

## FTSE Russell expands climate risk-adjusted government bond index series

- Standalone Climate European Government Bond Index ‘Climate EGBI’ now live
- First time an index of sovereign debt from European Monetary Union (EMU) issuers has been adjusted for climate risk
- Index follows the introduction of the FTSE Climate Risk-Adjusted World Government Bond Index ‘Climate WGBI’ in 2019
- FTSE Russell’s climate risk coverage includes more than 50 developed and emerging market countries

FTSE Russell, the global index, data and analytics provider, has launched the first government bond index to adjust country weights based on climate risk consisting solely of European Monetary Union (EMU) countries.

The FTSE Climate Risk-Adjusted European Monetary Union (EMU) Government Bond Index (‘Climate EGBI’) expands FTSE Russell’s range of climate risk-adjusted government bond indexes and follows the launch of the ‘Climate WGBI’ in July 2019.

The new index, developed in response to customer demand, applies a robust methodology by providing a forward-looking assessment of the climate risks faced by sovereigns within the EMU. This includes an assessment of the expected economic impact of transitioning to greenhouse gas emissions levels aligned with the Paris Accord target of less than 2°C by 2050, known as transition risk. Tilts are then applied towards sovereign markets that, on a relative basis, demonstrate a greater degree of resilience and preparedness to the risks of climate change. This results in a reduction in both climate risk of 16% over a back tested period to 2001 and GHG emissions of 7% compared to the underlying market-value weighted European Government Bond Index (EGBI) over the same period.

The Climate EGBI was developed using climate scores from Beyond Ratings, London Stock Exchange Group’s highly respected ESG analytics provider.

**Sylvain Chateau, Co-Founder and COO, Beyond Ratings said:** “There is increasing awareness of how sovereign states are uniquely exposed to the risks of climate change. This has in part, driven client demand for climate risk-adjusted fixed income indexes since the launch of Climate WGBI, particularly from European investors. With this launch, the Climate EGBI now offer European sovereign debt investors an efficient means to quantitatively assess and reduce climate risk and GHG emissions in their portfolios.”

### Index methodology:

The FTSE Climate Risk-Adjusted European Monetary Union (EMU) Government Bond Index follows the rebalancing mechanics of the standard EGBI. However, the standard EGBI market value weights updated every



month are then also tilted by their respective country's climate scores. Climate scores are calculated based on a transparent methodology and updated on an annual basis each May month-end (with input data cut-off on 1 May). The country climate scores are derived by assessing each country's relative climate risk across three core climate risk pillars (each with multiple sub-indicators):

- **Transition risk** represents the level of climate related risk exposure of the country's economy as measured by the distance to reach the modeled emissions needed to meet a 2 degree alignment
- **Physical risk** represents the level of climate related risk exposure to the country and its economy from the physical effects of climate change
- **Resilience** represents a country's preparedness and actions to cope with its level of climate related risk exposure

Countries are scored across each of the pillars and a single combined score is derived for each country. Country scores are then used to reweight the country's exposure in the index to provide higher exposures to countries that are better prepared for climate change risks and lower exposures to countries that are more threatened by climate change risks.

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## For further information:

### Media contacts

Oliver Mann/ Lucie Holloway

+44 (0)20 7797 1222

[newsroom@lse.com](mailto:newsroom@lse.com)

## Notes to editors:

### About FTSE Russell:

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# Press Release



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