

# FTSE Russell response to 'Recommendations for SDG Disclosures: A Consultation Paper'

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## About FTSE Russell's interaction with the SDGs to date

FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell provides Sustainable Investment (SI) benchmarks, and associated data and analytics across a global universe of securities applying our proprietary data models including FTSE Russell ESG Ratings and Green Revenues. FTSE Russell index expertise and products are used extensively by institutional and retail investors globally.

Our Sustainable Investment models and underlying methodologies have been mapped against the SDGs, to the 169 Targets that underly the 17 Goals, identifying those Themes that are most material and relevant in terms of their ability to contribute to, or hinder, achievement of each Goal.

FTSE Russell during 2019 worked with the Dutch pension fund, Detailhandel, to create an SDG-aligned index, utilising the SDG mapping that had been conducted. This index targeted four specific SDGs selected by Detailhandel's beneficiaries and applies FTSE Russell's multi-factor model to apply constituent weight tilting aligned to those particular SDGs.

## Response to the Recommendations for SDG Disclosures Consultation paper

We welcome the authors' aims to set out a framework for SDG disclosures, and to align these with existing frameworks, noting the complexity of the matters covered by the SDGs and the innumerable interactions between these matters and pre-existing methodologies, frameworks, regulations and guidance on issuer/corporate sustainability reporting.

Before answering the specific questions, we will outline some general observations:

1. The SDGs were agreed by governments and many component parts can be hard to apply or interpret in terms of relevance for companies or investors.
2. However, the SDGs do provide a consistent globally-agreed framework, and companies and investors have a critical role in the delivery of the SDGs.
3. Given that the SDGs were not designed as a specific framework for companies it is not a simple process to use them as they stand for corporate reporting. However, they can be used as a lens through which to sift, sort and apply pre-existing sustainability and ESG frameworks including GRI, SASB, CDP and IIRC's indicators and tools. This is the approach FTSE Russell has taken to mapping its methodologies, themselves drawn from established global standards, to the SDGs.
4. London Stock Exchange Group has provided ESG reporting guidance to issuers which does cover the SDGs as well as providing clear recommendations for issuers when they are considering reporting<sup>1</sup>. This builds upon the work of the other disclosure frameworks and makes the case for better global coordination and global standards. See Chapter 4 "Global Frameworks" and p26 where the SDGs are covered.
5. Recommendations for both quantitative and qualitative disclosures can be problematic for all stakeholders unless precisely defined. Without precise definitions, interpretation issues can occur at the data collection, reporting and consumption stages, rendering disclosures incomparable, onerous, and unwieldy for reporting entities and all users of the data. Therefore, building off pre-existing well defined data definitions is welcomed and adds further weight to refining these further too.
6. A proliferation of frameworks can also become unwieldy for both reporting entities and stakeholders. Further elaboration on the rationale for these recommendations, as well as how they fully integrate existing sustainability/ESG frameworks, is essential.

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<sup>1</sup> Available at :

[https://www.lseg.com/sites/default/files/content/images/Green\\_Finance/ESG/2018/February/LSEG\\_ESG\\_report\\_January\\_2018.pdf](https://www.lseg.com/sites/default/files/content/images/Green_Finance/ESG/2018/February/LSEG_ESG_report_January_2018.pdf)

## Are the disclosure Principles selected appropriate to encourage:

### a) Integration of SDGs into strategy?

Yes. It is clear from the Principles in Table 1 that SDG consideration can be integrated into strategy. Further it worth considering how the company's core purpose and mission interacts with SDGs. Companies exist to ultimately provide utility and solutions for individuals and for society. The SDGs may provide a prism for considering these core questions.

### b) Transparency in relation to risks, opportunities and impacts?

Yes. Perhaps the overall steer of the Principles in combination is toward a focus on impacts of the organisation's activities on achievement of the SDGs, rather than risk or opportunity.

Further, consistency, to measure corporate practices and performance relative to other companies on the SDGs is as important as the point on comparability over time.

As noted at the start, the SDGs should provide a lens where component parts from existing frameworks, including from TCFD, GRI, SASB, CDP etc, can be applied.

## Disclosures

### a) Are the recommended Disclosures appropriate and complete?

The recommended disclosures would offer those consuming the data a good understanding of the company's relevance to and impact on the SDGs, if these disclosures are made in a succinct, clear and consistent manner that built from established reporting measures. There is however a risk that the suggested disclosures invite lengthy prose that cherry picks certain positive developments and ignores less positive aspects of the business. This could exacerbate some of the challenges and criticisms of sustainability reporting of the past. The need is better structured defined reliable and complete reporting. This is covered extensively in Chapter 3 "Investment Grade Data" in LSEG's ESG Reporting Guidance<sup>2</sup>.

FTSE Russell, its clients and peers rely on clear and comparable data. Reporters also benefit from clarity and guidance. We note that industry-specific guidance may be needed here, and indeed guidance for smaller or less well-resourced reporters. The need for improved disclosure on companies' performance with relation to the SDGs, as with all data needs, should be balanced against the need to avoid unnecessary use of shareholder funds (through time and other resources spent).

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<sup>2</sup> Available at :

[https://www.lseg.com/sites/default/files/content/images/Green\\_Finance/ESG/2018/February/LSEG\\_ESG\\_report\\_January\\_2018.pdf](https://www.lseg.com/sites/default/files/content/images/Green_Finance/ESG/2018/February/LSEG_ESG_report_January_2018.pdf)

## **b) Are you aware of additional good practice examples?**

We avoid singling out particular companies.

## **Enhancing the credibility of Disclosures**

### **a) Are there additional sources of assurance evidence that could be included?**

The list is comprehensive.

### **b) Do you foresee issues in the supply of assurance? Why?**

The qualitative nature of the disclosures suggested mean significant work would be required to formalise assurance processes and standards.

### **c) Are there alternatives to assurance that could be included to enhance credibility of reporting?**

FTSE Russell take the view that public disclosures in primary annual report and regulatory filings can be viewed as more credible than private responses to surveys, given the level of scrutiny required for sign off on these public disclosures.

It is worth noting that some of the items in the list of evidence provided in the paper (Table 3) may not be appropriate for public disclosure.

## **Alignment**

### **Are there further opportunities for aligning existing frameworks?**

Yes. We think there is a strong case to use the SDGs as a lens by which to sift, sort and apply pre-existing sustainability and ESG frameworks including GRI, SASB, CDP and IIRC's indicators and tools. In this manner it can be used to reinforce emerging global standards and to build entirely from these. This is the approach FTSE Russell has taken to mapping its methodologies, themselves drawn for established global standards, to the SDGs.

## **Other matters**

### **Are there additional matters which should be addressed prior to finalisation?**

It may be worth being explicit that a company's influence on the SDGs may be both through (i) its operations and conduct, and (ii) through the products and services it provides. Both of these parts may be positive or negative on the SDGs and likely to be combination of both; the challenge is defining, measuring and reporting on these, and this can be supported by the strong body of pre-existing work on sustainability reporting.

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