Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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October 28, 2020

The Honorable Dan Berkovitz
Commissioner
U.S. Commodity Futures Trading Commission (CFTC)
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Environmental, Social, and Governance (ESG) Derivatives

Dear Commissioner Berkovitz:

As an Associate Member of the Energy & Environmental Markets Advisory Committee, I am raising concern that Environmental, Social, and Governance (ESG) derivative indexes do not have consistent and objective measurements on which to determine which companies qualify for ESG derivative indexes and which do not. This means that some companies, including my membership, who may be adhering to the highest ESG standards, are not being included in these important indexes, and their stock is not valued equitably as a result.

This issue is important because there is above average growth in the use of ESG derivative indexes by large global institutional investors who want to invest in companies that adhere to environmental, social, and governance values. According to Bloomberg, inflows to ESG ETFs have surged to $22 billion so far in 2020, already about three times the 2019 total. And, the trend is that demand for ESG derivatives is accelerating.

During the October 16, 2020 Energy & Environmental Markets Advisory Committee meeting, presentations were given by the CME Group, ICE Futures, and the Eurex Exchange on ESG derivatives. When questioned, all speakers admitted there is no standardization as to how stocks were evaluated to qualify and that it was a problem.

In comparison, the entire world uses the same financial standards to measure performance of a company. The financial standards are well-understood globally, consistently transparent, and transferrable across diverse geographies and business segments. As a result, companies know that their performance is evaluated without prejudice or discrimination. This is not the case for ESG derivatives.

A good example are high flying electric vehicle stocks or solar companies who, due to their “greenness” and growth, are enthusiastically included in many ESG indexes. Yet, multiple newspapers report that the cobalt for electric batteries comes from the Congo under terrible human working conditions and, which are mostly controlled by the Chinese. The same goes for the production of polysilicon, a key material used in photovoltaic cells. More than one half of China’s production comes from the region of Xinjiang, which has been accused of human rights abuses of the Uighurs.

We believe that action is needed by the Commission to establish transparent ESG standards and oversight to assure that there is no discrimination of company evaluations. We look forward to hearing from you.

Sincerely,

Paul N. Cicio

Paul N. Cicio
President

cc: CFTC Commissioners
SEC Commissioners
Senate Committee on Banking, Housing, and Urban Affairs
House Committee on Financial Services

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.1 trillion in annual sales, over 4,200 facilities nationwide, and with more than 1.8 million employees worldwide. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.