

Warsaw, 17 August 2020

Summary of public consultation of methodology change of the WIG-ESG index

In connection with the completed public consultations of methodology change of the WIG-ESG index, GPW Benchmark ("Administrator") publishes a summary of comments provided by interested entities.

The Consultation Document was made available on July 22, 2020 on the Administrator's website:

https://gpwbenchmark.pl/pub/BENCHMARK/files/PDF/komunikaty/Consultation_Paper_WIG-ESG.pdf

In addition, the Consultation Document was sent to entities using the WIG Indices in Polish and English versions to the e-mail addresses indicated in license agreements. The deadline for responses was August 7, 2020.

Consultation results

Four entities participated in public consultations of methodology change of the WIG-ESG index:

- 2 entities using GPW Indices
- 1 index participant
- 1 entity acting as a domestic trading venue

The entities participating in the consultation process provided the following responses:

Question 1: Do you agree with the methodology change resulting in the WIG-ESG revision schedule adjustment to the schedule of the GPW Index Family?

Answers:

	Number of answers
Yes	3
No	1
Do not know	0

Summary of comments

In case of question no. 1. Administrator obtained three answers supporting the need of the revision adjustment of the WIG-ESG index to the revision schedule of the GPW Indices Family. Among the received comments, it is worth paying attention to:

- a suggestion to take into account the up-to-date structure of the WIG20 and mWIG40 indices, indicating the same index life cycle as other indexes within the Family.
- the fact being emphasized by one of the respondents, that the quarterly revision will enable a better capture of the impact of ESG analysis on the potential rate of return (compared to the current solution - once a year), and in the case of portfolio rebalancing, the liquidity at the sessions on third Friday of March, June, September and December is definitely higher than the average liquidity on other days of the quarter.
- support for adaptation of the WIG-ESG schedule to the GPW Indices Family, bearing in mind the need to reflect the economic and financial situation of companies in the index in the best possible manner and the need of reducing the disproportions in the share of companies in the portfolio of WIG20 and mWIG40 indices and products based on them e.g. futures or ETFs compared to products based on the WIG-ESG index provided according to the current methodology what would lead to lack of their comparability,
- the lack of support for an index revision adjustment from the index participant due to the ongoing and expected developments and changes in the ESG ratings review and update process at Sustainalytics. It has been indicated by one of the respondents that the process of publication of verified ratings to the public is not entirely clear and suggested that the change the methodology should take place not earlier than in two years.

Question 2: Do you agree with the change of the methodology resulting in the implementation of smoothing mechanism for qualification to quintile groups in case of the change methodology of ESG Risk Rating Reports that would translate into the change of the quintile groups by more than 1 in a given quarter (i.e. the qualification to the new quintile group stemming from the methodological change could not be greater than +/- one group within a given quarterly revision)?

Answers:

	Number of answers
Yes	2
No	1
Do not know	1

Summary of comments

In the comments submitted by respondents, what draws attention is:

- the comment supporting the introduction of the smoothing method indicating that the ESG methodology of Sustainalytics is relatively "new". The introduction of the smoothing mechanism minimizes the risk of radical changes in the structure of the WIG-ESG portfolio in case of a possible deep modification of the methodology of the Sustainalytics' ESG Risk Rating reports.
- the comment supporting application of the above-mentioned mechanism indicating that in a situation when financial institutions apply a passive strategy based on the WIG-ESG index they would adjust company shares (in a less aggressive manner and spread over time),

limiting large fluctuations in the share prices of participants in the index portfolio, that undergo specific changes.

- the unfavourable comment indicating that the methodology of Sustainalytics is new and the process of verifying and updating the ESG rating at Sustainalytics is undergoing continuous changes.
- the comment accompanying the answer 'Do not know' indicating the need of introduction of other changes to qualifications method consisting i.e. of more restrictive weighting criteria resulting from ESG ratings as well as exclusion from the Index portfolio of companies with the lowest ESG ratings.

THE ADMINISTRATOR'S REPLIES TO THE COMMENTS

Administrator confirms that methodology changes are taking place at Sustainalytics currently and due to the planned implementation of new EU regulations related to sustainable financing, it is very likely that further changes will take place in the next 2-3 years. At the same time, it can be assumed that changes in the methodology will continue to take place even after the first phase of implementation of new regulatory requirements and they will be accompanied by a steep development of awareness among financial community members regarding the importance of ESG factors. The greenhouse gas emission targets and possible processes of unification of the rules for provision of ratings and scorings aimed at increasing the comparability of indices and products, shall have a significant impact on the ESG factors methodology in the forthcoming future.

At the same time, Administrator confirms that the purpose of adapting the WIG-ESG schedule to the WIG Indices Family is to ensure representativeness and comparability of the structure of WIG-ESG.

In the opinion of Administrator, changes in qualifications to the new quintile groups resulting from the change in methodology consume the need to limit sudden changes in the index structure as well as the potential sensitivity to the Sustainalytics methodology changes and adaptations to the evolving legal regime. It is due to actual cases reported so far which could affect radical changes in the portfolio structure as they stemmed from methodological changes, Administrator decided that any reclassifications of the company by more than one group within a given quarterly revision should be spread over time. Assessment of a given company in terms of scoring and meeting ESG requirements, which is carried out by Sustainalytics on an ongoing basis, should not be however subjected to the smoothing mechanism, as it is a key element of differentiating companies in terms of meeting environmental, management and social objectives.

In regards of recommendation to apply more restrictive rules for the construction of the WIG-ESG index portfolio, Administrator would like to point out that the current rules for the construction of WIG-ESG are grounded in the method, that does not presume removal of companies from the index. The change mentioned above would be another significant change to the index method. In the light of strategic activities and growing interest and importance of indices that take into account the ESG factors and climate transition goals, Administrator plans to implement a recommendation regarding more restrictive rules for building more "green" indices by expanding the current offer of benchmarks with such indices. The Administrator

feels obliged to execute the analysis for creating Climate Transformation Benchmark and/or Paris Aligned Benchmark consistently with the amended BMR Regulation.

ADMINISTRATOR'S DECISION ON THE RESULTS OF THE CONSULTATION

Administrator presented a summary and recommendation of the proposed WIG-ESG method change to the Oversight Committee WRK. From Administrator's point of view, the results of the consultation procedure are considered sufficient to change the method of developing the WIG-ESG.

Administrator provided the Oversight Committee WRK with information regarding the use of the waiver in application of few single resolutions of the Rules of the GPW Indices Family (hereinafter the Rules) in order to protect the interests of trading participants, as permitted by point 14.2.1 of the Rules. Consequently an index review according to the currently binding version of Rules should take place in August while according to the new Rules resulting from the change of the methodology of WIG-ESG, subsequent review should be repeated in September. Administrator claims that such an action would be unfavourable, as it would force two changes in the portfolio composition, which would generate specific costs for trading participants. Consequently, in the opinion of Administrator it should be considered that the premises for point 14.2.1 of the Rules are met.

Taking into account the safety of trading and the interests of its participants, after being put under successful approval by the Oversight Committee, Administrator withdraws from applying point 8.6.1. of the currently binding Rules, stating that the annual revision of the WIG-ESG Index portfolio is carried out after the closing of the last Session in August. Administrator will follow the new standard defined in updated version of Rules coming into force on September 16, 2020, stating that the quarterly change will take place after the Session on September 18, 2020.

Pursuant to point 4.4.1 of the Rules concerning the publication of a new composition of the WIG-ESG index portfolio Administrator will respect the standard date of publication of changes in the WIG-ESG portfolio composition, at least 1 week before the date of its actual introduction, i.e. September 11, 2020.