



Press Release

Boston, London, Nice, Paris, Singapore, Tokyo, December 4, 2020

Scientific Beta reiterates reservations on EU Climate Benchmark and Sustainability Disclosures regulation

*

Climate Benchmark standards encourage greenwashing and cannot be considered an informative label on the sustainability of the indices that refer to them

With the publication of the delegated acts laying out the minimum contents of explanations about ESG incorporation into Benchmarks and their standard format and specifying minimum standards for the construction of EU Climate Benchmarks, the European co-regulators have completed the ESG overhaul of the Benchmark Regulation.

The delegated act pertaining to Benchmark Statement disclosures establishes a long list of ESG indicators to be provided where the higher level text called for an “explanation of how ESG factors are reflected.” With limited exceptions, these new disclosures pertain to data not typically made public by companies. This is not only a boon for ESG data providers, but it also harms competition in the index provision market because the conditions for fair and non-discriminatory access cannot be met. Last but not least, a lack of standardisation further limits the relevance of these disclosures for decision making around sustainability.

By anchoring to traditional benchmarks and requiring a sharp reduction of carbon intensity at onset and then a uniform year-on-year compression without properly considering sector dimensions, the delegated act laying out the standards for the EU Climate Benchmarks reduces the scope of the regulation and incentivises portfolio greenwashing over the adoption of investment solutions that promote the reorientation of capital flows towards a more sustainable economy. Greenwashing is further facilitated by mandating the use of a carbon intensity metric that needlessly substitutes for the market standard and introduces equity market volatility into measurement and by incentivising index construction on unreliable emissions data.

Commenting on the publication of the delegated acts, Frederic Ducoulombier, ESG Director at Scientific Beta, said, “While we regret the introduction of costly disclosure obligations that create an unlevel playing field between benchmarks and between administrators without delivering material benefits for end-investors, we are most concerned by the counterproductive nature of the Climate Benchmark standards. The European Commission's combination and technical specification of decarbonisation approaches incentivise portfolio greenwashing over the promotion and reward of decarbonisation in the real economy consistent with the Paris Agreement. Since the new labels cannot be trusted, impact-concerned investors will need to perform in-depth due diligence on EU Climate Benchmark methodologies and data to avoid associating with greenwashing and to identify features contributing to alignment with the Paris Agreement.”

The Scientific Beta white paper on the subject can be accessed through the link below:

[A Critical Appraisal of Recent EU Regulatory Developments Pertaining to Climate Indices and Sustainability Disclosures for Passive Investment](#)

Issues with decarbonisation metric and emissions data are further discussed in two other white papers:

[Carbon Intensity Bumps on the Way to Net Zero](#)
[Understanding the Importance of Scope 3 Emissions and the Implications of Data Limitations](#)



Contact:

For more information, please contact: **S  verine Cibelly**

Tel.: +33 493 187 863 – E-mail: severine.cibelly@scientificbeta.com

To visit our web site: www.scientificbeta.com

About Scientific Beta

Scientific Beta aims to be the first provider of a smart beta indices platform to help investors understand and invest in advanced beta equity strategies. Established by EDHEC-Risk Institute, one of the top academic institutions in the field of fundamental and applied research for the investment industry, Scientific Beta shares the same concern for scientific rigour and veracity, which it applies to all the services that it offers investors and asset managers. On January 31, 2020, Singapore Exchange (SGX) acquired a majority stake in Scientific Beta. SGX will maintain the strong collaboration with EDHEC Business School, and principles of independent, empirical-based academic research, that have benefited Scientific Beta’s development to date.

The Scientific Beta offering covers three major services:

- **Scientific Beta Indices**

Scientific Beta Indices are smart beta indices that aim to be the reference for the investment and analysis of alternative beta strategies. Scientific Beta Indices reflect the state-of-the-art in the construction of different alternative beta strategies and allow for a flexible choice among a wide range of options at each stage of their construction process. This choice enables users of the platform to construct their own benchmark, thus controlling the risks of investing in this new type of beta (Smart Beta 2.0).

Within the framework of Smart Beta 2.0 offerings, Scientific Beta provides access to smart factor indices, which give exposure to risk factors that are well rewarded over the long term while at the same time diversifying away unrewarded specific risks. By combining these smart factor indices, one can design very high performance passive investment solutions.

- **Scientific Beta Analytics**

Scientific Beta Analytics are detailed analytics and exhaustive information on its smart beta indices to allow investors to evaluate the advanced beta strategies in terms of risk and performance. The analytics capabilities include risk and performance assessments, factor and sector attribution, and relative risk assessment. Scientific Beta Analytics also allow the liquidity, turnover and diversification quality of the indices offered to be analysed. In the same way, analytics provide an evaluation of the probability of out-of-sample outperformance of the various strategies present on the platform.

- **Scientific Beta Fully-Customised Benchmarks and Smart Beta Solutions** is a service proposed by Scientific Beta, and its partners, in the context of an advisory relationship for the construction and implementation of benchmarks specially designed to meet the specific objectives and constraints of investors and asset managers. This service notably offers the possibility of determining specific combinations of factors, considering optimal combinations of smart beta strategies, defining a stock universe specific to the investor, and taking account of specific risk constraints during the benchmark construction process.

With a concern to provide worldwide client servicing, Scientific Beta is present in Boston, London, Nice, Singapore and Tokyo. As of December 31, 2019, the Scientific Beta indices corresponded to USD 59.2bn in assets under replication. Scientific Beta has a dedicated team of 52 people who cover not only client support from Nice, Singapore and Boston, but also the development, production and promotion of its index offering. Scientific Beta signed the United Nations-supported Principles for Responsible Investment (PRI) on September 27, 2016.

On November 27, 2018, Scientific Beta was presented with the Risk Award for Indexing Firm of the Year 2019 by the prestigious professional publication Risk Magazine. On October 31, 2019, Scientific Beta received the Professional Pensions Investment Award for “Equity Factor Index Provider of the Year 2019.”



Scientific Beta
Indexing firm
of the year



WINNER

Equity Factor Index
Provider of the Year

Scientific Beta