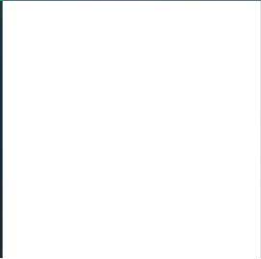
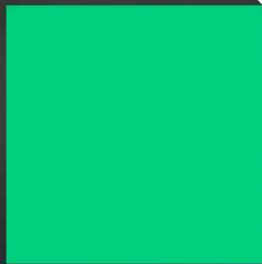


Whitepaper – ESG in Fixed Income

# Establishing a liquid sustainable derivatives market



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# Climate change is global and real

At the end of 2019, Australia's massive wildfires destroyed 12 million acres of land and 2,000 homes. In summer 2020, wildfires blazed along the Arctic Circle, incinerating tundra, blanketing Siberian cities in smoke and capping the second extraordinary fire season in a row. By the time the fire season waned at the end of this summer, the blazes had emitted a record 244 megatonnes of carbon dioxide, 35% more than last year, which also set records.

In autumn 2020, devastating fires burnt millions of acres of forest and grassland from the Mexican border to the forests of Washington State. California bore the brunt of the onslaught, with more than 3.3 million acres going up in flames so far this year. That number greatly surpasses the state's record of more than 1.9 million acres in 2018. This global challenge needs a global response; policymakers, and both institutional investors and private institutions, have started working on a broad spectrum of initiatives to help tackle climate change and promote the transition to a more carbon-neutral economy. The European Green Deal strengthened this momentum and committed us to becoming the first climate-neutral continent by 2050. In this context, the European

Union's EUR 750bn Recovery Fund will set aside 25% of all funding for climate action.

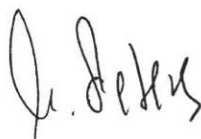
These initiatives will contribute to the development and financing of green projects, and therefore help to match increasing investor demand for sustainable assets such as green bonds. Green bond issuance is again at record levels this year and the momentum in this market remains strong. New issuers have started to populate this market, such as the German Government whose EUR 6.5bn issuance was more than five times oversubscribed. The popularity of these bonds is partly driven by a strong mandate from the buy-side community to invest in sustainable products, ensuring their contribution to a brighter and fairer future.

In this context, standardized derivatives offered at regulated markets play a key role in facilitating investment and channeling liquidity to the real economy. They are essential for providing the appropriate risk management

instruments to mitigate sustainability risks. Eurex, as a leading trading and clearing infrastructure provider in the global derivatives space, aims to leverage its expertise in this field and offers its clients the most efficient way to manage their ESG-related investments.

As a market leader, we aim to pave the path for the establishment of ESG benchmark products, and therefore to support the adoption of these principles both in the equity and fixed income investable universe.

In doing so, Eurex wishes to contribute to steering the financial system onto an economically and environmentally sustainable path. Eurex is a pioneer in sustainable equity index derivatives. The establishment of a new liquid ESG fixed income derivatives class will help strengthen the European initiatives framework to promote private and public investments into the realm of sustainable finance and contribute to achieving the ambitious target of a climate-neutral continent by 2050.



Michael Peters, CEO, Eurex

# Executive summary

ESG-based investing is increasing its footprint in the fixed income market. Having lagged behind equities since the inception of the ESG movement, AUM in fixed income ESG funds is soaring while industry initiatives and innovation are helping to overcome the traditional challenges that have held back its growth.

Corporates and other issuers are increasingly accepting, and in many cases welcoming, the growing value of ESG principles for credit investors and the impact these have on the cost of capital.

In the wake of the swelling ESG wave across fixed income, trading infrastructure is fast evolving. Improved datasets and greater harmonization are refining the index methodologies used to track this market, while new products are being launched to meet the growing demand.

As ESG-based investment in the fixed income market becomes more mainstream, so too does the requirement for liquid derivative products to serve their traditional purposes and overcome many of the investment challenges unique to this asset class.

Eurex commissioned Acuiti to research the demand among the top asset managers for fixed income ESG derivatives solutions. Acuiti surveyed ESG and fixed income specialists at 50 major buy-side firms, including 30 of the 50 largest European asset managers. This white-paper sets out the findings of this research.

## The core conclusions are:

- + The application of ESG principles to fixed income is now mainstream among asset managers.
- + Traditional barriers to investing in fixed income along ESG principles are being overcome.
- + Current demand for ESG products is highest for Euro-denominated investment-grade names.
- + Differing approaches to ESG investment continue to pose challenges for harmonization.

**The growth of ESG  
Investment  
in fixed income:  
overcoming  
the unique challenges**

**Fixed income has historically seen a slower growth of assets under management (AUM) in the sustainable investment sector than equities. However, over the past five years, there has been an acceleration in the application of Environmental Social and Governance (ESG) principles to fixed income investment.**

According to the Blackrock Investment Institute, fixed income strategies accounted for a fifth of total AUM in ESG funds in 2018. AUM in Sustainable Bonds, a key growth market for responsible investing, is consistently doubling each year and asset managers are increasingly including fixed income in their ESG mandates.

However, ESG investing in fixed income is not just the domain of the top asset managers. The Acuiti survey found that many smaller buy-side firms also consider ESG factors in at least some of their fixed-income investments.

As a result, ESG-investing in fixed income is likely to remain a fast growing investment trend for asset managers.

### **Gaining influence**

Several structural elements unique to the credit markets have traditionally held back the application of ESG principles in fixed income.

One important factor lies in the differences between how bondholders and shareholders influence corporate practices. Ownership of equity brings the ability to attend shareholder meetings and directly influence corporate behavior via voting rights. Engagement by bondholders has historically been limited to “take it or leave it” meetings on roadshows ahead of issuance.

Increasingly however, credit teams are playing a greater role in corporate engagement, holding back investment to firms that fall below their standards or demanding a premium from issuers that risk reputational or corporate damage from their sectors, products or processes.

As a result, issuers are assigning more weight to ESG considerations. Engagement is no longer restricted to roadshows; larger fixed-income investors told Acuiti that they were gaining greater access to company data and that management teams were better prepared to respond to ESG-related questions in credit meetings.

While equity investments grant the shareholders the right to vote, the fact that debt issuance tends to occur more regularly gives credit investors repeated opportunities to track and reward (or indeed punish) ongoing ESG performance.

Other initiatives such as Climate Action 100+, an investor-led group launched in 2017 to give bondholders greater influence, are also shifting the dial in terms of the ability to change corporate practice. The continued growth of investment in ESG fixed income funds will only serve to increase this influence.

### **Increasing transparency**

Another challenge historically for the implementation of ESG principles in fixed income has been the relative data scarcity. Listed equities come with requirements for disclosures that create deep pools of data. For unlisted securities, where debt issuance is the primary means of raising capital, there is significantly less publicly available or disclosed data.

Even for listed entities issuing debt alongside shares, ESG scores do not translate vis-à-vis from equities to fixed income. Factors that impact the future share price, while in most instances strongly correlated, are not always the key drivers of a company’s creditworthiness. In addition, there are several issues which are a focus of the equity ESG movement, but less of a priority for credit investors in their ESG analysis.

Larger long-term credit managers overcome this lack of data with in-house research and greater engagement with issuers. However, for smaller managers and those with shorter-term strategies, the time and effort taken to do a full ESG analysis ahead of a credit investment is often prohibitive.

Rating agencies have gone some way to solving this challenge, providing detailed analysis for many unlisted securities. However, the investment universe in fixed income is significantly larger than in equities and the adoption of the ESG principles in this space has been historically slow.

Hence, the coverage from specialist ESG rating agencies in fixed income has remained far sparser than that in equities.

Some managers have developed their own rating methodologies which they apply to their fixed income portfolios. In addition, several private initiatives have been launched to provide more transparency and standardization around the ESG data available.

For instance, in 2020 Dutch asset manager APG, in collaboration with PGGM, AustralianSuper and British Columbia Investment Management Corporation, launched the Sustainable Development Investments (SDI) Asset Owner Platform. This platform makes their knowledge and artificial intelligence-based technology available to other financial institutions that want to contribute to the sustainable development goals.

### Portfolio construction

Aside from the differences, fixed income also shares many of the challenges that are found in applying ESG principles to equities. Across both asset classes, buy-side firms pursue very different ESG strategies.

The Acuiti survey found that, in fixed income, most respondents (including all of the top 50 asset managers who participated in the survey) employed multiple strategies. Overall, 81 percent of respondents applied ESG integration, 69 percent exclusions and 65 percent incorporated green bonds in their fixed income ESG investments.

As with equities, there remain major differences in approaches within each strategy. In exclusions, while over 60 percent of respondents exclude military weapons, there was significantly less consensus on other sectors such as civilian firearms, genetic modification and “sin” sectors such as gambling, adult entertainment, alcohol and tobacco.

The fossil fuel sector, for example, is not automatically excluded by all asset managers, including some of the largest credit investors, owing to the belief that they can better influence the transition to renewable energy as an investor.

Several asset managers that spoke with Acuiti called for greater collaboration to improve transparency and access to data and to increase harmonization of approaches to responsible investing in fixed income. While some diversification creates a healthy marketplace, too much renders it too difficult to build consensus and, as a result, investible instruments and indices.

Partly due to this lack of data clarity, “greenwashing” is generally seen as a more prevalent issue in fixed income than in equities. Respondents to the Acuiti survey raised greenwashing concerns predominantly in high-yield U.S. names and in emerging markets. Euro and U.S. Investment Grade were seen to have the most reliable ESG scores.

### What type of ESG strategies does your organization implement in fixed income?



## Which market segment has the most reliable ESG scores?

- 1 Euro investment grade
- 2 U.S. investment grade
- 3 Euro high yield
- 4 U.S. high yield
- 5 Emerging market sovereign
- 6 Emerging market corporate

Initiatives are underway to provide greater standardization to data in fixed income. The Task Force on Climate related Financial Disclosures (TCFD) and the Green Bond Principles are just two initiatives designed to improve harmonization of ESG reporting and develop greater industry-wide consensus.

### The growth of sustainable bonds

One major area of growth in responsible fixed income investing is sustainable bonds. While fixed income investors employing ESG strategies will look at the ESG scores of a company before deciding to buy its debt titles, sustainable bonds are issuances tied to specific projects deemed to meet ESG principles.

The market for sustainable bonds, which is dominated by Green Bonds but includes a range of other instruments, is predicted by DZ Bank to reach \$560bn in new issuance this year, more than double the figure of 2019. AXA Investment Managers predicts this market to top USD 1tr by the end of 2021.

The Green Bond movement was bolstered by the Green Bond Principles (GBP), a set of guidelines governing the market formulated by the International Capital Markets Association in 2014 and expanded in 2018. The GBPs set out a range of requirements, from the use of proceeds to reporting mandates, to governing the issuance of green bonds.

Blue Bonds, launched by the government of Mauritius to invest in ocean-related initiatives, and various other Sustainability Bonds have added more depth to the market. Green bonds are growing in use among asset managers with over 80% of the top 50 asset managers surveyed by Acuity employing them in their fixed income ESG strategies.



### Improved returns?

The debate over whether ESG-investment improves returns cuts across all asset classes and is mired in disagreement. There have been fewer significant studies in fixed income than in equities. However, a recent study by Amundi found that overall ESG-integration in fixed income has created alpha since 2014.

The extent of that varies considerably between strategies though. The study found that for a long/short strategy in investment grade (IG) Euro-denominated bonds, ESG investing outperformed the market. However, the reverse was true in the Dollar-IG strategy.

The Euro portfolio generated annualized excess returns between 2014 and 2019 of 37bps vs. a decline of 32bps for the dollar strategy.

Traditionally ESG investment in fixed income has been termed a means of avoiding downside risk rather than generating alpha as in equities.

However, asset managers who spoke with Acuiti during the study said that reducing drawdown was increasingly important in generating alpha, especially during market stress periods.

Another benefit of an active ESG program in fixed income is that it allows investors to identify and act upon risks ahead of public disclosures, resulting in the ability to exit positions early and preserve capital.

A lack of adherence to ESG factors can impact a company's ability to repay debt, for example, from reduced revenues from customer boycotts or higher costs stemming from litigation and fines.

Governance issues are also coming to the fore in fixed income investing after numerous scandals emanating from a lack of effective oversight.

As a result, ESG-principles are now widely embedded in credit risk calculations at rating agencies such as Moody's, S&P Global Ratings and Fitch Ratings.



# The role of ESG within Fixed Income

## Interview with Aegon Asset Management

Kames Capital, now part of Aegon Asset Management, launched its first ESG fixed income fund two decades ago. Eurex spoke with Adrian Hull, head of fixed income at Aegon Asset Management, to discuss the changes he has seen in the market, the challenges of being an ethical bond investor and to hear what is next in the asset class.

### How advanced is the understanding of ESG within fixed income?

It depends on the organization, for example we have been at the forefront of ESG Fixed Income investing since we launched our first Ethical Corporate Bond Fund way back in April 2000. Others are now playing catch up and like all asset classes there is growing demand for investment managers to demonstrate their ESG credentials.

### How do you view ESG investing from a fixed income perspective?

ESG investment is much like any investment process from an active management perspective, in that our analysts and portfolio managers need to own it and fully understand how they want to implement it. We don't just rely on a score or a rating by a third party. Ultimately, we are here to provide portfolios that outperform and our ability to do that

is driven by our own intellectual property and expertise. Our inhouse analysis needs to be using all the data and relevant external sources that are available to get to the right conclusion. That increasingly includes ESG data from providers of sustainable and responsible information, materials and/or ratings. We want to have that data but, ultimately, it is just one factor in our internal process that forms our views. All that data and internal analysis helps portfolio managers to identify the relevance and materiality of ESG concerns in terms of making an investment decision.

### What are the major challenges in ESG investing that are unique to fixed income?

In times past, lacking a vote, fixed income investors might have been seen as second-class citizens. I think the world has moved on and treasurers and finance directors realize the broad array of ESG issues are issues for equity and fixed income investors. Data gathering remains problematic and smaller companies (and

likely weaker credits) will have typically less resource to provide the different responses required. The nature of the FI new issuance process often allows for less time to challenge companies for information and make a more informed ESG view.



**Adrian Hull**  
Head of fixed income at Aegon Asset Management

### How does your influence as an investor on company behavior differ with fixed income?

The key difference is you don't get a vote with bonds. But we are seeing a much greater understanding and a greater willingness to accept ESG parameters from an issuance perspective. We have a very engaged, responsive investment team that covers all aspects of ESG investment. But essentially, as active managers, our ultimate sanction is not to provide capital to issuers who are egregious in our eyes.

Clearly, there are a range of actions we as investors can take to change company processes and corporate behavior, which is done predominantly through engagement. It is only a small minority of firms within our universe in which we don't or won't invest.

The harsh reality is, of course, that as bondholders we are only able to go and influence decisions on information available in the public domain. All information should therefore be equally available. The reality is you can get further information by being engaged through our RI team and indeed

by being engaged just by having a strong corporate research team. But that's a starting point. Nobody should be better informed than anybody else in terms of the information that is available.

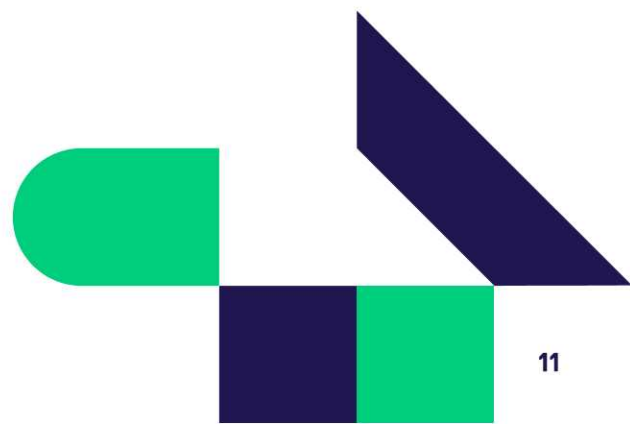
### How does that impact your views of rating agencies for ESG in fixed income?

Ultimately, any agency is only as good as the information they get and the conclusions that come from that. Nobody has a monopoly on the wisdom in terms of any of these issuers and provision of information is not the sole answer. The question is how far do rating providers provide the answer. It is disingenuous to say that they don't at all. But, ultimately, from an active investment sector, it is a judgment call that we take.

### How do you expect ESG considerations to evolve in the fixed income market?

I believe ESG factors will carry materially more gravitas with both issuers and investors in the future. Some of the current factors incorporated in ESG will start to carry more weight and there will be preferences from different jurisdictions. So, I would anticipate greater focus on CO<sub>2</sub> factoring into portfolios. This is in part is being driven by legislation, but there is also a desire to see portfolios skewed to ensure they are "future fit" to a less carbon intense world. Sustainability has a broader catch all – and obviously includes CO<sub>2</sub> emissions as a key consideration – but, again, we have seen a stepped increase in the focus on this. Ultimately, the underlying market will evolve to ensure capital is better allocated to those with a more acute understanding of investor need. Evidently, to date, green bonds have helped satiate some of this demand, but I would anticipate greater transparency and focus from issuing companies who will seek to gain greater trust from investors at the corporate level.

**“There is also a desire to see portfolios skewed to ensure they are ‘future fit’ to a less carbon intense world.”**



**Building liquid  
derivatives products  
for fixed income  
ESG investment**

As ESG investing in fixed income gathers pace, so too does the development of the surrounding trading ecosystem. This segment has come to Eurex's attention as a natural follow up from the successful adoption of its equivalent in the equity index market.

Derivatives are an essential tool for fixed income managers allowing them to scale exposures up and down rapidly and precisely while overcoming challenges posed by the relative illiquidity of bonds compared with equities.

As a result, new products such as the Sustainability Improvement Derivative have been developed. A recent ISDA publication written in conjunction with the European Capital Markets Institute, suggests that derivatives can play a crucial role in achieving the goals of the Sustainable Finance Action Plan as they can:

- Enable the EU to raise and channel the necessary capital towards sustainable investments;
- Help firms hedge risks related to ESG factors;
- Facilitate transparency, price discovery and market efficiency;
- Contribute to long termism.

Eurex is currently looking to design a product suite that would optimize risk management and allow firms to leverage up exposure, take a short position or achieve greater granularity over their ESG exposures in fixed income. Additionally, these products would allow a firm to tailor its beta exposure while meeting the requirements of a specific ESG mandate to broad segments of bond markets.

Furthermore, they would also enable funds to rapidly adapt to changes in the underlying market or their ESG strategy and to quickly respond to developments that may impact the ESG rating on a particular security or issuance.

### Building on the futurization trend

Most listed derivatives are born out of the OTC market. However, the OTC market remains in relative infancy for fixed income ESG investment. Some banks offer credit default swaps and bespoke structured products to enable asset managers to hedge their ESG investments.

However, banks seeking to build bond inventories have run into the issues outlined in Part 1 regarding differing approaches to ESG from asset managers as well as increasing capital charges on their balance sheet due to more stringent regulations.

A listed derivative product that can effectively track corporate bond market trends will centralize liquidity while lowering initial margin and capital requirements for all players in this ecosystem.

In developing this, Eurex would not attempt to replace the OTC market; rather it seeks to provide a liquid alternative that will serve the requirements of large swathes of the investor base while at the same time building on the growing electronification of the fixed income market.

The challenge for firms developing derivatives products to facilitate ESG investment in fixed income is to bring together the broad spectrum of approaches and strategies into a single investible product.



# Conclusion: Fixed income ESG movement is steadily bridging the gap with equities

ESG investment in fixed income is coming of age. As AUM grows, so too does the need for more sophisticated risk management tools for the buy-side.

The main findings of the Acuiti's survey point to the need of market participants to have versatile and liquid vehicles to efficiently gain exposure to various ESG fixed income market segments. Eurex now has the opportunity to be at the forefront in this space and respond to the underlying market demand by providing the most suitable derivatives products.

There is still some way to go before ESG investment in fixed income rivals that of equities. Still, the movement is accelerating and, with the right support, a vibrant and liquid market will quickly develop, presenting significant benefits not just to investors but to society as a whole.

A vibrant and liquid market will quickly develop, presenting **significant benefits** not just to investors but to society as a whole.

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# Spotlight on: Equity Index ESG Derivatives

Eurex has set the pace for the development of ESG derivatives, launching its first ESG equity index products in February 2019. Now, as it gears up to expand its equity suite with the addition of four DAX<sup>®</sup> 50 ESG and EURO STOXX 50<sup>®</sup> ESG futures and options, Christine Heyde, Equity & Index Product Design and Achim Karle, VP, Sales Equity & Index Derivatives, share their thoughts on the journey so far and the upcoming launch.

## What is Eurex's Role in the ESG space and what were the drivers to launch ESG derivatives?

**Christine:** We began our research into ESG derivatives in September 2018 following a business trip to the Nordics. We met with our partner banks and some of their asset management clients and the demand for an exchange to launch derivatives in the field became very clear. We then defined, with our client base, what an ESG index should look like and analyzed the different methodologies to develop our product suite. We decided to focus on exclusions, one of the most basic but also the most established methodologies with the highest Assets Under Management behind it. We then looked at where

the standardization was for exclusions and which exclusions most asset managers had on their list. That went into the construction of the ESG-X index on the STOXX<sup>®</sup> Europe 600 and provided a broad benchmark for Europe. But, at the same time, we were also looking for where we could develop more niche products focusing on areas such as climate impact or the reduction of carbon footprints.

## What were the challenges in developing exclusions?

**Christine:** A key challenge was developing the right exclusions for the index. For example, in our discussions with Nordic asset managers, it was clear that companies obtaining revenues from thermal coal extraction and power generation capacity was an important exclusion criterion. Therefore, STOXX decided to screen these out of the underlying index based on certain thresholds. Those are based on revenues from thermal coal mining and exploration and power generating

capacities. Just recently, another index provider took the same view and excluded coal from their ESG index – in that sense Eurex is helping in setting industry standards.

**Achim:** One key theme we picked up in our discussions with asset managers was that risk departments had issues if the methodology of the index construction was too complicated. For example, if you take best in class indices or indices underweighting constituents because they have bad E,S or G ratings and then you overweight those



**Christine Heyde**  
Equity & Index Product Design



who have a better rating, the index gets more and more complicated the deeper you go, which is detrimental to risk management.

**Christine:** Another aspect was that asset managers wanted to have a performance close to the benchmark they were using and a low tracking error. In addition, initial liquidity and price provision by market makers was an important prerequisite to allow trading in and out of positions. These were two of the initial key criteria that were met with our products.

### How are ESG Derivatives going to evolve in the next twelve months and what is your strategy?

**Christine:** Eurex has already started to support asset managers in switching to sustainable investments by broadening its ESG derivatives segment beyond Europe. ESG screened versions of key regional and global MSCI benchmarks have been available since March 2020. EM has been the region with the most traction so far and Eurex will further focus on developing the existing ESG index derivatives. Moreover, as part of the second phase of the development of ESG products, we are looking at products that have a higher degree of ESG integration in addition to the negative and norms-based screenings.

At the beginning of November, Eurex will extend its offering to ESG versions of the DAX® and EURO STOXX 50® indices. These integrate ESG scores into the index methodology, leading to improved overall ESG profiles of Eurex's leading blue chip index derivatives. Integration is a more challenging methodology to pursue as there are different approaches between asset managers and ESG data providers that many of them use.

**Achim:** Phase 1 offered relatively simple, exclusion-based products such as the ESG-X index family, by far the most traded listed ESG index derivatives product worldwide. We are now launching more sophisticated products that have a specific place in the

market. We can see there is strong demand for what we are doing from asset managers but now we need to build the liquidity in the products. We expect volumes to grow as EU reporting rules around ESG become more entrenched.

**Christine:** We are looking beyond twelve months and have only just started on this journey. The ESG-cause has a very long-term view, so we are building for the future. With derivatives, we offer instruments at an early stage that support the growth

of ESG investments but we don't want to launch products too early while the regulations surrounding some of the goals, such as carbon reduction, are not completely clear. Our options contracts go out to five years, so asset managers can trade far out to anticipate a longer-term trend and our product development will continue in line with the evolution of the marketplace.

There are two elements to the development of ESG products for us. One is the creation of more ESG-compliant benchmarks but the other is for asset owners who want to make an impact by choosing their investment strategies. They want to change



**Achim Karle**  
VP, Sales Equity & Index Derivatives

**“We are looking at products that have a higher degree of ESG integration.”**

Christine Heyde

behavior and contribute to create leaders in a certain field in line with initiatives like the Sustainable Development Goals. There are a number of such initiatives underway to create further standardization in this area and we want to be at the forefront of this evolution. Client interest is high but has not fully materialized in trade sizes to the same extent. When clients have made themselves familiar with the ESG index

methodology and reporting requirements become more pressing we will probably see more volume.

#### What are the benefits of screened versions compared to other more complex models?

**Achim:** Eurex's ESG-screened index derivatives are based on parent benchmarks that are well established, actively traded and, as such, easy to integrate into existing trading environments. ESG-screened indexes and the respective derivatives are the first step into ESG

and enable clients to be compliant with the most common norms and standards on ESG screens. Given that those ESG derivatives closely track the benchmarks, firms can swiftly replicate their strategies and achieve the same goals of their trading portfolio, just in a more compliant way. Lastly, it has been easier for market-makers to provide liquidity on-screen, since they also traded the parent products and therefore could quickly adapt to the ESG versions.

#### How do ESG products compare to their non-ESG equivalents in terms of performance and costs?

**Achim:** For the soon to launch EURO STOXX 50<sup>®</sup> product, there are several studies that show that ESG indices clearly outperform their regular comparable indices. Overall, the EURO STOXX 50<sup>®</sup> ESG index outperformed the benchmark by 3.77 percentage points between December 20, 2019 and August 7, 2020 measured in terms of its cumulative returns, while the volatility was also lower. ESG for us is also about lowering the risk for investors. A recent example is where a stock that was listed in the DAX<sup>®</sup> 30 caused market turbulence due to a massive fraud which eventually resulted in its insolvency. The stock wasn't included in the DAX<sup>®</sup> 50 ESG index, owing to its low ESG score so anyone invested in the ESG index would not have been exposed to it.

#### How are you growing liquidity?

**Christine:** We have market-makers that are familiar with the classic benchmarks and are supporting our ESG versions so market participants can immediately trade the on-screen prices. And on the other hand, off-book market-makers are providing prices to clients for bilateral trades that can be entered via block trades. If you look at the March 20-expiry of the ESG-X future during the Covid-19 market turbulences, market-makers continued to support the roll with prices leading to a smooth transfer of existing open positions into the succeeding expiry.

For the new products we expect market-makers and market participants that are active in the existing suite of products to support these ESG versions. But of course, liquidity will build up over time and we won't have the established liquidity on day 1 for all our products. A recent trade that was done by Barclays for Swedbank Robur in ESG options with a notional volume of more than EUR 540m, shows that interest around ESG products has gone up substantially this year and should provide investors comfort around the current liquidity profile in ESG derivatives.

## “ ESG indices clearly outperform their regular comparable indices.”

Achim Karle

### What about the new futures and options on DAX® 50 ESG and EURO STOXX 50® ESG Indices?

**Christine:** It is the next step, a step forward from ESG screening to derivatives based on an integration methodology. With futures and options on the EURO STOXX 50® ESG Index, we add another European benchmark to our offering and with derivatives on the DAX® 50 ESG Index we will now cover the German market for the first time. Beyond the step ahead into a new more comprehensive approach and methodology, these derivatives will be the first based on indexes incorporating ESG scores. In combination with screening out undesirable securities, ESG rankings are also considered as part of the selection process.

### What are the characteristics of these sustainable versions of the DAX® and EURO STOXX 50® indices ?

**Christine:** Companies in the DAX® 50 ESG Index must pass standardized ESG screens related to Sustainalytics' Global Standards Screening (GSS), as well as not be involved in controversial weapons, tobacco production, thermal coal, nuclear power or military contracting. The base universe of the DAX® 50 ESG Index is the HDAX universe which comprises the joint set of companies included in the DAX®, MDAX® and TecDAX®. The EURO STOXX 50® ESG Index is based on our benchmark, the EURO STOXX 50® Index. The ESG version excludes companies that Sustainalytics considers to be non-compliant with Global Standards Screening. In addition to the exclusion screens, the ten per cent of companies with the lowest ESG scores are excluded and replaced by companies with a higher ESG score from the same ICB (Industry Classification Benchmark) Supersector.

## About Eurex

Eurex stands for the leading European derivatives exchange and – with Eurex Clearing – one of the leading central counterparties globally. Being architects of trusted markets characterized by market liquidity, efficiency and integrity, we provide our customers with innovative solutions to seamlessly manage risk. On the trading side, we mastermind the most efficient derivatives landscape by pioneering ingenious products and infrastructures as well as by building 'smart' into technology – offering a global product range, operating the most liquid fixed income markets in Europe and featuring open and low-cost electronic access. As central counterparty, Eurex Clearing builds trusted relationships with and amongst market participants, enabling effective risk management and delivering high efficiencies to clients.

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