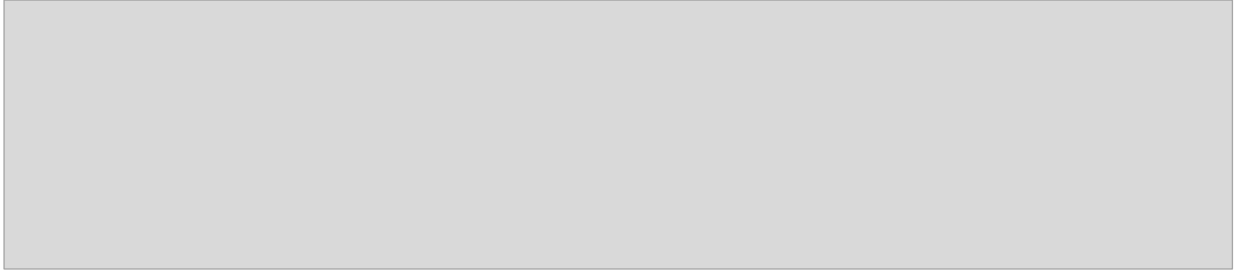
Please enter any comments here:

8. Do you have any feedback on the proposed scope of the minimum set of exclusions and whether sectors or activities should be added to, or removed from, the list of minimum exclusions?

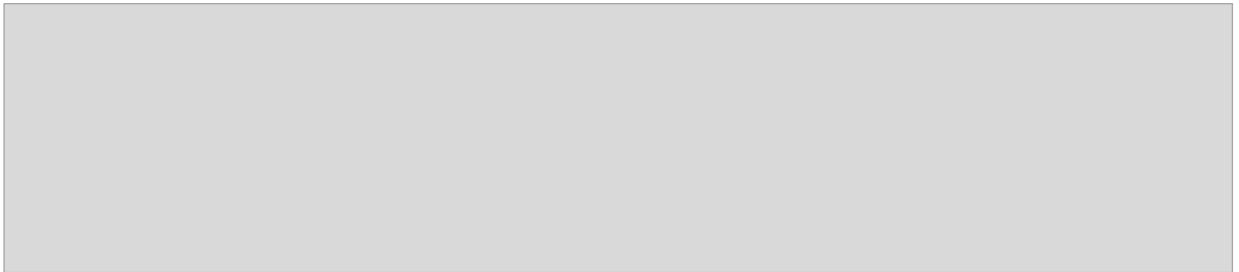
Please enter any comments here:

9. Do you have any comments on the approach to parents, subsidiaries, financial firms or the treatment of companies with “no data”? (Please see page five)





10. Please share any additional thoughts or feedback that you or your firm may have on the way in which a minimum set of exclusions could be implemented.



## **For more information about our indices, please visit [ftserussell.com](https://ftserussell.com).**

---

© 2022 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, “FTSE Canada”), (4) FTSE Fixed Income Europe Limited (“FTSE FI Europe”), (5) FTSE Fixed Income LLC (“FTSE FI”), (6) The Yield Book Inc (“YB”) and (7) Beyond Ratings S.A.S. (“BR”). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB and BR. “FTSE®”, “Russell®”, “FTSE Russell®” “FTSE4Good®”, “ICB®”, “The Yield Book®” “Beyond Ratings®” and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks 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, FTSE Canada, FTSE FI, FTSE FI Europe, 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. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

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 results to be obtained from the use of FTSE Russell indices or the fitness or suitability of FTSE Russell indices for any particular purpose to which it might be put. Indices cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

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 index data and the use of their data to create financial products require a licence from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB, BR and/or their respective licensors.

## About FTSE Russell

FTSE Russell is a leading global index provider creating and managing a wide range of indices, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indices offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indices to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indices also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit [ftserussell.com](https://ftserussell.com).

To learn more, visit [ftserussell.com](https://ftserussell.com); email [info@ftserussell.com](mailto:info@ftserussell.com); or call your regional Client Service Team office:

### EMEA

+44 (0) 20 7866 1810

### North America

+1 877 503 6437

### Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 4563 6346

Sydney +61 (0) 2 8823 3521