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1 P R O C E E D I N G S

2 MS. KNAUFF: Good morning. As the Secretary
3 of the Energy and Environmental Markets Advisory
4 Committee, it is my pleasure to call this meeting to
5 order. Welcome to the fifth EEMAC meeting with
6 Commissioner Berkovitz as the sponsor of the committee
7 and the third EEMAC meeting of 2020.

8 In light of the global response to COVID-19,
9 we are holding today's meeting by videoconference to
10 protect the safety of agency personnel, the EEMAC
11 Members, Associate Members, guest panelists, and the
12 public.

13 To ensure that today's virtual meeting goes as
14 smoothly as possible and the recording of the meeting is
15 complete and accurate, please identify yourself before
16 you begin speaking and signal when you are done speaking
17 so that we can continue with the next question or
18 speaker. Please ensure that your phone and your WebEx
19 video is unmuted before you speak and mute your phone
20 once you are done speaking. Please also ensure that the
21 speakers on your computer and any other electronic
22 devices are muted.

1 In the case that your WebEx is disconnected,
2 please close your browser and enter WebEx again using
3 the link previously provided to today's meeting
4 participants.

5 If you would like to be recognized during the
6 discussion for question or comment or need technical
7 assistance, please message me within the WebEx chat. I
8 will alert EEMAC Chair Dena Wiggins that you would like
9 to speak during the discussions, which follow the panel
10 to presentations.

11 Before we begin this morning's discussion, I
12 would like to turn to Commissioner Berkovitz for his
13 opening remarks.

14 COMMISSIONER QUINTENZ: Commissioner
15 Berkovitz, this is Commissioner Quintenz. I think you
16 are on mute.

17 COMMISSIONER BERKOVITZ: Sorry. I was on
18 mute, yes. Okay. Thank you.

19 Good morning, and welcome to the Energy and
20 Environmental Markets Advisory Committee meeting. The
21 CFTC is entering our eighth month working remotely. I
22 am sure many of you are as well. I am most grateful for

1 the dedication of the CFTC staff, fellow Commissioners
2 to our mission under these challenging circumstances.

3 I have also been impressed with and
4 appreciative of the hard work and resourcefulness of the
5 private sector, including many of the participants and
6 organizations represented in today's meeting for keeping
7 our physical and economic infrastructure structure
8 operating during the COVID-19 pandemic. Many of the
9 things we take for granted in our country, turning on
10 the lights with the flick of a switch, cooling our homes
11 in the summer and heating them in the winter, [and] not
12 waiting in line at the gas station, would not be
13 possible without your efforts.

14 As regulators, it is vital that, despite
15 working remotely, we continue to engage with the public.
16 I am very pleased that we are able to conduct this
17 meeting by video; the Commission's first videoconference
18 with participants out of the agency. If we can't be
19 together in person, this is best alternative. Thanks to
20 our office of Data and Technology for making today's
21 event possible.

22 At this time, I would like to welcome our

1 returning Members and Associate Members and thank them
2 for their continued contributions. I would also like to
3 extend a warm welcome to our six new Associate Members.
4 Susan Bergles is Assistant General Counsel with Exelon
5 Corporation. Jessica Bowden is a fixed-income and
6 commodities Business Manager for the hedge fund
7 Millennium Management. Kate Delp is the Executive
8 Director and Business Manager for DTCC Data Repository.
9 Jeff Hume is the Vice Chairman of Strategic Growth
10 Initiatives for Continental Resources. Sarah Tomalty is
11 the Vice President of U.S. Regulatory Affairs for the BP
12 Energy Company. And Jeff Walker is the Senior Vice
13 President and Chief Risk Officer of ACES.

14 I would also like to extend my sincere thanks
15 to the former Associate Members whose terms expired this
16 summer: Jim Allison, Tim McKone, Rob Mork, and Mike
17 Prokop. Their support of the EEMAC and the insights
18 they shared with the Committee were much appreciated. I
19 wish each of them well and look forward to continuing
20 our relationships.

21 We will begin today's meeting with a
22 discussion of ESG initiatives in the energy industry.

1 The term "ESG" refers to environmental, social, and
2 governance factors used by certain investors to screen
3 potential investments. Though the environmental
4 component has most recently dominated the ESG discussion
5 and will be a part of our conversation today, we will
6 for the first time at the Commission focus on the social
7 component of ESG. We will hear from our panelists in
8 the energy and financial sectors about how their
9 organizations are working to enhance diversity, equity,
10 and inclusion.

11 The events of this past summer have drawn
12 attention to the importance of social factors, such as
13 diversity, inclusion, and equity in the workplace as
14 well as in society at-large. Within firms, there is a
15 growing commitment to promoting diversity and
16 incorporating sustainable, inclusive ethos into the
17 fabric of the company.

18 Working alongside colleagues with different
19 backgrounds and life experiences broadens our
20 perspectives, enriches our capacity for understanding,
21 and reflects the ideals upon which our Nation is
22 founded. And it can help a business succeed in

1 different ways. Research suggests that a heterogeneous
2 workforce is more innovative and performs better than a
3 homogeneous one. Investors are increasingly taking
4 social factors into account in their decisions about
5 where to allocate their capital.

6 While we will be hearing today from market
7 participants about their efforts to diversify their
8 workplaces, the public sector has work to do as well. A
9 working paper by Chris Brummer examining the lack of
10 African Americans in senior leadership positions across
11 US financial regulatory agencies highlights the need for
12 greater diversity when it comes to shaping financial
13 regulatory policy.

14 I expect that today's presentations on private
15 sector initiatives will help as we, too, work towards a
16 more inclusive and diverse workforce here at the CFTC
17 and throughout the Federal Government. I look forward
18 to starting this dialogue today with our EEMAC members
19 and Associate Members. I hope that by sharing policies
20 and practices designed to promote equity and inclusion,
21 we can learn from one another and encourage continued
22 focus and progress on these issues. This will

1 strengthen not just our markets but our society at-
2 large.

3 With that, I would like to introduce our
4 presenters for Panel I: ESG in the Energy and
5 Environmental Markets. We will first hear from Paula
6 Glover, President and CEO of the American Association of
7 Blacks in Energy. Paula will discuss the work that AABE
8 is pursuing in partnership with companies to increase
9 African American employment, leadership, and business
10 contracting throughout the energy industry.

11 Next, Tim Burke, CEO of Omaha Public Power
12 District, will share with us how OPPD is diversifying
13 its work force and partnering with community groups to
14 better serve its customers.

15 Ray Dempsey of bp America will then speak
16 about his role as Chief Diversity Officer and BP's
17 efforts to increase transparency, accountability, and
18 the diversity of its talent pools.

19 Noha Sidhom, the CEO of TPC Energy, will share
20 her experience as a woman of color trading commodities
21 and raising of funds comprised in large part of
22 investments from women and minorities.

1 We will also hear from Lopa Parikh, Senior
2 Director of Federal Regulatory Affairs at Edison
3 Electric Institute. Lopa will discuss how EEI has
4 worked with its member companies to develop a voluntary
5 ESG template that provides standardized ESG metrics to
6 investors and with the American Gas Association to
7 create a sustainability reporting program across the
8 natural gas supply chain.

9 Malinda Prudencio, Chief Risk Officer of The
10 Energy Authority, will then talk about the formation of
11 TEA's ESG statement and its deployment of ESG programs.

12 Finally, Bill McCoy, Managing Director of
13 Morgan Stanley, will discuss his firm's involvement in
14 the Global Steering Committee of the Partnership for
15 Carbon Accounting Financials and Morgan Stanley's
16 diversity and inclusion initiatives.

17 I encourage our Members and Associate Members
18 who are not speaking on this panel to contribute to this
19 discussion during the Q&A session.

20 On Panel II, we look forward to hearing from
21 Derek Sammann of CME; Steven Hamilton of ICE; and Megan
22 Morgan of Eurex. Each panelist will discuss the ESG-

1 related products offered on their exchange and the
2 underlying market conditions that drive demand for these
3 derivative instruments.

4 On our third and final panel of the day, we
5 will switch gears and hear from Sayee Srinivasan and JP
6 Rothenberg from the CFTC's Risk Surveillance Branch in
7 the Division of Clearing and Risk, or DCR. Sayee and JP
8 will discuss the role of initial margin and CCP
9 management and analyze IM performance in the energy
10 derivative market through the first three quarters of
11 2020.

12 I would like to conclude by thanking the
13 Chairman and my fellow Commissioners for their support
14 of this committee and for their participation in today's
15 meeting. I know we share a collective commitment to
16 fostering an equitable workplace for all Commission
17 employees. I look forward to working with you on this
18 important issue.

19 Finally, I would like to thank Dena Wiggins
20 for her continued dedicated service as the EEMAC Chair;
21 Abigail Knauff for all her exceptional work, who always
22 makes it look easy as the EEMAC Secretary; and Lucy

1 Hynes for her hard work and valuable contributions in my
2 office for her work in supporting this committee.

3 With that, I will turn it back to Abigail.

4 MS. KNAUFF: Thank you, Commissioner
5 Berkovitz.

6 I now recognize Chairman Tarbert to give his
7 opening remarks.

8 CHAIRMAN TARBERT: Good morning, everyone. It
9 is great to be here. And I look forward to today's
10 discussion on ESG initiatives, including initiatives on
11 diversity inclusion. I hope to be able to attend much
12 of today's discussion. And I would also like to welcome
13 the new EEMAC members: Susan from Exelon Corporation,
14 Jessica from Millennium Management, Kate from DTCC Data
15 Repository. And I also want to thank Kate, in
16 particular, for her work with us on the swap data
17 reporting rules. She was very helpful in providing some
18 insights that were able to bring that process to
19 fruition. I am also excited that Jeff from Continental
20 Resources is here. I had nominated Continental
21 Resources because I think they are very much emblematic
22 of the kind of companies that have allowed America to

1 become energy-independent. I also want to thank Sarah
2 from BP Energy Company. She and her team were really
3 helpful and constructive funding our position limits
4 rulemaking. And, then, finally, I want to welcome Jeff
5 from ACES. Really thankful to all of the EEMAC members,
6 both the new ones as well as the other ones, who bring
7 the perspective of so many different actors in our
8 market: from products, producers, distributors, end-
9 users in the physical markets to the exchanges and
10 infrastructure providers, who ensure that our market
11 properly function for the benefit of those market
12 participants.

13 And, of course, I want to thank Dena Wiggins,
14 Chair of the committee; Abigail as being our Designated
15 Federal Officer; and, then, of course, Commissioner
16 Berkovitz for sponsoring the committee and leading
17 today's discussion. Thank you.

18 MS. KNAUFF: Thank you, Chairman Tarbert.

19 I now recognize Commissioner Quintenz to give
20 his opening remarks.

21 COMMISSIONER QUINTENZ: Thank you very much,
22 Abigail. Thank you for your leadership from the staff

1 perspective of EEMAC. Thank you, of course, to
2 Commissioner Berkovitz for organizing today's meeting
3 and for his steadfast leadership of this committee; to
4 Dena for her chairmanship of this committee and for the
5 agenda that we have before us today.

6 I am very interested to hear the discussion
7 today. I hope to be able to listen to all of it. I am
8 particularly interested to hear from the panels that we
9 have and the participants what kind of analysis has been
10 done and how they see ESG factors in terms of
11 representing any outsized returns from an investment
12 perspective or whether or not there is any literature or
13 research that is suggesting that and if so, what aspects
14 of each, whether it is the environmental piece, whether
15 it is the social piece, or whether it is the
16 government's piece.

17 In addition to that, I think if we are not
18 quite there yet and haven't developed that kind of
19 research or if the research is showing that there
20 aren't, I think we need to continue having discussions
21 about investment's role in the economy and in our
22 livelihood in providing for our retirement security and

1 what role certain policy outcomes and value judgments
2 play in that process. And perhaps they can play a very
3 important role on their own, which is what I am excited
4 to hear about today.

5 I also heard Commissioner Berkovitz mention my
6 good friend Chris Brummer's research. I had the
7 distinct privilege of being nominated originally in 2016
8 to the CFTC with Dr. Chris Brummer. And I thought then
9 and still think he would have and would make a very fine
10 addition to this agency at that point or at any point in
11 the future. And I hope that in the future, he is still
12 open to that and that he would still be considered for
13 that because while I was renominated for this role, that
14 was not the case with Dr. Brummer. And I think that
15 maybe his students are grateful for that because of the
16 learning opportunity that he is able to provide for
17 them. So, let me express my gratitude to Chris for his
18 research as well as his friendship. And thank you,
19 Commissioner Berkovitz, again for today. I am looking
20 forward to the discussion.

21 MS. KNAUFF: Thank you, Commissioner Quintenz.
22 I now recognize Commissioner Behnam to give his opening

1 remarks.

2 (Pause.)

3 MS. KNAUFF: Okay. We are going to return to
4 Commissioner Behnam. Commissioner Stump, would you like
5 to give your opening remarks now.

6 COMMISSIONER STUMP: Sure. Thank you,
7 Abigail. And thanks to Commissioner Berkovitz for
8 hosting the meeting.

9 I don't have any formal remarks. I am
10 actually quite interested in getting to the
11 presentations as quickly as possible. I will commend
12 Commissioner Berkovitz, in particular, for his stamina.
13 It has been a very busy couple of weeks and all of those
14 at the agency who have worked on this various rulemaking
15 we've been considering over the past few weeks. So,
16 with that, I think the Commission has done a fair bit of
17 talking. And the public has heard from us. And so, I
18 hope today to be more of a listener. And I am looking
19 forward to hearing all of the presentations, and I will
20 be here throughout the day. Thank you.

21 MS. KNAUFF: Thank you, Commissioner Stump.
22 Commissioner Behnam, would you like to give opening

1 remarks at this time?

2 (Pause.)

3 MS. KNAUFF: Okay. We can move forward.

4 Thank you, Commissioner Stump, the Chairman,
5 Commissioner Quintenz, and Commissioner Berkovitz, for
6 giving your opening remarks. I am going to turn the
7 meeting over to Dena now. Thank you.

8 CHAIRPERSON WIGGINS: Thank you, Abigail.
9 Thank you, Commissioner Berkovitz, Mr. Chairman, and all
10 of the CFTC Commissioners. I am honored to be a Member
11 of the EEMAC and to continue to serve as chair of the
12 EEMAC.

13 This committee serves an important vehicle to
14 discuss matters of concern to hedgers, consumers,
15 exchanges, firms, and end-users within our energy and
16 environmental markets as well as the Commission's
17 regulation of these markets. Today's meeting serves as
18 a timely opportunity to discuss environmental, social,
19 and governance initiatives and ESG derivatives products
20 within our energy and environmental markets.

21 As Chair, I look forward to facilitating the
22 discussion of Associate Members' perspectives to the

1 EEMAC and working with the EEMAC Members to provide the
2 Commission with feedback and recommendations that
3 hopefully can assist the agency in its oversight of our
4 markets.

5 To ensure that today's discussion is
6 consistent with the EEMAC charter, which prohibits
7 Associate Members from providing reports and
8 recommendations directly to the Commission, we will
9 first take questions and comments from the EEMAC
10 Associate Members after the panelists have made their
11 presentations and prepared remarks on each respective
12 panel. We will then turn to the EEMAC Members for their
13 questions and comments on the panelists' presentations,
14 prepared remarks, and any feedback provided by the
15 Associate Members.

16 As Abigail mentioned, please use the chat
17 function to alert her if you have a question or a
18 comment. And we will recognize you as a speaker after
19 receiving your notification.

20 Before we begin our first panel, we would like
21 to do a roll call of the Members, Associate Members, and
22 guest panelists so that we have your attendance for the

1 record. Abigail will lead the roll call.

2 MS. KNAUFF: Thank you, Dena.

3 EEMAC Members, after I say your name and

4 organization, please indicate that you are present.

5 Just make sure your phone is not muted. If we are

6 unable to hear your response, please send me a message

7 via the WebEx chat to confirm that you are present on

8 today's call so that I can correct the record.

9 Trabue Bland, ICE Futures U.S.?

10 MR. BLAND: I'm here.

11 MS. KNAUFF: Thank you, Trabue.

12 Rob Creamer, FIA PTG?

13 MR. CREAMER: Present.

14 MS. KNAUFF: Thank you.

15 Demetri Karousos, Nodal Exchange, LLC?

16 MR. KAROUSOS: Here. Good morning.

17 MS. KNAUFF: Thank you.

18 William McCoy, Morgan Stanley?

19 MR. MCCOY: I'm here.

20 MS. KNAUFF: Thank you.

21 Lopa Parikh, Edison Electric Institute?

22 (No response.)

1 MS. KNAUFF: Jackie Roberts, Consumer Advocate
2 Division of West Virginia?
3 (No response.)
4 MS. KNAUFF: Derek Sammann, CME Group?
5 MR. SAMMANN: I'm here.
6 MS. KNAUFF: Thank you.
7 Tyson Slocum, Public Citizen?
8 MR. SLOCUM: Good morning. I'm here.
9 MS. KNAUFF: Thank you.
10 EEMAC Associate Members, after I say your
11 name, please indicate that you are present.
12 Matt Agen, American Gas Association?
13 (No response.)
14 MS. KNAUFF: Susan Bergles, Exelon
15 Corporation?
16 MS. BERGLES: Good morning. Present.
17 MS. KNAUFF: Thank you.
18 Jessica Bowden, Millennium Management?
19 MS. BOWDEN: Present.
20 MS. KNAUFF: Thank you.
21 Paul Cicio, Industrial Energy Consumers of
22 America?

1 MR. CICIO: Good morning, Abigail. I'm here.

2 MS. KNAUFF: Thank you.

3 Sean Cota, National Energy and Fuels

4 Institute?

5 MR. COTA: Good morning. Present and

6 caffeinated.

7 MS. KNAUFF: Thank you.

8 Daniel Dunleavy, Ingevity Corporation?

9 MR. DUNLEAVY: Present. Good morning.

10 MS. KNAUFF: Thank you.

11 Kate Delp, DTCC Data Repository?

12 MS. DELP: Good morning. I'm here.

13 MS. KNAUFF: Thank you.

14 Paul Hughes, Southern Company?

15 MR. HUGHES: Good morning. I'm here, Abigail.

16 MS. KNAUFF: Thank you.

17 Jeff Hume, Continental Resources?

18 MR. HUME: Good morning, Abigail. I'm here.

19 MS. KNAUFF: Thank you.

20 Kaiser Malik, Calpine Corporation?

21 MR. MALIK: Present.

22 MS. KNAUFF: Thank you.

1 Dr. John Parsons, Special Government Employee?
2 MR. PARSONS: Good morning. Present.
3 MS. KNAUFF: Thank you.
4 Delia Patterson, American Public Power
5 Association?
6 (No response.)
7 MS. KNAUFF: Matt Picardi, Commercial Energy
8 Working Group?
9 MR. PICARDI: Good morning. I am present.
10 MS. KNAUFF: Thank you, Matt.
11 Sarah Tomalty, BP Energy Company?
12 MS. TOMALTY: Good morning, Abigail. Present.
13 MS. KNAUFF: Thank you.
14 Malinda Prudencio, The Energy Authority?
15 MS. PRUDENCIO: Good morning. Present.
16 MS. KNAUFF: Thank you.
17 Dr. Richard Sandor, Environmental Financial
18 Products?
19 (No response.)
20 MS. KNAUFF: Noha Sidhom, Energy Trading
21 Institute?
22 MS. SIDHOM: Good morning, Abigail. I'm here.

1 MS. KNAUFF: Thank you.

2 Jeff Walker, ACES?

3 MR. WALKER: Good morning, Abigail. I'm here.

4 MS. KNAUFF: Thank you.

5 We have several guest panelists today. After

6 I call your name, please indicate that you are present.

7 Timothy Burke, Omaha Public Power District?

8 MR. BURKE: Tim Burke is here.

9 MS. KNAUFF: Thank you.

10 Ray Dempsey, BP America?

11 MR. DEMPSEY: I am present.

12 MS. KNAUFF: Thank you.

13 Paula Glover, American Association of Blacks

14 in Energy?

15 MS. GLOVER: Present.

16 MS. KNAUFF: Thank you.

17 Steven Hamilton, ICE Futures U.S.?

18 MR. HAMILTON: I'm here, Abigail.

19 MS. KNAUFF: Thank you.

20 And Megan Morgan, Eurex Exchange?

21 MS. MORGAN: Hi, Abigail. I'm here.

22 MS. KNAUFF: Thank you.

1 I will now turn the meeting over to Dena.

2 CHAIRPERSON WIGGINS: Thank you, Abigail.

3 Our first panel today will discuss
4 environmental, social, and governance initiatives within
5 the energy and environmental markets with a focus on
6 promoting diversity, equity, and inclusion. We will
7 hear remarks from Paula Glover, President and CEO,
8 American Association of Blacks in Energy; Timothy Burke,
9 President and CEO, Omaha Public Power District; Ray
10 Dempsey, Chief Diversity Officer, bp America; Noha
11 Sidhom, Chief Executive Officer, TPC Energy; Lopa
12 Parikh, Senior Director, Federal Regulatory Affairs at
13 the Edison Electric Institute; Malinda Prudencio, Vice
14 President of Risk Control and Chief Risk Officer of The
15 Energy Authority; and Bill McCoy, Managing Director and
16 Counsel with Morgan Stanley. Paula, would you please
17 begin?

18 MS. GLOVER: Thank you, and good morning. I
19 am trying to get my technology straight here.

20 My name is Paula Glover. I am the President
21 and CEO of the American Association of Blacks in Energy.
22 I want to say first thank you to Commissioner Berkovitz

1 and all of the Commissioners and staff on the EEMAC
2 Committee for allowing me a few moments to share with
3 you some of my thoughts about ESG and its intersection
4 with DEI.

5 I want to tell you a little bit about the
6 association. The association has had a 43-year history.
7 We were founded with the mission to ensure that voices
8 of African Americans and other minorities were
9 participating in the formulation of energy and
10 environmental policy. And an extension of that work is
11 increasing the representation of underrepresented
12 communities in this business.

13 My membership spans the entire energy sector
14 from oil and natural gas to your traditional utility
15 companies, IOUs, as well as renewables. We have a group
16 of entrepreneurs, academics, and the like.

17 I will start by saying that the organizations
18 that I work with, there still isn't really broad agreed-
19 upon measurement of what "S" and ESG is. And so many of
20 my organizations struggle a little bit with how should
21 they be measuring their efforts around DEI and
22 demonstrating that to the investment community. Many of

1 our companies have been on this journey of the
2 diversity, equity, inclusion for some time. And that
3 commitment has only strengthened over a time as folks
4 have begun to see more and more data that demonstrates
5 that businesses that are diverse are far more
6 successful, profitable, and innovative. We understand
7 that having a diverse workforce as well as doing visits
8 with diverse suppliers does affect the bottom line in a
9 very positive way. However, with the events of this
10 summer, we are seeing more companies actually leaning
11 in, getting more aggressive in some ways around the "E,"
12 equity, in this space. And as an association, we
13 ourselves have been thinking very thoughtfully and hard
14 about diversity, equity, inclusion, ways that we can
15 support our members, the organizations that support us,
16 and also other things, learning from other industries
17 and others on key things can could be done to make sure
18 that our workplaces are more equitable for those who
19 already work there as well as those that we are trying
20 to attract.

21 The first question that we always challenge
22 organizations, certainly that I challenge organizations

1 to ask themselves they are meant to answer is, quite
2 frankly, what is baseline? What are you doing
3 currently, and how is it going? And so, when I talk
4 about baseline, I am not just talking about broad
5 diversity numbers, whether that is diverse spend or
6 employees, but it is understanding and unpacking those
7 numbers in a way that can be meaningful.

8 So, for example, if we are talking about
9 supplier diversity and an organization has a 30 percent
10 they are going to spend, what we are asking them to look
11 at is, "Okay. Well, in that 30 percent, what is the
12 representation of African American businesses? What is
13 the representation of women-owned businesses?" and so on
14 and so forth. And we think that is really important
15 because as you start to move through this journey of
16 equity, you need to know where you are starting, you
17 need to know where you have gaps, and then you can do
18 the work that helps you address those gaps if you see
19 them so that the organization will end where they want
20 to end.

21 And so that first question is, what is your
22 baseline? What is your data telling you? Probably

1 taking a little bit of data or doing some measurement
2 and then beginning to plan around that. It is important
3 as leaders that we understand what is happening in our
4 organizations and then really taking a look at data to
5 see if it reflects what we want, what we believe should
6 be there, and then what to how you get it.

7 Then the second question is, do our
8 organizations have the right policies and processes in
9 place to be able to have action to move forward? We as
10 an association over the summer decided that we just --
11 as I said before, some thoughtfulness around what equity
12 would look like. Particularly for those organizations
13 that were asking those questions about racial equity,
14 what could they do? What would be the right action
15 plans?

16 And so, we came up with our five key action
17 items to achieve equity in our organizations. And while
18 this plan was really developed as a result the killing
19 of George Floyd, I think the five steps are valuable, no
20 matter where you sit in this DEI journey. And the first
21 step really is asking organizations to work to create an
22 inclusive environment where all employees feel valued.

1 Many of our organizations for many years have had
2 diversity programs. We have had initiatives to
3 encourage young people to study STEM if they want to get
4 into the energy business. But I think it is time. This
5 is the perfect time for us all collectively to take a
6 step back and see what's happening in our organizations
7 now.

8 The most important part about diversity and
9 inclusion in my perspective is the inclusion part. Once
10 we get inclusion right, diversity is a lot easier to
11 follow. And what that means is when we say we have an
12 organization and we want people to bring their whole
13 selves to work, we need to understand what that means.
14 How does it play itself out? What does that mean for
15 your organization?

16 That means that companies may have to do some
17 culture surveys. It means that our leaders are going to
18 have to do a lot of listening. And that may mean that
19 employees will provide their own perspectives, whether
20 it is anonymously or not, about how that work
21 environment, that current workplace, is for them. Do
22 they see opportunities for themselves? Is there

1 unconscious bias baked into our system that we're not
2 aware of? All of that work is really the precursor to
3 really doing diversity well and having I believe some
4 long-term meaningful impact.

5 The second thing, though, is having a focused
6 effort to increase representation and in this particular
7 case increase African American employment within our
8 organizations. What we are talking about is not just
9 bringing new people in, but we are also talking about
10 developing a pathway and creating an environment to
11 thrive for those who already work for you. So, just
12 hearkening back to my previous point, this is again
13 another extension of inclusion, making sure that those
14 who work for you, that your diverse employees who work
15 for you, have a pathway to leadership, understand what
16 that pathway is, have an opportunity. It's far more
17 critical in my mind than just working to bring in new
18 employees. And I say that because if you do just the
19 diversity part in terms of recruitment and don't focus
20 on the inclusion piece, what you find is that you have
21 what I would describe as a hamster wheel: people who
22 come in, and they cycle out. And new people come in,

1 and they cycle out. And without a focused effort on,
2 one, understanding what is already going on in our
3 organizations; and then fixing whatever we think is
4 wrong if there is something wrong, again, the diversity
5 piece doesn't happen. And so, we work to create an
6 inclusion environment.

7 We have focused efforts to increase African
8 American and diverse employment. We develop a pathway
9 to leadership for those employees and your existing
10 employees. And when we talk about leadership, it's not
11 just the managerial ranks. It's not just your senior
12 and executive ranks. It's also thinking about who your
13 board members are so that people see themselves
14 reflected throughout that organization. And in that,
15 they'll not only recommend your organizations to other
16 but they're able to work. They're able to thrive. And
17 the overall organization then sees the benefits of that
18 work.

19 The fourth step is to commit to an equitable
20 spend with your African American-only businesses as well
21 as invest in capacity building for those businesses who
22 have a focus on your industry. And both of those items

1 are very important: first, understanding what you're
2 spending with diverse businesses now. In our industry,
3 depending on the company, their lack of layers, their
4 lack of definitions of diversity, it spans from race,
5 ethnicity, whether or not you are a veteran, gender,
6 sexuality. And what we know is that people fall into
7 lots of different categories all at the same time. And
8 so, our organizations need to understand, as I started
9 with, what their data tells them, what is baked into
10 that data. And then you start to begin to fill those
11 gaps.

12 And as we talk about race equity, that means
13 that you want to maybe increase your spend with African
14 American-owned businesses and at the same time
15 understanding that those gaps exist because many small
16 businesses have never engaged with our industry before.
17 And so, they are going to need support to build their
18 capacity so that they can engage with us.

19 We are not suggesting that companies
20 themselves do this work. Companies can do this work in
21 lots of ways. They can invest in organizations who do
22 this work already. Organizations like the National

1 Minority Supplier Development Council, organizations
2 like ABBE, supporting organizations who can support
3 those kinds of initiatives and those goals for companies
4 or another way to really increase equity and diversity
5 and at the end of the day get companies what they are
6 looking for, which is a diverse workforce as well as a
7 diverse supplier base.

8 And the last step is that we believe companies
9 should direct its resources to encourage students to be
10 in this industry and support those students. Many, many
11 of our organizations report a whole host of STEM
12 programs for students as young as in elementary school,
13 middle school, high school; trying to get students to
14 look at energy as a career path, trying to get them to
15 focus on STEM and STEM aptitude so that they can be
16 successful. But I think there's more that needs to
17 happen.

18 The association, my association, we give out
19 about \$250,000 every year to African American students
20 who want to pursue energy as a career. Those same
21 students, though, many times don't have the same
22 opportunities for internship programs, don't have the

1 same opportunities for co-op programs. Many of them if
2 they are first-generation students actually don't even
3 have the kind of networks that maybe some of us on this
4 hall have so that they know how to look for a job and
5 start their careers and get themselves out there.

6 And so, we are asking companies to look at our
7 students far more broadly than just supporting
8 scholarship. The scholarship dollars are absolutely
9 important. We know that many students don't finish
10 their education because they cannot afford it. But we
11 also know that those students need the same early career
12 development opportunities as others. And so those
13 companies that have these diversity goals that are
14 having plans of, for example, making sure that they have
15 a diverse slate of candidates for any hire should also
16 be asking the same for those students as they recruit
17 students for their internship programs. And they can do
18 that in partnership with the organizations and the
19 schools that they recruit from. They can broaden the
20 schools that they recruit from. But we are asking
21 companies to really look at the way that they support
22 students, maybe even be a little bit creative, and do a

1 little bit more so that, again, ultimately our diversity
2 goals can be met.

3 We understand that the journey for DEI is a
4 long way. And all of our organizations are going to
5 start in a different place. However, we also believe
6 that where you start is not nearly as important as where
7 you end. And with those types of strong outcomes, where
8 you end, it is going to get us we say a benefit for all
9 of us.

10 I thank you for your time, and I look forward
11 to the discussion.

12 CHAIRPERSON WIGGINS: Thank you, Paula.

13 Tim, over to you.

14 MR. BURKE: Yes. Thank you very much. And
15 thank you very much for the opportunity to participate
16 today, Commissioner Berkovitz and Chairman Tarbert, the
17 other members of the Commission. I want to thank you
18 very much for allowing me to be here today to talk a
19 little bit about the activity that is going on with our
20 work around diversity and inclusion. And I lost a
21 little bit of, I think, anyway -- did I lose the WebEx?
22 Can you hear me?

1 COMMISSIONER BERKOVITZ: We can hear you loud
2 and clear.

3 MR. BURKE: Very good. Thank you very much.
4 I appreciate that. We will go ahead and see if I can
5 move forward with this presentation. And if not, I will
6 just stop sharing, and we will go from there.

7 If you can go to the next slide, please, I
8 believe? Thank you. I am going to talk about, really,
9 four items. It is really around not just the work we
10 are doing inside our company but, really, how we are
11 focused around the community.

12 And I get the opportunity to represent public
13 power today. I serve on the Executive Committee of the
14 American Public Power Association as well as the Board
15 of the Large Public Power Council.

16 Utilities are very integrated in the
17 communities in which they work and play. And,
18 obviously, as Commissioner Berkovitz talked about, we
19 provide a pretty critical resource in what's going on in
20 our community, not just on the energy side but, really,
21 on the leadership side, on these critical initiatives
22 across the organization. So, I am going to speak to

1 these four areas very quickly.

2 If you could go to the next slide, please?

3 Thank you. Today is a big day for OPPD. We are in the
4 midst -- I am going to be leaving this meeting when we
5 are done with this section to go right into kicking off
6 our day two of our second annual CODE conference, our
7 Community Opportunity for Diversity and Equity
8 conference. Last year, we had over 400 attendees. This
9 year -- and it is all virtual -- we had over 1,700
10 virtual attendees yesterday, very, very important
11 initiative that we have going on.

12 In 2019, we developed our CODE task force,
13 which is really around diversity, equity, inclusion.
14 And we began earlier this year in the first quarter,
15 CEOs around this community getting around talking about
16 diversity, equity, inclusion and what organizations are
17 doing, where the community is on this topic, and action
18 and initiatives. In March, we had over 65 CEOs in
19 attendance. In June, after the death of George Floyd,
20 we had over 140 CEOs, managing partners engage in this
21 conversation. Today, this morning, we will have a
22 number of CEOs engaged, more than 160 engaged, in this

1 topic around diversity/inclusion. So, it is a community
2 that is really getting around this topic, which is
3 important I think for our city and our region.

4 After the death of George Floyd, the business
5 community got together and said, "Listen, we need to
6 make statements, very clear statements, about our
7 commitment to diversity, equity, inclusion." And so, we
8 began to develop what we call our "We Will" statements.
9 We had 280 CEOs sign this statement. And it will
10 educate ourselves and disseminate the history of
11 systematic racism in Omaha and the barriers it continues
12 to present today. We will create opportunities to
13 listen to those affected and marginalized by these
14 barriers. We will support, lift up, collaborate with,
15 and fund nonprofit agencies, work tirelessly in
16 marginalized communities. We will use our influence and
17 position to amplify unheard voices. We will improve the
18 employment, training, advancement, support, and success
19 of people of color in our workforces. We will continue
20 the conversation by engaging an ongoing CEO for CODE
21 meetings to also begin to think about how our
22 organizations, as Paula Glover so eloquently spoke to,

1 how we engage with our minority businesses within our
2 community.

3 One of the things that we did in 2019, most
4 chambers have leadership academies, executive leadership
5 academies, leadership academies for mid-level folks
6 within organizations in the community. Last year, the
7 Omaha community began a Lead Diversity Academy, bringing
8 in midlevel managers, really focused on lead diversity
9 activities. We had 25 critical leaders in this
10 community focus a full year on diversity, inclusion, and
11 equity items. We have 50 in our next academy coming up
12 in 2020-2021.

13 And this work is really part of our 2040
14 priority, a plan that started in 2017 that we funded
15 with about \$30 million of community capital investment
16 to really support these initiatives within the Omaha
17 community. And diversity, equity, inclusion is one of
18 the three strong legs of this stool of our Omaha 2040
19 priority.

20 We also have an organization called the
21 Empowerment network that is really building out
22 community scorecards. And we are going to present that

1 today: community scorecard around diversity, equity,
2 inclusion, where employees of organization -- and you
3 had to have 70 percent of your employees participate in
4 the survey to be recognized -- to give feedback on these
5 elements of diversity, equity, inclusion. And so, we
6 are going to reveal today the community scorecard. And
7 then there is a variety of very focused leadership
8 development that the community is developing in the
9 Empowerment network with our minority mid-level leaders,
10 our employees within the organization. And that is
11 really important for this ongoing development, not only
12 within the company but also outside the company, to
13 really understand the community impact.

14 If you can go to the next slide, please? What
15 we are also doing inside the organization, our board is
16 committed to our commitment around diversity, equity,
17 and inclusion. Our board has a resolution that they
18 passed in July of this year around racism and our
19 commitment to diversity, equity, inclusion. We also
20 have 15 strategic directives. And one of them,
21 Directive 8, is around employee relations but focuses in
22 on not just racism and sexism and homophobia and sexual

1 relations but also our commitment to the community
2 around making sure that we are an inclusive
3 organization.

4 In June of this year, our organization had
5 leadership huddles. We have two huddles a month with
6 all of our leaders across the organization. Two of them
7 in the month of June were focused on racism, where we
8 had a deep leadership conversation around racism. In
9 the second meeting in June, we brought in community
10 leaders of color in that discussion for perspective and
11 insight.

12 And along with our African American network --
13 and, as you can see in this slide, we have nine employee
14 resource groups that we engage with very closely. And
15 our African American network, we are working with them
16 to create a town hall on racism. We will be doing a
17 virtual town hall with all of our 1,800 employees to
18 talk about racism and the impacts of that, not only
19 within our organization but within the communities that
20 we serve.

21 And, then, really, the focus of our employee
22 resource groups, you can see them there. Our Society of

1 Engineers, specifically our black engineers, are
2 actively involved in AABE. And, as I heard Paula talk,
3 one of our black engineers that participated over the
4 last four, four or five years in AABE, Maurice Kimsey,
5 is also part of a mentoring/protege relationship with
6 me. So, our executive team is involved with our
7 employee resource groups. They are the executive
8 sponsors of these groups. So, we have executive
9 presence. We can make sure that we are from a
10 corporation perspective engaging in the conversations
11 across the organization.

12 If you could move to the next slide, please?
13 What we are doing inside our organization are some
14 really unique things. We are doing gathering and
15 roundtables. So, we have our professionals of color and
16 our women professionals. Starting last fall, we began
17 to do gatherings, gatherings of these employees to begin
18 to talk about their challenges within our organization
19 but even together and how they can create cohorts of
20 support across this organization. These gatherings are
21 also part of identifying a specific project to help us
22 improve within the organization.

1 As of this slide, we had 82 employees that
2 have participated. We have another 30 that have
3 essentially went through the 3 and a half-day engagement
4 on these gatherings, but it is an opportunity for us to
5 get input, insight, and perspective. And myself as the
6 CEO and President of this organization, I get the
7 opportunity to meet individually with each of the
8 employees that participate in the gatherings. And these
9 are facilitated by an outside consultant that is just
10 exceptional about creating positive cohorts. And they
11 are doing some amazing things within our organization
12 and providing the leadership team with amazing insight.

13 We also started last fall including my
14 participation in White Men as Full Diversity Partners
15 labs. We now have five cohorts where we are taking our
16 male leaders through this to really explore white male
17 culture, white privilege, sexism, racism, homophobia,
18 really begin to do a deep immersion and begin to create
19 a conversation, a leadership conversation, about what we
20 need to be doing in our organization. And it really is
21 changing the dialogue. It is changing the actions that
22 we are seeing in our organization in a very positive

1 way.

2 And, as I said before, we are having some very
3 courageous conversations about us flying the Pride flag
4 in June but also about the racism townhall that will
5 also include other community leaders and certainly
6 leaders of color that will give their perspectives and
7 insights to our employees to begin to have that
8 discussion and dialogue. And that is very important for
9 us to continue that conversation.

10 If you could go to the next slide, please? As
11 we begin to think about capacity building for the
12 future, I think, as Paula talked about, we have had a
13 long tenure and relationship with inroads, which is
14 really targeted at college-level students, really in
15 that professional area. And our focus has really been
16 around STEM. And so, over the course of years, we have
17 continued to engage students at freshman year in college
18 in internships and co-ops. And many of them stay with
19 us. They have the opportunity to really understand what
20 we do and opportunity for us to see their commitment to
21 the work that we do and the way that we serve our
22 communities. And many times, those employees continue

1 to stay on as full-time employees with OPPD. And many
2 of them have moved on within our organization in
3 leadership and other significant professional roles.

4 In 2017, we started something called our
5 Legacy I3 initiative. It is our opportunity to really
6 focus in on underserved areas in our community, where we
7 targeted juniors and seniors in high school. You know,
8 we certainly do a lot of STEM-related work with our
9 Society of Engineers and our young professional groups
10 within our grade schools to talk about energy and STEM,
11 as Paula Glover talked about. This is really about, how
12 do we begin to form juniors and seniors in high school,
13 about the work and the careers that we have in our
14 organization.

15 So, we have about 20 to 25 students per year.
16 And so, we are in our third year in which we have a
17 cohort that is kind of going through our personal
18 development boot camp this fall. They are assigned an
19 ambassador. In the second semester, they will go
20 through a deep career exploration of what careers they
21 are interested in. Many of them follow through on two
22 years at our community colleges, either in trades or in

1 their Associate Arts degree, but many of them follow
2 through and going through a four-year commitment at our
3 local universities and other universities. And we
4 continue to employ them in part-time and help them with
5 their educational financial commitments as well.

6 To date, after our first couple of years, we
7 have three full-time employees, two of them in our call
8 center and supporting our call center, also one as a
9 line technician that just passed through our line
10 technician boot camp and did just an exceptional job.
11 Those are the commitments that we are having about
12 continually building capacity for the future, not just
13 in that entry-level area but also in every level of our
14 organization.

15 So, if you go to the last slide, I just want
16 to say thank you very much for the opportunity for me to
17 represent public power but also represent the great city
18 and the region of Omaha, Nebraska and the great work we
19 are doing around diversity, equity, inclusion. , I will
20 be leaving around 9:15 Central Standard Time, 10:15 your
21 time to kick off our second day conference but would
22 love to have the opportunity for additional conversation

1 if you so desire. Thank you very much, and have a great
2 day.

3 CHAIRPERSON WIGGINS: Thank you, Tim.

4 Ray?

5 MR. DEMPSEY: Good morning, all. And I will
6 add my thanks to Commissioner Berkovitz, thank you for
7 the invitation to speak today and for highlighting this
8 really important topic in our industry. Thanks also to
9 Chairman Tarbert and Commissioners Behnam, Stump, and
10 Quintenz for your continued leadership and for making
11 the time to talk about these very important issues.
12 Most importantly, thank you to your teams for the work
13 that they do in service to our country.

14 I am grateful for the opportunity to talk with
15 you today about promoting diversity, equity, and
16 inclusion within BP and in the industry. And I want to
17 be clear as we start that I know that at BP, we do not
18 have all of the answers. We have got a lot of work to
19 do, but we are taking steps. And we are on a journey to
20 get this right.

21 I want to give you just a bit of context about
22 BP and how this fits into our identity. At BP, we want

1 to be an energy company with purpose. Our purpose is to
2 reimagine energy for people and our planet. And our
3 ambition is to be a net-zero company by 2050 or sooner
4 and to help the world get to net zero. We aim to be a
5 company that is trusted by society, valued by our
6 shareholders, and motivating for everyone who works
7 here. And we know that in order to achieve this, our
8 purpose has to go further and it has to be about
9 improving people's lives. We want to help people
10 improve their lives through the products and the
11 services that we provide and to improve their lives from
12 our presence in local communities everywhere we are
13 around the world. And we know that our presence matters
14 in good times and in bad.

15 Following the murder of George Floyd on May
16 25th, just a few days later, our CEO, Bernard Looney,
17 sent a note to all staff to sharpen our focus on racial
18 justice. Bernard also talked about our company's desire
19 to help the world build back better in response to the
20 COVID-19 crisis. To us, building back better means
21 restarting the global economy in a fairer way, in a way
22 that is more inclusive, more sustainable, more

1 resilient. I believe we will get there, but it might be
2 helpful to give you some context of my own personal
3 journey with diversity, equity, and inclusion at BP.

4 I have been with the company for 30 years.
5 And I say often that for all of that time, I have really
6 believed that our company has had extraordinarily good
7 intentions, intentions on diversity and inclusion, but
8 we just haven't always effectively executed against
9 those intentions. There has been a gap between who we
10 were and who we knew that we could be.

11 I am an engineer by training. And I knew that
12 our rigorous commitment to performance was underpinned
13 and sustained by data. So why not take the same
14 approach to the way we work in diversity and inclusion?
15 In 2016, I decided to issue a challenge to my
16 leadership. And I wrote a memo outlining how I thought
17 we could do things differently and how we could better
18 leverage data on hiring, promotions, and other areas to
19 accelerate our progress. And before I knew it, I had
20 memoed myself into a new job as our Chief Diversity
21 Officer.

22 While engineering and operations had been the

1 foundation of my career, diversity and inclusion has
2 become my mission and my purpose. And since taking on
3 the role, the movement towards the data-driven approach
4 has underpinned everything we do to make BP an even more
5 diverse and inclusive workplace, where everyone is
6 valued.

7 Delivering on our good intentions perhaps
8 matters more now than ever before. And while the world
9 faces a host of challenges, there's an opportunity to
10 build back better for those with the courage to act.

11 This summer, there were a few steps that we
12 decided to immediately take for all US employees when we
13 saw the opportunity. In June, we observed Juneteenth
14 this year as a day of reflection for all US employees to
15 give people a chance to pause and reflect. We added the
16 Martin Luther King, Jr. holiday as an official BP
17 holiday starting in 2021. And we have prohibited the
18 Confederate flag from all BP sites around the country.

19 That was just a start, however. And in
20 August, we launched our framework for action. There is
21 an old saying you probably recognize that underpins the
22 importance and the power of data and helping

1 organizations achieve their goals and to deliver on good
2 intentions. It's simply that "what gets measured, gets
3 done." And I'm proud to say that BP is choosing to do
4 just that with our framework for action.

5 With the full backing of BP's leadership, this
6 framework has three pillars: transparency,
7 accountability, and talent. On transparency, our main
8 commitment is that we are going to publish our
9 comprehensive D&I report, both internally and
10 externally. And it will come in early 2021, alongside
11 our annual corporate report and our sustainability
12 report. We want a data-driven approach that gives
13 plenty of visibility and ultimately leads to real
14 accountability for the agenda.

15 And on accountability, we will clearly link
16 the progress in diversity and inclusion to performance
17 management and, indeed, ultimately to compensation.
18 Within BP, we are continuing to build an inclusive
19 environment. And we will increase dialogue and
20 education, including a focus on anti-racism.

21 On talent, we will drive increased hiring and
22 progression of African Americans and other

1 underrepresented groups. We know that can't happen
2 without increasing the diversity of our talent pools.
3 We will refine the metrics and processes aimed at
4 increasing the diversity of our talent pools and our
5 guided slates. And a big part of this will be fostering
6 more strategic relationships with universities,
7 especially historically black colleges and universities.

8 This is just a start. And BP's framework for
9 action is just that: a framework. But, like the frame
10 of a house, other essential components have to be added.
11 This gives us the foundation and the structure to gauge
12 how our aspirations and our good intentions will
13 translate into tangible reality for everyone. What gets
14 measured, gets done. And our framework is giving us the
15 tools to first measure the right things so we know that
16 we can do the best things.

17 There's plenty of more to do. And I'm proud
18 of our commitment to be better and to do the work to
19 improve people's lives.

20 CHAIRPERSON WIGGINS: Thank you, Ray.

21 Noha? Noha, I think you're on mute.

22 CHAIRPERSON WIGGINS: Noha?

1 MS. SIDHOM: Can you hear me okay?

2 CHAIRPERSON WIGGINS: Yes.

3 MS. SIDHOM: Good morning. I would like to
4 express my sincere gratitude to the Commission for your
5 focus on diversity and inclusion as part of this
6 committee as well as for giving me the opportunity to
7 speak regarding the issue.

8 I am speaking on my own behalf today. These
9 are my views and not the views of the company or the
10 views of our membership.

11 It is not lost on me that I am here before you
12 just weeks after Ruth Bader Ginsburg, a Jewish woman,
13 became the first woman to lie in state since the first
14 person, Henry Clay, received the honor in 1852. It took
15 168 years.

16 Ruth Bader Ginsburg is famously known for
17 saying, "We'll stop when there are nine." She was
18 correct. And her legacy certainly marks progress for
19 women and minorities. We are slowly making progress.
20 Actually, the phrase "diversity and inclusion" in and of
21 itself is progress.

22 My family moved to Omaha, Nebraska from Cairo,

1 Egypt in 1991. I was just nine years old. And, as you
2 can imagine, we were a little bit different being the
3 only Egyptian family in our neighborhood and with only a
4 few in the entire state. I didn't feel different. I
5 felt just like any other kid until one day, my teacher
6 pulled me aside and said, "One of the kids said that you
7 don't like American kids. And you can't say stuff like
8 that because then you'll never belong here," to which I
9 responded, "Belong here? What do you mean?" And I
10 never said that. I never even thought that. I was in
11 fourth grade, still wrapping my arms around I moved to a
12 different continent but certainly not old enough to
13 grasp racism, having only months before that lived in an
14 entirely homogenous community. I didn't feel any
15 different until it was glaringly pointed out.

16 As I grew up, I had several of these
17 character-building moments. I grew up to realize there
18 was a whole antidiscrimination movement. Back then, it
19 was the antidiscrimination against women and minorities,
20 meaning if they arrive at the gates of the job or in the
21 neighborhood, others try not to treat them any
22 differently. Now, 30 years later, the dialogue has

1 changed to try and embrace women and underrepresented
2 minorities. Today, we are trying to establish a
3 platform for their success. We are trying to include
4 them, be conscious of their culture and work needs.
5 Today, we are aware of discrimination against a broader
6 set of people and the need for a different cultural
7 dynamic. It is no longer about treating us the same,
8 but about diversifying and respecting and including us
9 into the new normal that will inevitably make us a more
10 dynamic and richer Nation. That is progress.

11 As we have painfully learned over the last six
12 to seven months, creating a new normal is an uphill
13 battle that glaringly points out our differences, not
14 that dissimilar from the ugly and unfair comments made
15 by my fourth-grade teacher but certainly far more
16 amplified. When we turn to measure the progress made by
17 the number of minorities in an industry or the number of
18 women in the industry, what is often lost is the number
19 of people that don't misjudge, that don't have the
20 opportunity to begin with.

21 One lesson learned from the pandemic is that
22 the human brain has a difficult time processing really

1 large numbers or grasping exponential growth. We have
2 lost well over 200,000 people during this pandemic. And
3 at a certain point, 1,000 or 2,000 is much easier for a
4 person to truly comprehend. So we have statistics, such
5 as 8 percent of the energy workforce is black, according
6 to a recent report by the nonprofit Energy Future
7 Initiative, while women make up between 23 and 32
8 percent. Not surprisingly, women make up a higher
9 percentage figure in the renewable industry.

10 And a 2017 report from the University of
11 Massachusetts found that black oil and gas workers earn
12 23 percent less than white workers in comparable roles.
13 It is easier to think that or wrap our heads around
14 these percentages than the number of candidates that get
15 turned down or along the way never had the opportunity
16 that puts them in the right place to get their foot in
17 the door.

18 The energy industry as a whole is making
19 progress. Most of the large companies in the energy
20 sector have instituted significant initiatives within
21 their companies to promote women and minorities. EEI
22 should be applauded for their board's recent endorsement

1 of a diversity and inclusion commitment that builds upon
2 the existing programs of their member companies.

3 The energy industry is undergoing a
4 significant change in how we serve US customers.
5 Renewable initiatives, technology, and innovation are
6 reshaping the discussion with the consumer. And part of
7 that dialogue must be having a positive impact on or at
8 least an equal impact on minority communities.

9 A joint test from Berkeley University 2019
10 study found that, even when income is held constant,
11 predominantly black communities have almost 70 percent
12 fewer rooftop solar installations than predominantly
13 white communities. Diversifying energy space at every
14 level is key because it allows the industry to better
15 serve the communities we are so proud to be a part of.

16 I would be very remiss if I didn't address the
17 fact that there are significant benefits to companies
18 that make diversity a top priority. A decade's worth of
19 research has demonstrated that while homogenous groups
20 tend to reach consensus faster and feel more comfortable
21 with their answers, they often arrive at the wrong
22 answer. Diverse groups take longer to deliberate, feel

1 less confident in the answer they have arrived at, but
2 more often arrive at the correct answer.

3 Further, a large statistical study published
4 in the Academy of Management Journal in 2017 found that
5 companies with women in their senior ranks contribute to
6 the long-run performance and lessening the chances of
7 risky strategies being adopted.

8 According to a 2019 study conducted by S&P
9 Global Market Intelligence, firms who appoint women in
10 CEO and CFO positions are outperforming relative to
11 their male counterparts. And they are boosting their
12 firms' financial performance. The studies looked at the
13 Russell 3000 index that appoints new CEOs and CFOs.
14 Over the course of a 17-year period, data found that
15 female CFOs generated a combined \$1.8 trillion -- yes,
16 with a t -- more in profit access than the sector
17 averages. Firms with female CEOs and CFOs have produced
18 superior stock price performance compared to the market
19 average. In the 24 months post-appointment, female CEOs
20 saw a 20 percent increase in stock price momentums. And
21 female CFOs saw a 6 percent increase in profitability
22 and 8 percent larger stock returns. These results are

1 economically and statistically significant.

2 I'm not overly surprised by these rates
3 because in my experience, you have to overcome so many
4 obstacles as a woman to get those positions that you
5 almost have to be so much better than your male
6 counterparts. The bar is so much higher, it is almost
7 unfathomable to think that you could do worse. Indeed,
8 there are significant benefits to the bottom line, but a
9 lot of work lies ahead.

10 One particular area remains starkly
11 undiversified, where the focus on diversity and
12 inclusion remains weak. It also happens to be the area
13 I am more versed in, which is the lack of diversity in
14 the commodity trading space in general and certainly in
15 energy.

16 I run a small energy trading company. Our
17 team is in the process of raising our first fund. Over
18 the last few months, I have done countless pitches from
19 single-family offices to some of the largest investment
20 firms in the country. I have spoken to one woman.

21 As part of our pitch, we were aiming to raise
22 25 percent of our funds from women and underrepresented

1 minorities and have set a goal to hire 25 percent female
2 traders. The response to that slide of the pitch deck
3 has been extraordinarily interesting. It is usually a
4 pause at that point of the deck, which is often
5 punctuated by my stating it is a goal and a high
6 priority for us. And the response is usually something
7 like this, "If you can do that, that's terrific" or some
8 more honest ones are, "Where are you going to find
9 them?" or "I have a daughter," "wife," fill-in-the-blank
10 about an important female relative. "And I'm happy to
11 see stuff like this."

12 When I composed the slides, I thought people
13 would stay silent on it. I didn't think it would elicit
14 a response that it was a difficult goal or a show of
15 societal progress. To me, that says we need to do a lot
16 more work here.

17 Even in drafting my comments for today, I am
18 worried that the wrong investor with deep pockets, most
19 likely not a woman or underrepresented minority, will
20 watch this and say, "I don't want to invest in that
21 fund." My public statement that a pivotal point in the
22 company's success is a hindrance to our future. I guess

1 I will tell you in five years.

2 I have been in the commodity space for over a
3 decade. Things have improved, but I am still too often
4 the only woman in the room. According to a 2018
5 Bloomberg article, in the top echelons of leadership of
6 the world's leading commodity trading firms, only 5
7 percent of the leadership positions are held by women.
8 On the trading floors at even some of the largest
9 commodity trading floors in the world, out of hundreds
10 of traders, there may be 5 to 10 percent female traders
11 if I am being generous. I have done a lot of research,
12 and I couldn't find a thorough academic study on women
13 in the commodity trading space.

14 This is not to say that women are not working
15 at large commodity trading firms, many with a focus on
16 an energy. Those firms have employed women. We are
17 often found in compliance departments, HR, legal, maybe
18 even in the C-suite as the token women. We are seldom
19 found managing the trading operation or even a group of
20 traders, making the allocation decisions, or even being
21 groomed or mentored as a quant for a trading role.

22 I have interviewed a few female traders that

1 seek me out because they are tired of the culture on the
2 trading floor. I have also interviewed countless
3 trading groups, folks that want to come over as a group
4 because they find more success working together. None
5 of those groups have included women. To me, that says
6 we need to make some changes on our trading floors. We
7 need to give women and minorities the space to be in
8 those roles and encourage a more inclusive culture on
9 our trading floors.

10 I urge you as the regulator to join me in
11 asking the commodity trading community in general; in
12 particular, in energies, to focus on mentoring women and
13 minorities to eventually be placed in higher-earning
14 roles and to creating an environment that doesn't just
15 focus on antidiscrimination and increased percentages
16 but, instead, fulfills the progress of the phrase
17 "diversity and inclusion."

18 With that, thank you for the opportunity.

19 CHAIRPERSON WIGGINS: Thank you, Noha.

20 Lopa?

21 MS. PARIKH: Good morning, Commissioner
22 Berkovitz, Chairman, and Commissioners. Thank you for

1 the opportunity to participate today in this important
2 discussion.

3 I am here today on behalf of the Edison
4 Electric Institute, or EEI. EEI is the trade
5 organization for the US electric companies in the United
6 States. Our members provide electricity to about 220
7 million Americans and operate in all 50 states and the
8 District of Columbia and are regulated at the state and
9 the Federal level. As a whole, the electric power
10 industry supports more than seven million jobs in
11 communities across the United States. And EEI members
12 are committed to providing affordable and reliable
13 electricity to customers, now and in the future.

14 ESG, or environmental, social, and governance,
15 issues are a priority to EEI and its member companies.
16 Environmental criteria can be used to look at how a
17 company performs as a steward of the natural world and
18 historically has been the most prominent sustainability
19 concern for our industry.

20 EEI's member companies are in the middle of a
21 long-term transformation in how electricity is
22 transmitted, generated, and used. As a result of this

1 change, the mix of resources used to generate
2 electricity in the United States has changed
3 dramatically over the last decade and is increasingly
4 clean.

5 Starting in 2016, natural gas surpassed coal
6 as the main-source electric generation in the United
7 States. And in 2019, natural gas powered 38 percent of
8 the country's electricity, compared to 23 percent for
9 coal-based generation. Over the past eight years, more
10 than half of the industry's investments in new
11 electricity generation have been in wind and solar
12 resources. And nearly 40 percent of America's
13 electricity is generated from carbon-free resources,
14 including nuclear energy, hydropower, solar, and wind.

15 These same changes had a profound impact on
16 the sectors' carbon dioxide emissions. Overall, at the
17 end of 2019, emissions from the electric power sector
18 were 33 percent below 2005 levels, their lowest level
19 since 1987. Collectively, EEI member companies have
20 reduced their emissions by approximately 45 percent
21 since 2005. This trend will continue as more than 40
22 EEI members have announced forward-looking carbon-

1 reduction goals, half of which include a net-zero goal
2 by 2050 or earlier. As a result, EEI members are on a
3 path to reduce carbon emissions by at least 80 percent
4 by 2050 compared to peak levels in 2005.

5 Social and governance components have
6 increased in prominence in recent years. Social
7 criteria, for example, can be used to examine how a
8 company manages relationships with its employees,
9 acquires customers and the communities in which it
10 operates. Governance topic can relate to a company's
11 leadership, executive pay, audit, internal controls, and
12 shareholder rights, among other board-level and
13 management decisions.

14 The financial community has become
15 increasingly interested in ESG issues over the past few
16 years. For example, all three of the major credit-
17 rating agencies are considering ESG. Each is taking a
18 unique approach, ranging from determining what is
19 financially material to include in ratings to creating a
20 separate and distinct ESG rating or grade.

21 As the most capital intensive industry in the
22 United States, EEI is working with its members to

1 provide relevant and standardized ESG data and
2 information to the financial community and other
3 interested stakeholders. In 2016, EEI and its member
4 company ESG Sustainability Committee began to meet with
5 major institutional investors and other relevant
6 stakeholders to solicit feedback on how the industry can
7 continue to respond to investor needs for ESG
8 information. Outreach was conducted with investors,
9 proxy services, ESG data providers, credit-rating
10 agencies, and other trade groups.

11 Our member companies worked with the financial
12 community to develop a voluntary ESG sustainability
13 reporting template that meets investor needs by
14 providing concise information in a consistent format.

15 The ESG template is a first-of-its-kind,
16 voluntary, sector-wide template. It is data-driven and
17 provides consistent information across all of EEI's
18 member companies. As such, the template promotes
19 greater transparency and comparability. And it also
20 enables companies to disclose information related to
21 their long-term sustainability outlook, governance, and
22 oversight strategy. This voluntary reporting is not

1 financial in nature and is in addition to and outside of
2 any reporting that member companies already do to the
3 SEC on financial reporting issues.

4 The voluntary reporting template has
5 positioned the industry well and is focused on two over-
6 arching sections: a qualitative section, which is
7 intended to highlight the ESG sustainability governance
8 strategies in a brief, two- or three-page summary; and
9 an Excel-based quantitative section, which includes
10 standardized metrics on generation, capacity, emission,
11 human resources, water, and waste, as well as specific
12 metrics related to natural gas distribution utilities.

13 The template is now used by over 90 percent of
14 EEI's membership and is achieving our objective of
15 providing a specific set of the most relevant ESG metric
16 to investors on a consistent basis.

17 And, just as with environmental goals, EEI
18 member companies are also making progress on diversity
19 and leadership. EEI member companies are leading other
20 Fortune 500 companies on diversity and leadership
21 positions. As of 2019, regulated electric companies had
22 20.9 percent female CEOs, 28 percent female board

1 members, and 24.8 percent minority board members
2 compared to 6.6 percent, 22.5 percent, and 16.1 percent,
3 respectively, for Fortune 500 companies.

4 The template is a work in progress. We are
5 now beginning a version 3 revision process, which will
6 be released next year for disclosing 2020 data and
7 information. Our members have also been working
8 together on initiatives to improve diversity and enhance
9 the disclosure of diversity information in the workplace
10 and throughout the supply chain with key focus on
11 workforce welfare and racial equality.

12 Now, recognizing that there are various inputs
13 into electric generation, EEI has embarked on a joint
14 initiative with the American Gas Association called the
15 Natural Gas Sustainability Initiative, or NGSI. The
16 goal of NGSI is to create an overarching ESG
17 sustainability reporting program for the entire natural
18 gas value chain with the goal of creating a voluntary
19 framework for disclosing consistent company-level ESG
20 information to investors in a concise and consistent
21 format.

22 NGSI is broader in scope and more ambitious

1 than the development of the EEI ESG template for two
2 reasons. One, the NGSI will include sustainability
3 practices, which goes a step further than just
4 disclosure by also asking the gas industry to take
5 actions to become more sustainable. And, two, we are
6 also talking about the natural gas operations across the
7 entire supply chain. So, we need the cooperative across
8 multiple sectors for this to be successful.

9 We are trying to make participation in the
10 early stages fairly simple by starting with only methane
11 intensity as this is the most prominent issue for
12 investors and other stakeholders. Going forward, we
13 would like to include other ESG topics, such as worker
14 safety, community impact, governance practices, and
15 board composition; as well as other E issues, such as
16 impacts on water and resources. The NGSI program has
17 been a work in progress for about two years. And we
18 plan to launch the version 1 NGSI methane intensity
19 measurement protocol later this year.

20 EEI and its members continue to be engaged on
21 ESG issues. We thank you for the opportunity to
22 participate today. And I look forward to any questions

1 and to the discussion.

2 CHAIRPERSON WIGGINS: Thank you, Lopa.

3 Malinda? Malinda, please go ahead.

4 MS. PRUDENCIO: Thank you. Can you all hear
5 me all right?

6 CHAIRPERSON WIGGINS: Yes.

7 MS. PRUDENCIO: Thank you. Good morning. My
8 name is Malinda Prudencio. I am the Chief Risk Officer
9 at The Energy Authority. And I thank Commissioner
10 Berkovitz, the Chairman, and the entire EEMAC for
11 inviting me to be a panelist today. I also want to
12 thank Abigail for her efforts working with us to bring
13 this together as well.

14 For those of you not familiar with The Energy
15 Authority, we are a public power-owned nonprofit
16 corporation with offices in Jacksonville, Florida and
17 Bellevue, Washington. As an energy-trading risk
18 management company, we provide portfolio management
19 analysis and advisory services to help our clients
20 maximize the value of their assets while meeting their
21 goals.

22 At The Energy Authority, we recently went

1 through an extensive strategic planning process with our
2 board of directors and formally launched the plan in May
3 of 2020. In the midst of COVID, we were able to still
4 launch it. As a part of this strategic plan, The Energy
5 Authority has committed to formalizing our
6 environmental, social, and governance program. Although
7 we have several initiatives, ESG initiatives already in
8 place, this is really a deliberate focus to make ESG
9 goals intentional and more formalized to expand upon
10 what we have in place and to continue to include
11 additional meaningful programs.

12 To start, I would like to cover our rationale
13 in creating an ESG statement. TEA is not publicly
14 traded, and we are not doing this to gain investors with
15 the use of ESG statements or programs. But having an
16 intentional focus on ESG initiatives is critically
17 important to us, nonetheless, and for these three
18 reasons. We recognize we are stronger and smarter when
19 we have a diversity of voices and thoughts at our table.
20 Therefore, we feel passionate about inclusion and
21 collaboration and want to ensure that is reflected in
22 our values. Secondly is to ensure that we are

1 responsibly sharing the values held by public power in
2 the local communities that we serve across the country,
3 which is more of a Main Street focus than a Wall Street
4 focus. And number three is to attract and retain
5 talent. You value this as part of the corporate
6 culture.

7 So, starting at the environmental component of
8 the statement, first and foremost, we are in the energy
9 industry. And we represent over 50 public power
10 utilities with a very broad diversity of assets, but we
11 are the market's interface for our client organizations
12 and do not directly generate energy ourselves, although
13 our clients do. Our clients are located anywhere from
14 the Southeast, throughout the Midwest, and all the way
15 to the Pacific Northwest, and pretty much everywhere in
16 between. We have every geography, and most every state
17 has different requirements, resources, and economics at
18 play. We actively help our clients navigate the choices
19 they have when selecting new resources or retiring older
20 resources in their portfolios and continue to support
21 their decisions throughout and after their selection
22 process, but we do not take a single point position on

1 any of the hybrid generation over another in any of our
2 clients' portfolios.

3 Focusing more on The Energy Authority's
4 specific footprint as a services organization, we have
5 done several things to try to be good stewards of our
6 resource use. And our continuing programs, include
7 recycling in our office spaces, reducing paper products,
8 going more electronic, reducing travel where we can, and
9 installing water bottle fillers, those sorts of things,
10 those sorts of small grassroots programs. But, taking
11 it further, things we are looking at including include
12 carbon offsets for conferences, continuing reduction of
13 travel, reducing energy consumption in data centers and
14 office spaces as well.

15 Moving into the social component of the
16 statement, which considers the company's business
17 relationships, as a services organization, TEA is
18 people. How we treat our employees is a reflection of
19 who we are. We are a performance driven culture, and we
20 know the value of supporting the whole person. That
21 includes ensuring equitable pay, education, health
22 benefits, time off to recharge, and an opportunity to

1 develop both personally and professionally.

2 TEA consciously participates in volunteering
3 efforts. Some examples include on the national level
4 participating with American Public Power Association's
5 Day of Giving. TEA has sponsored this several years to
6 give back to local communities that are host communities
7 serving annual events. We also provide leadership and
8 support for the MIT Hack-a-thon. And, more community-
9 based, we support local giveback efforts. And we are
10 very involved in university partnerships to develop
11 financially-based professions and the students coming
12 out of those programs. We had even sponsored a trade
13 floor lab environment at a local university to give
14 students real-world trading and investing experience.
15 We also encourage a lot of board involvement. We host
16 women's and leadership forums and participate on several
17 women in energy boards. We support collegiate
18 scholarships for first-generation students pursuing STEM
19 degrees and work on several university business advisory
20 councils.

21 Employee health and safety is also key to our
22 programs, and we try to provide flexible work programs

1 for both hours and locations, which has absolutely been
2 used a lot during this COVID period. We provide health
3 and wellness initiatives for staff and have a very open
4 and adaptable PTO policy, paid-time-off policy, for
5 personal needs to provide adaptability to our staff.

6 If you really focus on the diversity/inclusion
7 component of the ESG program, this is critical to TEA,
8 The Energy Authority. I'm sorry. I keep using TEA.
9 It's our acronym.

10 As we are a highly cooperative organization,
11 we recognize that we have far more innovative thought
12 and have greater outcomes when we have a diversity of
13 opinions and ideas represented at our team. Although we
14 are a relatively small company at 220 employees, we have
15 become intentionally more diversified through the years.
16 I can speak that within my area alone at the company, we
17 have approximately 25 percent minority or international
18 staff. We recognize this is just a starting point. And
19 one of our ESG goals will be to work on continued
20 integration of additional diversity of thought as we
21 move forward.

22 To briefly mention, one of our successful

1 legacy diversity initiatives is our women in our
2 workforce in leadership positions at The Energy
3 Authority. We took a very focused approach to
4 increasing women in the workforce. And this initiative
5 has greatly changed the makeup of the firm. Starting at
6 the top, I am proud to say that we have a female CEO,
7 Joanie Teofilo, who is listening in on this meeting
8 today. She was promoted to the position from within,
9 having run the trading analytics area and also a trade
10 desk as well as the middle office, sitting in a few
11 roles through the company through time.

12 And, as Paula Glover mentioned at the
13 beginning of the panel, promotions from within are a
14 meaningful factor of the diversity/inclusion initiative
15 bubble. Currently, we are about 38 percent of the
16 executive teams being female. Again, these were
17 promotions from within the company, growing employees
18 and providing a development path for women at the firm.
19 Looking back 10 years, the women in leadership roles at
20 the company was a mere 14 percent. So we are
21 approaching tripling that level.

22 The work in this space is not done, but

1 looking back on the results, it has given us fuel to
2 continue to forge ahead. And, as Ray Dempsey mentioned
3 in his remarks earlier in the panel, "what gets
4 measured, gets done."

5 The final component of our statement, the
6 governance, speaks of board leadership. And it is the
7 foundational principle for The Energy Authority. We are
8 a fully transparent organization to our clients. It's
9 one of our hallmarks, and it's been something that has
10 set us apart from many other market-interfacing energy
11 companies. From a political perspective, The Energy
12 Authority is not a lobbying organization. Due to
13 diversity of our clients and their very resource-mixed
14 local communities, geographies, and policies, we are
15 often very supportive of their initiatives. We can help
16 what they are driving, but we do not take advocacy
17 positions of our own or on their behalf.

18 And board governance is a representation of
19 each of our member owner utilities. And they are
20 representations of their communities. The board members
21 come to the board table wearing their own companies'
22 hats, so to speak, but are also keenly aware to put on

1 their Energy Authority hats to ensure that we are making
2 decisions and guiding the organization in a manner
3 consistent to drive its success.

4 So, in conclusion, to wrap up my remarks on
5 the panel today, The Energy Authority has several ESG
6 efforts already in place, but I will echo what several
7 other of the fellow panelists have said today, which is
8 we recognize this is just a start. As part of our
9 strategic plan, we are transitioning from an organic
10 approach to ESG practices to a more focused and
11 intentional deployment of ESG programs. We will
12 leverage our unique culture and our innovative workforce
13 and young workforce in a lot of ways to explore and
14 expand our efforts into areas that are more meaningful
15 to our employees, our clients, and our board of
16 directors, engaging all levels of our staff in
17 developing ESG programs moving forward, making sure that
18 we are including everybody. We are fully committed to
19 the belief that we are stronger through our diversity of
20 thought and look forward to implementing more programs
21 that promote inclusion and collaboration among our team.

22 Thank you all.

1 CHAIRPERSON WIGGINS: Thank you, Malinda.

2 Bill?

3 MR. McCOY: Good morning, Mr. Chairman,
4 Commissioner Quintenz, Commissioner Behnam, Commissioner
5 Stump, and Commissioner Berkovitz, and also Members and
6 Associate Members of EEMAC. I am Bill McCoy with Morgan
7 Stanley. And thank you for this opportunity to speak
8 about Morgan Stanley's ESG initiatives.

9 Financial services firms are in a unique
10 position to promote environmental, social, and
11 governance initiatives. As a global financial services
12 provider, Morgan Stanley partners with clients and
13 stakeholders to mobilize capital at scale to tackle
14 global sustainability challenges, including climate
15 change and inequality. The firm is deeply committed to
16 delivering long-term value for clients and shareholders
17 in ways that benefit the environment and society.
18 Climate change is an economic reality. And Morgan
19 Stanley supports the transition to a low-carbon economy
20 through policies, activities, products and services that
21 help mitigate climate risks and catalyze market-driven
22 low-carbon innovation.

1 The firm publishes analyses to help clients
2 and stakeholders navigate the low-carbon transition. To
3 reduce our own footprint, we aim to achieve carbon
4 neutrality for our global operations by the year 2022.
5 The firm is committed to mobilizing \$250 billion to
6 support low-carbon solutions by 2030. And last month,
7 Morgan Stanley announced its commitment to reach net-
8 zero financed emissions by 2050.

9 The firm recently joined the Global Steering
10 Committee of the Partnership for Carbon Accounting
11 Financials. Morgan Stanley will lend insights and
12 expertise to help PCAF develop a global accounting
13 standard that can be used by all financial institutions
14 to measure and reduce their climate impact in their
15 financing and investment activities.

16 In response to the events of 2020 that have
17 focused attention on racial and social injustice in our
18 society, much of the financial services industry has
19 responded by revisiting and increasing their efforts on
20 their diversity and inclusion initiatives. Morgan
21 Stanley has had a longstanding commitment to diversity
22 and inclusion with a focus on our employees, on

1 suppliers, and the communities where we work and live.
2 Our skilled and creative workforce is comprised of
3 individuals drawn from a broad cross-section of the
4 global communities in which we operate and who reflect a
5 variety of backgrounds, talents, perspectives, and
6 experiences.

7 We pursue a comprehensive diversity and
8 inclusion strategy based on four pillars:
9 accountability, representation, advancement, and
10 culture. The firm's culture is defined by our core
11 values, and we inform our employees in everything we do.
12 Toward that aim, this year, we added "Commit to
13 Diversity and Inclusion" to our existing core values of
14 "Doing the Right Thing"; Putting Clients First"; Leading
15 with Exceptional Ideas"; and "Giving Back." While
16 Commit to Diversity and Inclusion has always been
17 implied in the core value of Doing the Right Thing, this
18 year's events underscored the importance of making it an
19 explicit core value of the firm.

20 Driving awareness of and accountability for
21 diversity and inclusion efforts among managers across
22 businesses is key to making progress. Morgan Stanley

1 conducts annual diversity reviews to actively monitor
2 representation as well as the impact of promotions,
3 hires, and attrition on its talent pipeline. By sharing
4 this diversity information with managers firm-wide, the
5 firm seeks to drive governance and accountability.

6 Hiring and supporting the careers of
7 underrepresented groups supports business success. To
8 build a diverse talent pipeline, we use global, targeted
9 recruitment and development programs to hire, retain,
10 and promote women and multicultural talent. These
11 professional development programs help employees to hone
12 key skills, build networks, and gain exposure to senior
13 management. We partner with organizations that support
14 recruitment of female and minority career reentry
15 candidates. Our campus recruiting efforts have also
16 sought for diversity among entry-level staff.

17 Amidst growing evidence that diverse
18 organizations often outperform their peers, Morgan
19 Stanley employees' policies and practices, including
20 those on pay, that help attract, retain, and advance
21 underrepresented talent. To promote equitable awards for
22 all employees, including women and ethnically diverse

1 employees, the firm has enhanced, robust practices that
2 support fair and equitable compensation and reward
3 decisions based on merit; ongoing review of compensation
4 decisions, including at the point of hire and promotion;
5 and regular assessment of the firm's reward structure.

6 An inclusive, collaborative workplace helps to
7 generate stronger work and results. Employees are
8 encouraged to get to know colleagues who do not share
9 their background, seek input from a wide range of
10 individuals, and embrace opportunities to publicly
11 recognize teammates, especially those who are
12 underrepresented at the firm.

13 Morgan Stanley also supports a popular global
14 network of close to 20 employee affinity groups which
15 hold year-round networking and professional development
16 events and enable colleagues across business units to
17 share ideas and experiences.

18 We value diversity not only among our
19 employees but in every aspect of our business. For
20 example, we actively seek out diverse-owned companies
21 that can meet our business needs through our supplier
22 diversity programs. We work with a variety of these

1 companies to foster strategic business relationships,
2 which, in turn, stimulates the growth of many small
3 businesses and drives economic development in local
4 communities.

5 Small multicultural businesses can face
6 significant barriers to success in their early stages.
7 The Morgan Stanley Multicultural Innovation Lab serves
8 as a tech accelerator for startups led by multicultural
9 entrepreneurs. This program pairs the entrepreneurs
10 with seasoned in-house professionals to break down those
11 barriers to success. The firm provides access to
12 capital and expertise that many diverse vendors lack.
13 The lab connects these vendors and their teams to the
14 resources they need to grow and scale their businesses
15 along with an initial equity investment. The
16 entrepreneurs then have the opportunity to pitch to a
17 network of investors, potential business partners, and
18 customers to take their companies to the next level.

19 Finally, our efforts to promote diversity and
20 inclusion extend beyond our own walls. Wherever we
21 operate, we seek to actively support diverse communities
22 by sponsoring prominent organizations and events and by

1 taking a public stand for inclusion. Some examples for
2 the last two years include donating \$1 million to the
3 Hispanic Federation campaign for an even brighter Latino
4 community focused on education and service programs;
5 promoting LGBT marriage equality in Japan by leading an
6 initiative within the foreign banking community to
7 express public support for the American Chamber of
8 Commerce in Japan's viewpoint on marriage equality;
9 committing \$1 million to Catalyst, the global women's
10 advocacy and research organization; and committing \$5
11 million to the NAACP Legal Defense Fund. The firm is
12 also matching dollar for dollar US employees'
13 contributions to the fund.

14 Morgan Stanley also joined an open letter to
15 the legal community, which the general counsels of 12
16 financial institutions published on September 30th. It
17 memorializes our commitment to various diversity and
18 inclusion goals based upon three pillars. The first is
19 focused on internal action, such as enhancing
20 opportunities for racially and ethnically diverse
21 individuals within our corporate legal departments. The
22 second is focused on external supplier engagements, such

1 as working with law firms and other legal service
2 providers to increase diverse representation on our
3 matters. The third is focused on social action efforts,
4 such as ensuring that our pro bono and other outreach
5 efforts assist disenfranchised communities.

6 Through pro bono and skills-based
7 volunteering, Morgan Stanley supports a number of
8 programs allowing employees to make a lasting impact
9 through its local nonprofit partners. Supporting local
10 communities is a priority year-round, but each year, the
11 firm strengthens the impact that its employees can make
12 during its dedicated global volunteer month. Over the
13 15 years of this program, Morgan Stanley employees
14 around the globe have delivered more than 2.4 million
15 hours of service.

16 Thank you again for permitting me to discuss
17 these ESG initiatives. And I look forward to any
18 questions and further discussions.

19 CHAIRPERSON WIGGINS: Thank you, Bill.

20 At this time, I would like to open the floor
21 to questions and comments from Associate Members on
22 these remarks from our first panel. And, if you would,

1 please use the chat feature to indicate to Abigail if
2 you have a question or a comment that you wish to make.

3 MS. KNAUFF: Dena, I have not received any
4 questions, but if anyone would like -- apologies. I
5 have a question from Delia Patterson.

6 CHAIRPERSON WIGGINS: Delia? Please unmute
7 your line and proceed.

8 (Pause.)

9 CHAIRPERSON WIGGINS: Abigail, is there anyone
10 else? I'm not hearing from her.

11 MS. KNAUFF: Commissioner Berkovitz has a
12 question.

13 CHAIRPERSON WIGGINS: Commissioner, please go
14 ahead.

15 COMMISSIONER BERKOVITZ: Okay. I would just
16 like to thank everybody. Those were excellent and very
17 informative presentations.

18 I have a question. Noha, on your presentation
19 --

20 MS. SIDHOM: Yes?

21 COMMISSIONER BERKOVITZ: -- you talking about
22 specifically one area of challenge, particular challenge

1 I think. Even on the challenging here, I think you
2 indicated there were particular challenges on women and
3 promoting diversity in energy trading, in particular. I
4 am wondering if having been in that chair yourself, you
5 might be able to expound on that and whether you think
6 the lack of diversity in trading actually affects
7 trading itself and perhaps risk-taking, whether there
8 are certain -- oh, I will just be blunt about it. I
9 mean, trading is often due to sort of sort of a macho
10 risk-taking, hard-charging culture. I guess perhaps
11 these days, in many instances, it has become more
12 quantitative and quant-driven and algorithmic driven,
13 but still you have traders making trading decisions and
14 a trading culture; how a diversity issue may affect
15 actually how trading is conducted. So I would be really
16 interested in your further thoughts on this area.

17 MS. SIDHOM: Absolutely. Thank you very much
18 for the question.

19 I do think that we are going through a little
20 bit of a transition in the trading world, at-large and
21 also in energies in that -- you are right -- we are
22 transitioning from, "I got my buddy this job. And I'm

1 teaching him how to trade. And here's kind of how we do
2 things on the floor." That doesn't really exist
3 anymore. We're transitioning to more of a quant-type
4 model, which I think creates an opportunity. There are
5 a lot of women that are coming out of the math and
6 science and computer science world that are really
7 interested in this state because, particularly in
8 energies and at least in power, there is an opportunity
9 to really also have a social impact in that our trading
10 does drive value for the consumer. And it does result
11 in a lot of investment in renewables, which is why we
12 are seeing a large pickup on environmental products,
13 which we covered I think two committee meetings ago. So
14 there is that aspect of it.

15 But you are right in that there is still a
16 little bit of like machoism on the trading floor. And I
17 think that is what companies really need to focus on.
18 How do we make sure the women that we are bringing in at
19 the quant-level are able to fit in on the dynamics of
20 the trading floor?

21 I'll tell you when I started as general
22 counsel of a trading company, gosh, eight or nine years

1 ago, it was a little bit difficult to fit in on the
2 trading floor because you got kind of the usual male
3 comments when you walked onto the floor until they
4 realized, that wasn't going to fly with you. So a lot
5 of it was kind of making your own inclusion, and now we
6 have to focus on that being a broader company effort of
7 companies ensuring that their female employees and their
8 minority employees feel comfortable on the trading
9 floor, also that they have that opportunity. There just
10 aren't a lot of recruiting efforts to integrate women on
11 trading floors, and I think that needs to change.

12 And as far as how does that drive the trading,
13 I absolutely think that it is a different perspective on
14 risk. In fact, when I built my company, one of the
15 major mantras was the first thing we are going to do is
16 establish a significant risk platform that goes onto all
17 of our algorithms. And I think that comes from my legal
18 background of being risk-averse. Obviously I can't say
19 that is true of every female trader, but I think just
20 having that different perspective, as you include more
21 women and more minorities, you just naturally add more
22 perspective to the dynamics on the trading floor. And

1 is it going to make it more conservative? I think it
2 depends on the company culture, but I think, in general,
3 just having that different perspective is another way to
4 view the trade.

5 I'm not sure if that fully answers your
6 question.

7 COMMISSIONER BERKOVITZ: Yes. Yes. Thank
8 you. That is very helpful, very interesting. Thanks.

9 MS. SIDHOM: Thank you.

10 CHAIRPERSON WIGGINS: Abigail?

11 MS. KNAUFF: The operator may have been able to
12 bridge Delia to this line. Go back to Delia.

13 CHAIRPERSON WIGGINS: Okay. Delia, please go
14 ahead.

15 THE OPERATOR: She actually disconnected and
16 is going to reconnect to the WebEx audio.

17 MS. KNAUFF: So Delia did send me her question
18 separately. She said in Ray's opening remarks, he noted
19 "what gets measured, gets done." Malinda Prudencio
20 noted it as well in her remarks. Delia would like the
21 panelists to address what they think would be important
22 to be measured as they move towards a more diverse and

1 inclusive workplace.

2 CHAIRPERSON WIGGINS: Ray, do you want to
3 respond to that?

4 MR. DEMPSEY: I can. Thank you for the
5 question. It is important. And I have to admit there
6 is probably many layers in my view about the things to
7 be measured. Some things are the sort of obvious,
8 simple things, like representation. But there is more.
9 And then oftentimes, they are contributing elements, the
10 things that you do as the inputs that can matter even
11 more to the ultimate performance and progress.

12 At BP, we have two ambitions, as we call them.
13 One is a global gender ambition, and it is aimed at
14 improving the representation of women in leadership in
15 our company. It is due to be achieved by the end of
16 this year. And I know that we have fulfilled at least
17 one component of it already and hard at work at trying
18 to close the gap for the balance. But we won't finish
19 with this ambition. We will reset an ambition early in
20 the new year to help us continue to increase the
21 representation of women at leadership in our company.

22 In the United States, we have a US minority

1 ambition that was launched in 2017. And it is aimed at
2 increasing the representation of minorities at all
3 levels in our company in the United States. And I am
4 delighted that we have actually achieved that ambition,
5 which was due to be achieved by 2025, already. And,
6 similarly, as with the global gender ambition, we will
7 look to reset our US minority ambition for further
8 progress in the new year.

9 But we don't stop there. We examine our
10 inputs around recruiting, the applicant flow. We pay
11 attention to the performance rating outcomes of our
12 employees around the country. We look for indicators
13 about who stays and who leaves. We look for information
14 that will help guide us in just employee data around
15 satisfaction with our company. And we look at that
16 across various demographics to be sure that we don't see
17 issues that warrant specific intervention.

18 When we say "what gets measured, gets done,"
19 we really mean it in a very broad way. And so what we
20 are trying to do is ensure that we have a real
21 businesslike approach to understanding what will make us
22 be successful at being a more diverse and inclusive

1 company.

2 I hope that helps.

3 CHAIRPERSON WIGGINS: Malinda, did you want to
4 answer that question as well? I think you are on mute,
5 Malinda.

6 MS. PRUDENCIO: Certainly. Am I back now?
7 Okay.

8 So we are not nearly as far along as defining
9 our goals as Ray is at BP with the exception of the
10 women in energy piece. And, as Noha mentioned,
11 historically trade floors have not had a high
12 representation of women on the trade floor.

13 We didn't set a specific number in hitting a
14 target. We just had a very conscious goal of increasing
15 women in our space in the industry. And that's when we
16 began reaching out to the women in energy forums and
17 getting engaged with different women board opportunities
18 to try to incorporate more influence of women in the
19 industry and also working on ensuring that our
20 promotional opportunities included eligible women
21 throughout the organization. And there have been
22 several efforts made internal on that.

1 And, like I said, having a focus on that has
2 produced a result that I feel are very, very strong,
3 especially given our industry. So, although I don't
4 have a complete menu of what our next targets are since
5 we just really drew up our strategic plan and we're just
6 working on this component of it now, I would definitely
7 say that whatever you pay attention to, whatever you set
8 your goals on is what you pay attention to, you will see
9 the results on it.

10 CHAIRPERSON WIGGINS: Thank you.

11 Abigail, do we have anyone else who has a
12 question?

13 MS. KNAUFF: I just want to make sure if we
14 could hear Delia, if she had any follow-up questions or
15 comments.

16 MS. PATTERSON: Yes. I appreciate Ray's and
17 Malinda's thoughts. I was just wondering if Paula might
18 have some recommendations on what should be measured,
19 obviously the numbers in terms of how well folks are
20 doing. And I think Ray also mentioned satisfaction and
21 the like. Anything else? I am taking notes for my own
22 organization.

1 MS. GLOVER: Thank you so much, Delia, for the
2 question. I think what I would add to what Ray and
3 Malinda both said is that I think there's that
4 quantitative, the numbers that are in your data, but the
5 qualitative is equally as important. So doing culture
6 surveys and understanding, as I talk about, inclusion,
7 the culture of your organization I think is really kind
8 of the first step of where you are and what is baseline.

9 What I have heard from some leaders is that
10 oftentimes what we list on what I would say on the wall
11 of values may not necessarily be in our culture at every
12 level. These are large organizations. And so you may
13 see it at the top, but do you see that same kind of
14 value exhibited, at the very first level, the frontline
15 workers of your association or organization? And so to
16 me, it's a mix of both of those things that you need to
17 measure. And that should be pretty specific.

18 I think the other side is really around your
19 supplier diversity numbers and how you are doing in each
20 different category if you have multiple categories and
21 understanding how people categorize themselves. I will
22 give you an example. If you look at me as myself, I

1 could really if I had the certification fit in every
2 single level. Right? I could fit as a woman-owned
3 business, an African American-owned business. I could
4 fit as a disabled business, a veteran-owned business,
5 LBGTQI. And understanding what those different
6 categories are, where businesses fit, and how they
7 categorize themselves if that is by certification, and
8 then kind of building out from there. Those would be
9 the other things I would suggest.

10 CHAIRPERSON WIGGINS: Thank you.

11 MS. PATTERSON: Thank you, Paula.

12 CHAIRPERSON WIGGINS: Abigail, any --

13 MS. KNAUFF: We have one question from Sarah
14 Tomalty, BP.

15 CHAIRPERSON WIGGINS: Oh. Okay. Sarah?

16 MS. TOMALTY: Hi. I noted that several of the
17 speakers discussed the importance of offering diverse
18 candidates opportunities for advancement. And I liked
19 Bill McCoy's note that Morgan Stanley is offering
20 opportunities for diverse candidates to gain exposure to
21 senior management. But I know our younger employees at
22 BP have expressed concern about being able to interact

1 with senior leaders during this period of working from
2 home during COVID. And I was wondering if any of the
3 speakers have any recommendations for providing
4 employees with these opportunities, especially during
5 COVID.

6 CHAIRPERSON WIGGINS: Does anyone from the
7 panel want to --

8 MS. GLOVER: So I'll take a stab at it. I
9 mean, look, we're all in a Zoom virtual world. And I
10 think it also creates an opportunity for leaders to
11 connect with the employees very differently. And it may
12 be doing listening sessions, sometimes during work
13 hours, sometimes maybe even after work hours. But for
14 younger employees, who certainly are probably far more
15 technology-driven, kind of using either your internal
16 intranet, doing Zoom calls, listening sessions with very
17 small groups of people, I mean, those are other ways
18 that you can connect and employees can connect with
19 leaders in a way that is super thoughtful.

20 I think for leaders, really, what the
21 challenge is it's almost sometimes convincing people to
22 trust that these conversations will be productive and

1 have a particular outcome because you just don't
2 necessarily know how people are coming into a
3 conversation, how willing they are to be open based on
4 what they think the response may be. And so I would say
5 to leaders who are going to embark on that, it is
6 important to be I think particularly sensitive and maybe
7 have a heightened awareness that employees may not
8 necessarily see you the way that you see yourself. And
9 so there may be a gap there that you're going to have to
10 try to bridge.

11 CHAIRPERSON WIGGINS: Bill, did you want to
12 answer as well?

13 MR. McCOY: Yes.

14 MR. DEMPSEY: I will jump in. Even as your
15 colleague -- I'm sorry, Bill. I didn't mean to
16 interrupt you, but I had a quick point and then hand it
17 back to you. All right?

18 I have to admit during this pandemic time, it
19 sometimes does feel a bit difficult to stay connected,
20 but in a strange way, I find that I still do it quite a
21 lot. Later today, I have three get-to-know-you sessions
22 that have come from my offer and my invitation to

1 people.

2 And I think there's sort of a double edge to
3 the recipe that makes this sort of thing really, really
4 work. I think leaders have to be really clear with the
5 offer and the invitation to make themselves available.
6 And then they have to actually follow through. When
7 someone says, "Hey, you said that you were open to
8 having a conversation. I would love to get some time,"
9 you have to do it. And that's what I think is a really
10 important part of my responsibility. But, frankly, it's
11 one of the most important and valuable things that I
12 spend time on.

13 And for younger people who are looking for
14 those opportunities, I guess I'd just have to encourage
15 them to be courageous. And something I often say to
16 people is, "I don't know of any of you, I have no
17 colleagues who have ever said, 'No, I'm not interested
18 in talking to you' when a person said they would like
19 some time." The struggle may be that they have to say
20 it will be next Tuesday, you know, at 3 in the afternoon
21 because that is just the first available slot in the
22 calendar. And as long as both sides are willing to take

1 on that flexibility, I think it can still be very richly
2 rewarding.

3 I make no guarantees or promises about the
4 usefulness or the value of my input or my advice, but I
5 always learn from those conversations. And hopefully I
6 am able to contribute things that help other people on
7 their journey.

8 Bill, again, I'm sorry for the interruption.
9 I'll turn it back to you.

10 MR. McCOY: No, actually, that's a good
11 transition, Ray. Thank you. Because, really, I'm just
12 echoing what Paula and Ray have said, that we are living
13 in a Zoom environment. I think very early on, it was
14 recognized, within our institution and others, that it
15 was important, particularly for the managers, incumbent
16 on the managers to reach out to the team to keep people
17 together through videoconferencing and the like.

18 And I agree with you, Ray. While junior staff
19 should be encouraged to reach out, it's really incumbent
20 on the managers to make sure that they stay connected in
21 bringing the teams together, either one on one or
22 collectively as a team, so that people feel connected.

1 That's people working from home.

2 Thanks.

3 CHAIRPERSON WIGGINS: Thank you.

4 Abigail, are we ready to move on to the EEMAC

5 Members now?

6 MS. KNAUFF: Yes. We can move on to the

7 Members. And Derek Sammann from CME Group has a

8 question or comment.

9 CHAIRPERSON WIGGINS: Okay. Derek, please

10 proceed.

11 MR. SAMMANN: Hi. Thank you. And good

12 morning. I want to thank the participants for what has

13 been a really thoroughly engaging discussion on this

14 important topic. And I would really like to share a

15 couple of comments from the CME perspective on how we

16 think about diversity, equity, inclusion in our firm,

17 but, really, I want to start with applauding the

18 Commission for setting up this panel and elevating the

19 discourage of these issues across this industry, using

20 this as a platform for book information sharing, best

21 practices setting, and being able to learn from our

22 peers as to what learnings people have applied over the

1 last number of years on their own D&I journeys and where
2 that is taking them.

3 This is an area of particular interest for me
4 as I sit on the Executive Committee of our Global
5 Diversity and Inclusion Council. I am committed to
6 helping our industry, not just our firm, make progress
7 and further progress in this area.

8 At CME Group, we believe that advancing
9 policies that strengthen the integrity of our global
10 community from workforce empowerment to corporate
11 stewardship to community commitments, sustainable
12 solutions, a lot of what we heard about so far on the
13 panel today. As the ESG movement continues to gain
14 traction and momentum globally, we have been actively
15 engaged in various ESG activities for a number of years
16 through our corporate social responsibility initiatives,
17 addressing sustainability issues through our ERM
18 programs and otherwise. We have also worked to
19 continually contribute and improve on these important
20 issues. We recently completed a competitive review of
21 how others in our industry -- benchmarking matters a
22 lot -- on managing and reporting on their ESG

1 initiatives as well as a materiality assessment to
2 identify, define, and prioritize the social,
3 environmental, and governance issues that we can make
4 the most impact in and that matter the most to our key
5 stakeholders and constituents.

6 Going forward, we have committed to reporting
7 on our progress in a cohesive and actionable framework,
8 a lot of what we heard from the success of the companies
9 we heard today. In fact, our first annual ESG report
10 was published just this past summer. And we are also
11 developing an enhanced ESG disclosure framework on our
12 website. And all of these efforts are subject to
13 oversight of a board level that has prioritized this as
14 well.

15 It is our intent to enrich the broader
16 conversation around ESG, both within our company and
17 across the industry. Ultimately, we believe this will
18 further strengthen trust in our organization among our
19 key stakeholders and positively impact the communities
20 in which we live and work.

21 Importantly -- and we heard a lot of this from
22 everyone who spoke today -- our employees are the

1 biggest part of our success and really creates momentum
2 for us within CME Group. We engage with and empower our
3 employees through a number of what we call employee
4 network groups. Some people call them employee resource
5 groups, but we refer to them as employee network groups.
6 We have a total of 10 of these groups, the first of
7 which was established back in 2012 under the WIN Group,
8 which is the Women's Initiative Network. We have groups
9 all the way through the different constituencies across
10 our client-base globally. We have a group called BOLD,
11 which is Black Organization for Leadership and
12 Development. We have got a group called CAN, which is
13 our Connecting Asia Network, and all the way through
14 PRIDE, which is our LGBTQ community; and HOLA and our
15 Hispanic groups. So we, like others that we have heard
16 today, hear a lot about importance of empowering and
17 building up and enabling growth and opportunities and
18 mentorship within and across communities in the
19 organization, both vertically and horizontally. And
20 that is a big part of what we're focusing on.

21 So, again, I want to thank the Commission for
22 expanding the dialogue on diversity and inclusion,

1 allowing us to hear from each other what those best
2 practices are, how they impact positive change in our
3 industry and raise the bar for ourselves and each other
4 to continue to make progress down our own individual
5 firm journeys that reach an aggregate benefit to net
6 outcome for everybody. So thank you for the time, and I
7 look forward to the balance of the conversation.

8 CHAIRPERSON WIGGINS: Thank you.

9 Abigail, do we have any questions from any
10 other EEMAC Members?

11 MS. KNAUFF: I don't see any questions from
12 the other members at this time, but Commissioner Behnam
13 is on the line. He would like to share a few words.

14 CHAIRPERSON WIGGINS: Okay. Commissioner?

15 COMMISSIONER BEHNAM: Thanks, Abigail. And I
16 just want to jump in. I missed my opening statement. I
17 was on a panel starting at 9 o'clock as well, and I
18 couldn't grab the opening statement slot with the EEMAC.
19 So I just want to say hello to everyone, thank
20 Commissioner Berkovitz, Abigail, Dena as well for
21 running it. It was great to listen. I joined about 45
22 minutes after, got to hear some of the conversations

1 from energy space and then Morgan Stanley as well and
2 CME more recently, so an issue I care deeply about and
3 all the E, the S, and the G are very important. It's
4 great to hear from the end-user community and our market
5 participants, what everyone is doing. This is a
6 collective issue, and it's good to hear that we're all
7 on board and trying to tackle them, ask the right
8 questions, and address them. So thanks again to
9 Commissioner Berkovitz for raising awareness and having
10 this discussion and certainly look forward to the
11 balance of the morning's conversation. Thanks.

12 MS. KNAUFF: Dena, we have a question from Rob
13 Creamer.

14 CHAIRPERSON WIGGINS: Okay. Rob?

15 MR. CREAMER: Hi there. First of all, thank
16 you for hosting this important conversation today. I
17 really enjoyed hearing from everyone. This certainly is
18 a very important issue throughout our industry. And we
19 at the PTG certainly take it seriously. And many firms
20 are working on initiatives to try to strengthen the
21 diversity, inclusion, and equity in our firms and across
22 the industry. I'm wondering how people feel about the

1 perception of trading in society impacts the types of
2 applicants to our industry.

3 CHAIRPERSON WIGGINS: Anyone who would like to
4 respond?

5 MS. SIDHOM: I'm happy to take a stab at that.
6 It is really interesting because as somebody who has
7 done recruiting for my former company, I think that I
8 would get all of these folks that would come in and say,
9 "You know, trading is really interesting, but I really
10 want to be an investment banker. You know, I'm weighing
11 this offer against investment banking." So I don't know
12 that it's kind of like this stigma against trading and
13 being in finance. I think we're starting to lose a lot
14 of that. And I think because of the transition to more
15 quant and more algorithmic trading, more of a data-
16 driven focus, we're losing some of that like perception
17 of machoism on the trading floor since people are
18 recognizing like as part of the financial
19 infrastructure, I can do a lot of positives. So I've
20 definitely seen the tone change over the last 10 years.
21 The other thing that I think is kind of
22 interesting -- and I always point out to people when we

1 go to meetings and they say, "Well, aren't you guys like
2 Enron" or "financial traders?" We get a lot of that in
3 the power community, and it's very unfortunate because
4 when you look at the data, we really do drive a
5 significant amount of cost savings to the customer. In
6 regional markets that have less liquidity, the customer
7 pays significantly more or states that lack retail
8 competition. So that social good is definitely there,
9 and we just need to I think be stronger in conveying
10 that message out to folks. But where we get that kind
11 of feedback, my response is always, "Well, if you don't
12 like financial institutions, you have a mortgage. You
13 have a credit card. Have those things helped you move
14 ahead?" We need this framework in order for us to
15 really be successful as a country.

16 MR. CREAMER: Noha, I wholeheartedly agree and
17 appreciate your comments there. I feel like most of the
18 big kind of news articles and things that come out are
19 always about some nefarious activity or some event in
20 markets. And I don't think young kids who are making
21 decisions about career paths, things that they want to
22 pursue have a really accurate perception of how

1 important markets are in society today for the average
2 person and how they can be involved and do very good
3 work using markets, understanding markets, and
4 participating in financial markets.

5 And I feel like things have shifted, as you
6 have pointed out, from the trading floor to where we are
7 today in terms of how trading is conducted. And there
8 is so much opportunity for people to get involved.

9 MS. SIDHOM: I agree. And I hope you continue
10 to spread the word, too. I'm certainly trying to do
11 that.

12 CHAIRPERSON WIGGINS: Thank you.

13 Abigail, do we have any other questions?

14 MS. KNAUFF: I do not have any questions from
15 any of the Members at this time.

16 CHAIRPERSON WIGGINS: Okay. I will turn it
17 back to you.

18 MS. KNAUFF: Thank you, Dena.

19 At this time, the EEMAC will take a brief
20 break. EEMAC Members, Associate Members, guest
21 panelists, and Commissioners, please keep your phone on
22 mute and turn off your video during the break. Return

1 at 11:15 to begin the second panel. Thank you.

2 (Recess taken.)

3 MS. KNAUFF: I would like to call the EEMAC
4 back to order and turn the agenda back over to Dena.

5 CHAIRPERSON WIGGINS: Thank you, Abigail.

6 Our second panel today will provide a survey
7 of ESG derivatives products listed on three exchanges.
8 Our speakers are Derek Sammann, Senior Managing
9 Director, Global Head of Commodities and Options
10 Products at CME Group; Steven Hamilton, Global Head of
11 Financial Derivatives, ICE Futures U.S.; and Megan
12 Morgan, the Global Head of Equities and Index Sales with
13 Eurex Exchange. Derek?

14 MR. SAMMANN: Great. Thanks, Dena. I
15 appreciate. And thank you to Commissioner Berkovitz for
16 inviting me to present to the committee here this
17 morning. Thank you as well to Chairman Tarbert and the
18 other Commissioners. I would also like to thank Abigail
19 and your staff, Commissioner Berkovitz, for, as usual,
20 herding the cats to get these presentations to come
21 together so smoothly. So thank you.

22 We appreciate this opportunity to share an

1 update on some of the CME Group's products that help
2 market participants manage emerging and increasing ESG-
3 related risks. I will cover some of what we offer
4 today, but I also want to emphasize our ongoing
5 commitment to developing ESG derivatives as our clients'
6 risk management needs evolve and shift going forward.

7 I will begin with a few overall remarks about
8 how we approach product development in general and then
9 specifically in the area of ESG. More and more, market
10 participants are considering ESG factors as part of
11 their overall investment strategy. In addition to
12 presenting on our ESG futures this morning, I will focus
13 a little bit today on the E of ESG as climate-related
14 risks continue to present an increasing need for risk
15 management, particularly in the commodity space.

16 At the MRAC subcommittee's recent report on
17 managing climate change risk in the US financial system
18 also points out, we believe this is an area where
19 innovative derivatives products can and should be part
20 of the solution. CME Group offers benchmark futures and
21 options in some of the areas most affected by climate
22 change, such as fossil fuels and agriculture. It is

1 important to note that our portfolio of risk management
2 products is designed to help global customers manage
3 price risk in today's energy and agriculture ecosystem
4 while also enabling market evolution towards alternative
5 sources of cleaner energy and sustainable agriculture.
6 We continue to develop and enhance new products across
7 asset classes, which can help customers manage risks
8 associated with renewable energies and environmental
9 change as we transition to a more sustainable economy.

10 We do not believe in a "build it, and they
11 will come" approach to product development. Instead, we
12 use a complicated process, regularly seeking customer
13 input and feedback to understand the gaps in the market
14 and the developing products and services in partnership
15 with our customers that address those specific needs in
16 both today's world as well as as the world evolves. To
17 illustrate that methodology, I would like to spend a few
18 minutes talking through a couple of examples. We will
19 start with ESG futures.

20 Interest ESG investments has accelerated over
21 the last year as overall awareness around ESG
22 initiatives has increased and as ESG indexes, which are

1 more exposed to tech, rather than energy and industrial,
2 have been outperforming traditional indexes. This has
3 contributed to increased demand for our E-Mini S&P 500
4 ESG futures. In fact, in just the last few weeks, we
5 saw an increase in volumes and open interest, with open
6 interest increasing by about 20 percent just in the last
7 10 days.

8 We launched our E-Mini S&P 500 ESG futures
9 contracts back in November 2019 as our first equity
10 product in this category. These futures contracts give
11 clients exposure to S&P 500-listed firms that meet ESG
12 criteria that align with the investment decisions in
13 either the personal or institutional values. This
14 product is a cash-settled futures contract based on the
15 S&P 500 ESG Index, which is a broad-based market cap-
16 weighted index designed to measure the performance of
17 securities meeting sustainable criteria and excluding
18 those that are involved in things like tobacco,
19 controversial weapons, or greater than 5 percent of
20 revenue streams thermal coal, or a low United Nations
21 global compact score, all by maintaining similar overall
22 industry group weight at the S&P 500.

1 As of September 30th this year, there are 299
2 companies in the S&P ESG Index, including CME Group. We
3 have launched these contracts based on customer demand
4 for ESG derivative solutions. Participants in our
5 market, while currently predominantly European-based
6 asset managers, we are continuing to see growing
7 interest from US clients as well. We also have insurers
8 and hedge funds involved in this product. And banks are
9 facilitating liquidity as well as proprietary trading
10 firms providing on-trade liquidity on a global basis.

11 Our futures contract currently trades in
12 average daily volume of about 500 contracts. Open
13 interest is about 4,800 contracts, represents about \$720
14 million.

15 Since launch, we have engaged with our
16 customers to get their feedback on how they approach ESG
17 and how we can continually evolve in these products to
18 meet their core needs. Each client's approach to ESG is
19 different. Some are looking to use ESG futures in the
20 dedicated ESG funds while others have said they are
21 using them within their non-ESG funds to help improve
22 the portfolio's overall ESG score.

1 One other challenge for ESG investing is that
2 there is no commonly agreed standard on categorizing
3 ESG, which means each asset manager can be in a position
4 to be finding that on their own. In fact, some asset
5 managers even are resistant to having a single standard
6 because they are able to market their individual
7 standards as promotional elements and differentiation to
8 attract new assets.

9 As the S&P 500 is the world's most widely
10 watched equity index, we are hopeful that its ESG
11 version will become a similar market standard. The ESG
12 space will continue to evolve. We're encouraged by the
13 early participation in our offering, and we look forward
14 to evolving this market further in partnership with our
15 global customers.

16 Turning now to the environmental side, we want
17 to talk a little bit about our ESG-related announcement
18 that we recently made, which was us working on launching
19 the first ever futures contract on the water designed to
20 help not only the ag market but also industrial and
21 commercial water users. With nearly two-thirds of the
22 world's population expected to face water shortages by

1 2025, water represents a growing risk for businesses and
2 communities around the world. Our new water futures
3 contract will provide a regulated market-based solution
4 for managing risk in the most active and dynamic water
5 markets in the US, which is in California. This will be
6 a cash-settled product based on the Nasdaq Veles
7 California Water Index. Each contract will represent 10
8 acre-feet of water. The index has the weekly benchmark
9 spot price for water rights in California based on the
10 volume-weighted average of the transactional prices in
11 California's five largest and most actively traded water
12 markets.

13 Nasdaq developed this index in partnership
14 with Veles Water Limited, a firm specializing in the
15 development of financial products for water markets.
16 Data utilized in the calculation of the index is
17 provided by WestWater Research, an economic consulting
18 firm focused on the pricing, valuation, and transaction
19 advisory services for water rights and water resource
20 development.

21 Going forward, we believe a robust,
22 transparent market will help to create a full-in curve

1 so water users can hedge future price risk. Our
2 contract is to be listed with eight quarterly
3 expirations, and the term structure across the curve
4 will provide useful data that could potentially lead to
5 more efficient and sustainable consumption decisions
6 around managing the price of accessing water. We hope
7 to launch this product later this quarter pending
8 regulatory review.

9 Beyond water, we are working with producers
10 and commercial participants across all commodity
11 segments to develop derivatives products from used
12 cooking oil to liquefied natural gas, from copper to
13 palladium, all of which play a role in these centers as
14 they transition.

15 In closing, I hope these examples give you an
16 understanding of just a few of the ESG products that CME
17 Group continues to bring to market. We believe that
18 derivatives play a key role in helping market
19 participants better manage climate-related risk and
20 facilitate price discovery today and going forward as we
21 transition to a greener and more sustainable future.

22 And, with that, I will turn it back to the

1 committee. Thank you.

2 CHAIRPERSON WIGGINS: Thank you.

3 Steven?

4 MR. HAMILTON: Thanks, Dena. Thank you,
5 Commissioner Berkovitz, Chairman, and the rest of the
6 EEMAC for the opportunity to talk to you and to Abigail
7 for organizing me. Is my slide deck ready to go, the
8 title slide?

9 I will start by introducing myself. My name
10 is Steven Hamilton. I'm the Global Head of Financial
11 Derivatives at ICE, here today to talk to you about the
12 ICE futures offering in terms of ESG-listed derivatives
13 products and specifically the ICE MSCI ESG Index Futures
14 listed on ICE Futures U.S.

15 The first slide that I am going to talk to is
16 entitled, "Tailwinds." So the demand and the noise
17 around sustainable investments shows no sign of slowing
18 down. And what we have seen during 2020 and its impacts
19 on society has likely helped focus the importance of
20 environmental, social, and governance factors on
21 companies' performance. There's been numerous reports
22 on this over the last six months, which I don't plan to

1 recite to you, but the effects on global supply chains,
2 energy usage, treatment of the workforce have all come
3 to the floor as real non-traditional risk factors. On
4 this slide, I've noted the fiduciary and regulatory
5 requirements of businesses and the need to mitigate
6 those risks, especially reputational.

7 But all of this stems from the last point on
8 the slide, which is that it's driven by client demand.
9 So as new investors come to the market, armed with more
10 information, they're making more demands that their
11 money is invested wisely and in line with their beliefs,
12 but there is also increasingly demand from current old
13 money, if you like, because strong ESG scores are highly
14 correlated with above-average returns in the medium- and
15 long-term. But the takeaway from that is, while
16 regulators around the world are increasingly taking
17 measures to bring more transparency and standardization
18 on having investment firms integrate ESG factors into
19 their investment and risk processes, client demand and
20 returns will always be drivers of investment activity.

21 Next slide, please. So ICE serving global
22 markets, I am going to talk to the ICE offerings more

1 broadly. I apologize for the busy slide here. We're a
2 quite busy organization.

3 If we start with the premise that ESG
4 investing is a process that requires access to relevant,
5 transparent, and standardized tools from data to
6 tradeable products, ICE has developed ESG solutions
7 across the different business lines, as you can see
8 here.

9 So the New York Stock Exchange, a global
10 leader in raising capital works with listed companies,
11 sharing knowledge and encouraging reporting on ESG. As
12 a data provider, our ICE Services Group offers access to
13 standardized ESG-referenced data; works with our clients
14 to design tailormade ESG indices that can be used for
15 performance measurement.

16 And, finally, on the derivatives trading and
17 clearing side, where I sit on the exchange side, ICE
18 exchanges have long provided investors with the tools to
19 transition to less carbon-intensive fuels than carbon
20 emission derivatives in Europe, a market we have been in
21 since 2003. And more recently, we have partnered with
22 MSCI to launch futures on the MSCI ESG Leaders Indices

1 and MSCI Climate Change Indices.

2 Next slide, please. Why MSCI for our ESG
3 Index Futures? Our current suite of ICE MSCI Index
4 contracts have become key instruments used by
5 institutional investors for their equity allocations.
6 An interesting measure of that can be found in the CFTC
7 trading reports showing that about 72 percent of both
8 our EM and E for futures open interest is held by asset
9 managers or institutions long-developed or emerging
10 market equities. And both of our EM and E for futures
11 products are amongst the top 10 equity index futures in
12 the world by open interest.

13 MSCI is the world's largest provider of ESG
14 indices. I calculate more than 1,000 equity and fixed-
15 income ESG indices. And they have 30 years of
16 experience in the area. MSCI launched the first
17 socially responsible investing index in May 1990, the
18 MSCI KLD 400 Social Index.

19 And approximately \$13.1 trillion in equity
20 assets under management of benchmarks to MSCI indices as
21 of the end of last year. Of this, approximately \$220
22 billion in institutional, retail, and exchange-traded

1 fund assets are benchmarked to MSCI ESG indices. While
2 that is currently only about 1.7 percent of the total,
3 it is rapidly growing.

4 Requirements for asset managers are also fast
5 evolving. In ICE, we work with our customer base to
6 ensure we offer a suite of contracts that enables them
7 to easily implement a change of asset allocation policy
8 or transition management cash optimization. A brief
9 example of this, which was in the press earlier this
10 year, the Danish Labor Market Pension Fund, , said
11 it had switched weightings and it has passively managed
12 listed global equities portfolio to take account of
13 climate factors by adopting the MSCI All-Country World
14 Index, Climate Index, for the whole 4.8 billion euro
15 allocations.

16 Move to the next slide, please. I will talk
17 about why we chose the ESG Leaders methodology. Again I
18 apologize for quite a busy slide. So I will try and
19 summarize quickly. We chose the Leaders methodology, I
20 mean, it is a comprehensive set of exclusion criteria
21 applied, excluded producers of nuclear power, alcohol,
22 gambling, tobacco, civil firearms, any type, so any

1 controversial weapons or companies involved in severe
2 controversies. And it has a best-in-class approach to
3 the indices: select the highest ESG-rated companies in
4 each sector of the parent index. And this is reflected
5 by the act that is under management gathered within the
6 segment.

7 If we move to the next slide, please, we can
8 talk about some of the challenges before moving on to
9 the opportunities within ESG. It seems from people that
10 I speak to, the single biggest challenge brought up in
11 connection with ESG is standardization or perhaps the
12 lack thereof of consistency in ESG ratings and index
13 providers.

14 The challenge for us as an exchange is to
15 create the market around a set of widely used
16 benchmarks. As ever with derivatives markets, we will
17 see liquidity flow to the standardized and accepted
18 products based on these benchmarks, which will go
19 some way to address the consistency issues.

20 We also see quite diverse ESG regulatory
21 regimes. In Europe, the adoption is very much
22 regulatory driven. In the US, it seems that the

1 regulatory investors are not as aligned. In the US, we
2 have investors increasingly asking companies to disclose
3 information related to ESG factors. BlackRock has gone
4 on the tape saying it will avoid investments in
5 companies that have a high sustainability-related risk.
6 This is a move that Larry Fink says will fundamentally
7 change how American companies conduct business.

8 Conversely, the U.S. Department of Labor has
9 had a more conservative view on the integration. On
10 August 31st, the Department of Labor proposed a rule
11 that would require retirement plans to only focus on
12 issues that have an economic effect on a retirement
13 plan, perhaps not taking into account ESG-related
14 issues. These divergent processes are certainly a
15 challenge.

16 If we move on to the next slide, where we talk
17 about opportunities, index providers will increase the
18 transparency in ESG ratings and data. And since
19 November last year, MSCI ESG research has made ESG
20 ratings of over 2,800 companies publicly available.

21 Climate change concerns are very much back in
22 scope. So they are published at the beginning of the

1 year by the World Economic Forum showed for the first
2 time the top five long-term risks perceived were all
3 environmental. That led to a growing demand for
4 environmentally focused investments, leading to increase
5 the number of financial products but also a focus on
6 those standards and increasing regulatory and government
7 action. For example, the European Union will sell 225
8 billion euros of green bonds to finance climate-friendly
9 projects as part of the pandemic recovery fund.

10 That's it in terms of slides for me. And
11 thank you. I hope at least some of that was useful.
12 And I will pass on the baton.

13 CHAIRPERSON WIGGINS: Thank you very much.

14 Megan? Megan, can you unmute your line?

15 MS. MORGAN: I can unmute and start my video
16 all at the same time.

17 Thank you. And thank you to the Commission
18 for giving us this opportunity to talk about what we are
19 doing in Europe. My name is Megan Morgan. I am the
20 Global Head of Equity and Index Sales for Eurex. For
21 those that don't know, Eurex is the leading European
22 derivatives exchange across many asset classes: equity,

1 fixed-income, assets, and commodities. And while we
2 specialize in European markets, we are also expanding
3 our global footprint to other markets with our MSCI
4 franchise.

5 So today I really just want to walk you
6 through our ESG story over time because I think it
7 really will give you an idea of why certain products are
8 gaining traction, why we list the products we do, in
9 what order, and where we look to go in the future. And
10 I have been told I have the gift of gab. And we have a
11 lot to talk about in 10 minutes. So excuse me if I
12 speak really, really fast.

13 Our efforts in ESG really started in 2018,
14 when we were approached by a Scandinavian asset manager
15 whose company has decided that if they wanted to sell
16 ESG funds, they need to be 100 percent compliant with
17 their ESG principles in their entire portfolio. And
18 what this really means is prior, of course, they were
19 executing these ESG principles in their main investment
20 strategy, which was 90 percent to the fund and executed
21 in the cash market but not in their cash equitization
22 leg, which was 10 percent, the remaining 10 percent, and

1 done in standard benchmark derivatives. So the PM went
2 to roll his derivatives position, he found that there
3 were no ESG derivatives to roll into. And he was at
4 that moment limited to two choices: either keep the
5 cash as cash or put that cash in the securities and just
6 rebalance every day. The first was prone to tracking
7 error, the latter prone to -- was very, very costly.

8 So, as a result, he went to the exchanges to
9 list derivatives. And, really, he wanted three things.
10 He wanted liquidity, transparent order book pricing, and
11 a recognizable benchmark that had an ESG filter in line
12 with their house policy. But the message was very, very
13 clear from him that when it came to ESG needs in the
14 derivatives market, right now, liquidity and order book
15 pricing had a higher priority than expressing a specific
16 opinion about sustainability.

17 So we used this as an opportunity to consult
18 the market. I mean, as my colleagues in the other
19 exchanges say, we don't make products in a bubble. We
20 do it with client feedback. And if one asset manager is
21 asking for this, there is likely a lot of others that
22 are thinking about it.

1 And so we mainly focused on the Scandinavian
2 markets, country funds and asset managers, because they
3 are really the epicenter of sustainable investing, but
4 also talked to French and German asset managers and
5 insurers as well. And what we found was that, even
6 without regulation mandating derivatives usage and
7 sustainable investing, asset managers in Europe really
8 believe it is their fiduciary duty to invest in a
9 sustainable way. And they want to apply these ESG
10 principles that they have developed in-house through as
11 much of their portfolios as possible. But, again, the
12 message was clear over and over again. When it came to
13 the derivatives market, liquidity and order book pricing
14 were key.

15 So as my fellow colleagues on this panel know,
16 building liquidities in a new product is probably the
17 hardest part of our job. Derivatives markets don't grow
18 in straight lines. They grow in hockey sticks. You've
19 got 2 traders, 8 traders, 20 traders, 1,000. And
20 getting to that inflection point is really the main part
21 of my job every day.

22 So when we think about building a liquid ESG

1 benchmark, we know that the only way to get to that
2 inflection point is if investors truly believe that the
3 underlying index provides a standard proxy for ESG
4 investing. And in a world where there is no common
5 agreement on the E, the S, and the G, let alone ESG, I
6 mean, this is quite a challenge to find an index
7 methodology that everyone can agree on.

8 We looked at the range of the ESG investment
9 strategies that we could list derivatives indices. And,
10 obviously, there is very, very targeted belief, like
11 impact investing to broad-based indices with simple
12 exclusion, taking out baseline companies that everyone
13 can agree are not ESG-compliant. And what we found in
14 this market consultation in 2018 is right now in this
15 ESG investing lifecycle, if we truly want to prioritize
16 building liquidity in the ESG derivatives market,
17 simplicity is the winner: staying as close to existing
18 benchmarks and finding common ground on what we should
19 exclude. That is why thus far in our product launches,
20 we have mainly focused on exclusion indices, working
21 with well-established benchmark providers, like our
22 sister companies STOXX and MSCI. So these exclusion

1 indices are norms-based screening, excluding companies
2 everyone can agree are not ESG-compliant: gambling,
3 controversial weapons, tobacco, thermal coal.

4 In February of 2019, we launched our first
5 exclusion index: the STOXX Europe ESG. This is simply
6 based on the STOXX Europe 600, a broad-based benchmark
7 with 600 European companies, and excludes tobacco,
8 controversial weapons, thermal coal, companies that are
9 not in line with the U.N. global compact principles.

10 Interestingly enough, in addition to the
11 exclusion index, we have deviated from our plan and also
12 launched two indices based on integration methodologies,
13 so using ESG scoring as a way to build the index: the
14 Euro Stock 50 Low-Carbon Index and the STOXX Climate
15 Impact. And we did this because we had heard from the
16 insurers in this consultation that they were really
17 concerned about their exposure to climate change and
18 wanted the ability to hedge this in the derivatives
19 market.

20 They also wanted to demonstrate to their
21 investors that they were using a benchmark aligned with
22 a climate taxonomy similar -- you hear these names like

1 Paris-aligned benchmark or climate transition benchmark.
2 But, again, knowing that liquidity and order book
3 pricing were important, we built the low-carbon index.
4 It is as simply taking the Europe STOXX 50 and
5 reweighting the 50 components according to their carbon
6 intensity, so overweighting companies with low-carbon
7 footprints and vice versa. And the actual index lowers
8 the carbon footprint by 63 percent based off of the
9 regular benchmark.

10 That said, we also heard from the same
11 insurers the desire to hedge long-term risk. The
12 climate of the future. And the STOXX Europe climate
13 impact takes the STOXX 600 constituents and only keeps
14 the companies that aim to have a low-carbon footprint in
15 the future. And we do this by using data from the CDP
16 that looks at companies' forward-looking carbon
17 emissions footprint by looking at four datapoints:
18 where the emissions are now, what does climate change
19 mean to the company, how does the company manage climate
20 risk, and what is their strategy to solve climate change
21 in the future. And they grade these companies A to D-.
22 And we keep the best in class, which I think was around

1 233 components.

2 So after the launch of these three indices in
3 2019, we only saw trading and open interest accumulate
4 in the exclusion index. So the feedback from the market
5 was very, very clear. It is just not ready for indices
6 based on integration methodology.

7 So our next step was to expand our exclusion
8 footprint globally in Q1 of this year, 2020. We
9 launched futures on STOXX USA Exclusion Index and five
10 MSCI-screened indices. So it's screened methodology.
11 We have talked about the Leaders methodology. The
12 screened methodology is MSCI's basic exclusion indices.
13 And we launched five: EM, EAFE, World, Japan, and USA.
14 Again, the goal was to find liquid benchmarks that asset
15 managers were currently using and offer the same product
16 with a slight ESG tilt.

17 Again, MSCI's exclusion methodologies are in
18 line with the same principles we heard from the European
19 consultation: screened for thermal coal, tobacco,
20 controversial weapons. MSCI also screens for oil sands,
21 which isn't applicable to European companies. But one
22 thing that I point out that is interesting is that MSCI

1 screens for nuclear power and in our consultation, we
2 found that that was not something we could screen for in
3 a pan-European index because nuclear power is just
4 different opinions in Europe. You have a handful of
5 countries, like France and Finland and England, that
6 believe that nuclear power is the solution for the
7 climate and have committed to even building more nuclear
8 reactors as a way to get to a zero-carbon-emission
9 footprint. And then you have Germany that believes it
10 is a danger to the environment after Fukushima and in
11 2011 actually committed to reducing a nuclear footprint.

12 So now we are here. October of 2020, a year
13 and a half later, after we have launched 10 contracts on
14 10 indices, we have accumulated 1.3 billion euro
15 notional open interest in these contracts. However,
16 1.25 billion of that is in futures and options on the
17 STOXX 600 Exclusion Index.

18 So what does this tell us? I mean, we have a
19 small community of users in the STOXX 600 Exclusion
20 Index: banks, market makers, asset managers. So it's
21 diverse. However, I would say that the desired trade
22 ESG derivatives is not yet translating into trading ESG

1 derivatives. And, I mean, partly I think this is
2 because we have launched the indices of choice via
3 exclusion indices, but we are not at that inflection
4 point of hitting liquidity thresholds where asset
5 managers can get in. But partly it is because the
6 European market is very sophisticated. And those that
7 want to trade when it comes to ESG, and those that want
8 to trade derivatives in line with these house ESG
9 principles that they have created have very different
10 opinions and very strong convictions to those opinions
11 on what defines ESG. And a simple exclusion is that
12 won't satisfy them.

13 So now we're migrating into what we call Phase
14 II of our listing strategy. And that is to move away
15 from exclusion indices and into integration, where we
16 are using ESG scoring and positive screening to build
17 indices based on ESG principles. We are starting to get
18 to a place where ESG scoring is becoming more
19 transparent, standard, standardized. and accepted by the
20 European market. And, thus, we believe the scoring
21 methodology can provide that standard proxy to attract
22 liquidity.

1 In fact, this is a timely panel because in a
2 couple of weeks, beginning of November, we will launch
3 two new ESG indices using integration methodology based
4 on the DAX and the EURO STOXX 50. So, just to give you
5 a little background about those two, the next wave of
6 the future, the DAX ESG will look at the universe of the
7 HDAX, which is 100 companies, German companies, first
8 applied the basic exclusion screen, and also excludes
9 nuclear power in line with German customer principles.
10 But the integration approach, then, looks at three
11 datapoints: ESG scoring done by data provider
12 Sustainalytics, order book volume, and free-float market
13 cap. And, again, these are equally weighted because
14 liquidity is just as important as ESG principles.

15 The EURO STOXX 50 Index is a fixed 50
16 component. It screens out the bottom 10 percent based
17 on this ESG scoring, again, same ESG scoring, and then
18 applies basic exclusion screens, keeps nuclear power
19 because it's a pan-European index. And then it looks at
20 all of the excluded companies by sectors and replaces
21 them by best-in-class companies based on their ESG
22 rating.

1 So that is our equity and equity index
2 portfolio looking historically and what's in line to be
3 launched. One phenomenon I wanted to draw to your
4 attention -- and I believe Commissioner Quintenz
5 mentioned this as a point of interest -- is performance.
6 It's interesting because in our consultations,
7 performance was never really one of the key drivers for
8 designing these indices. Nor was it a motivation to
9 trade these indices. However, looking back on 2020 and,
10 now post-COVID, postmortem, these indices have been
11 outperforming. And this is something that is getting
12 noticed by the investment community. In fact, when we
13 designed the DAX 50, one conversation we keep having is
14 that this index would have never had a company like
15 Wirecard. Right? So performance is starting to become
16 a conversation we are taking with customers as well.

17 So, just to round out very quickly, you know,
18 we are a multi-asset exchange. We are looking at an ESG
19 strategy with fixed-income. It will mirror the equity
20 index strategy, where we will look at liquidity and
21 price transparency as the priority and use only
22 benchmarks that we are familiar with across investment-

1 grade, high-yield credit markets, and across
2 geographies.

3 And then I just want to echo what Steve has
4 said. And, when we look at the biggest hurdles and the
5 biggest opportunities, I think the biggest hurdle is
6 also the biggest opportunity. Right? The EU has
7 started to agree on a taxonomy, which kind of provides
8 this common understanding of what is the E. Growth will
9 only come when we agree globally. There has been
10 agreement globally on what is the proxy for E, what is
11 the proxy for S, and what is the proxy for G, and
12 provides a common understanding and standards of what
13 activities are considered sustainable and worth
14 investing and then having the data to measure that.
15 Right? I mentioned our indices use data sources like
16 Sustainalytics, CDP, MSCI, which, in turn, rely on
17 corporate data. And we need a golden source for ESG
18 data. This is just another tool for investors to really
19 ensure they can quantify their ESG principles. And then
20 for us as index providers and benchmark, it can measure
21 their performance against the benchmark we provide.

22 Thank you very much. I'm done.

1 CHAIRPERSON WIGGINS: Thank you.

2 Now we will turn to questions from the

3 Associate Members to the panel. And I think we had a

4 question from Dr. Sandor. Is that correct, Abigail?

5 MS. KNAUFF: Yes, it is. And the operator is

6 going to just take a minute to connect his audio. He

7 should be on shortly.

8 CHAIRPERSON WIGGINS: Okay.

9 OPERATOR: His line is open if he can unmute

10 and speak.

11 DR. SANDOR: All right. Hello. Can you hear

12 me? Hello?

13 CHAIRPERSON WIGGINS: Dr. Sandor, go ahead.

14 DR. SANDOR: Yes. Can you hear me? Hello?

15 MS. KNAUFF: Dr. Sandor emailed me his

16 question earlier. So I will begin. But, Dr. Sandor, if

17 you are able to start speaking, please cut me off.

18 DR. SANDOR: Can you hear me? Hello? Can you

19 hear me?

20 MS. KNAUFF: Yes, we can. Thank you. Please

21 go on.

22 DR. SANDOR: Thank you. Sorry for the

1 technical details. And I was not able because of
2 technology for the last comment period on minorities.

3 AFX, which is an exchange for regional
4 midsized and community banks, developed a coalition of
5 minority depository institutions. Three years ago, we
6 took a look at the patterns of ownership and found that
7 there were only 19 African American/minority banks out
8 of 5,300, which identified the problem we thought in a
9 nutshell.

10 So we made a special effort to recruit Puerto
11 Rican, Hispanic, African American, Chinese American,
12 Korean American, and Native American banks and were
13 subsequently AMERIBOR, our successor to LIBOR, was
14 endorsed by these minority-owned community banks. They
15 lend money within the community and a PPP program. They
16 made loans as small as \$200 to salons, Atlanta shopping
17 centers, et cetera. So they reached into their
18 communities in ways they couldn't.

19 We surveyed them recently. And they really
20 don't need deposits. They're flush with liquidity, as
21 most American banks are. But what they do need is
22 equity, and they need to be employing that liquidity.

1 And I wondered if any of the energy companies,
2 utilities, oil companies, people in the energy sector
3 had reached out to become customers of these minority-
4 owned banks, to borrow from them, to give them services
5 because I think pound for pound, building up those folks
6 and their ability to lend is a very, very effective way
7 to help the minority communities. And I don't know if
8 any of the energy companies or utilities are doing
9 business with minority-owned banks but want to just
10 suggest this as a pound-for-pound cost-effective way to
11 help out that community.

12 CHAIRPERSON WIGGINS: Thank you, Dr. Sandor.

13 Does anyone on the panel want to respond to
14 that or do we have another question from an Associate
15 Member? Abigail?

16 MS. KNAUFF: Thank you, Dena.

17 We have a question from Dr. Parsons. Dr.
18 Parsons, please share your question.

19 (Pause.)

20 MS. KNAUFF: I can read -- Dr. Parsons sent
21 his question so I can read it verbatim. "I am
22 interested in learning more about the water market and

1 data on the water market underlying the forthcoming
2 water futures contract. Is there any peer-reviewed
3 research on that market and spot price data on which the
4 futures contract is settled? WestWater used to report
5 its data publicly but stopped doing so a few years ago.
6 At the time they went dark, I wouldn't have thought that
7 the data was suitable for a futures contract. I'm
8 curious about what has changed.

9 Just as an example, my understanding is that
10 there are only occasional transactions and that the
11 number of transacting parties is very small. Generally,
12 data in published research could be a good corrective of
13 any false inline impressions. And to go back to NYMEX
14 creation of the Henry Hub natural gas futures contract
15 when it was first proposed to see if he turned it down
16 because of issues with the underlying spot market like
17 the ones I am inquiring about for this water market,
18 back then an enormous amount of work." And then the
19 question ends.

20 So if anyone on the panel would like to
21 respond to that question? Thank you.

22 MR. SAMMANN: Yes. Derek. Since it is our

1 product, I'd better jump into that.

2 So a couple of things. Like all of the price-
3 reported agencies we work with that are Argus or Platts
4 or S&P or anybody else that we use for assessing markets
5 and developing contracts, we have to adhere I think, as
6 the Commission knows, to all of the core principles from
7 the CFTC's rules and regulations such that we need a
8 sufficient amount of underlying data, we need a
9 sufficiently reportable set of datapoints over the
10 underlying market.

11 So, you know, I think you are absolutely
12 right. A couple of years ago, this data was more
13 sparse. And I think it was not useable and certainly
14 didn't satisfy the core principle criteria that we have
15 to adhere to and then the we develop product and let it
16 go to the CFTC for approval, they review that same
17 underlying dataset as well. So while I can't tell you
18 exactly what WestWater did back in the day a couple of
19 years ago when they went dark, I assume they, like other
20 PRAs, determined that the underlying methodology and the
21 data capture business and the business of being a price-
22 reporting agency was a monetizable asset and they

1 decided they wanted to not distribute that publicly but,
2 actually, then build proprietary products on the back of
3 that.

4 What I can tell you is that that dataset that
5 we used is, as I mentioned in my comments, sufficiently
6 populated for us to be able to determine a weekly
7 calculation. We don't do dailies, and we also volume-
8 weight those to the extent that -- obviously, if you
9 have a very small transaction, a very large transaction,
10 that volume weight becomes an important part of that
11 calculation process.

12 So probably the two most important answers are
13 yes, that data has gotten much more robust and yes, we
14 reply on our weekly assessments that we provide, not
15 daily assessments, and that water market is still
16 growing and emerging. Over time, we expect that market
17 and the datapoints, particularly if the evolution of
18 transparent lit markets, like this product we're putting
19 out there, gains traction, we assume there would be more
20 reporting on more datapoints as more data becomes
21 available.

22 So happy to talk offline about the details of

1 what we can publicly. We filed and are waiting for
2 regulatory approval, but we are happy with the data we
3 have seen so far in the weekly assessment piece. And
4 the robustness of the underlying data is sufficient for
5 us to launch the product.

6 So hopefully, Dr. Parsons, that answers the
7 bulk of your question.

8 CHAIRPERSON WIGGINS: Thank you, Derek.

9 Abigail, I don't see any other questions or
10 comments from Associate Members. Do you have any?

11 MS. KNAUFF: I am not seeing any at this time,
12 but if anybody would like to turn their video on if they
13 have a question? Additionally, if there are any
14 Commissioners that have a question or a comment, please
15 also feel free to share now. Commissioner Berkovitz has
16 a question.

17 COMMISSIONER BERKOVITZ: Yes. Thank you,
18 Abigail. Again, thanks to our panelists here for a
19 really fascinating discussion and at the front edge of
20 new product development.

21 I am curious because maybe you all mentioned
22 it, but the difference between the EU and the US in

1 terms of where this investment is coming from. I guess
2 could any of the panelists just -- what are your
3 observations on what is the difference between the US
4 and European investors? And is this something that you
5 anticipate in the US will catch on or catch up or are
6 you thinking this is mostly going to be a European
7 market going forward?

8 MR. HAMILTON: Sorry. It's Steve Hamilton.
9 Commissioner, I can have a first go at answering that.
10 I think you are right. And I think we, most of us, did
11 mention the divergence, but I don't expect that that
12 will continue. I think that the EU has been ahead, and
13 it has been ahead because of the regulations that have
14 been written early. And some of that is the
15 requirements on firms to report on their sustainability,
16 which I think is not far from becoming more standardized
17 in the US. So there is a current divergence, but that
18 is only heading one way.

19 MR. SAMMANN: Yes. It's Derek here. I would
20 agree. I think that we weren't surprised to see the
21 early adoption coming from the European and almost
22 exclusively asset managers. And I think that the

1 expectation and the requirements under which many of the
2 covenants of their investment fit make that a
3 requirement in the US.

4 I think of these as sequential, not parallel.
5 I think as the European customers sort of plumb the path
6 and create more demand, I do think that over time
7 standardization is going to be critical. I think lots
8 of folks are vying to become the standard or an
9 alignment around standards. And that is becoming part
10 of a problem for broad-based derivatives to be built on
11 the back of these. Listen, we've got, five million
12 contracts a day trading our equities complex. Five
13 hundred of those are ESG futures. We've got eight
14 million contracts open interest in equities. And we
15 have, less than 5,000 in our ESG contract. So there's
16 no question that over time, that will be another
17 mission, but we also understand the industry-accepted
18 principles around those are going to matter.

19 As an aside, I spent a lot of time talking to
20 investors and analysts that cover us. And,
21 increasingly, when we talk to investors and analysts,
22 it's as much about the, "Hey, how are your products

1 doing? How are your businesses doing?" But, also, they
2 want to hear about how we as a firm as an investment in
3 and of itself is satisfying many of the ESG criteria.
4 We have spent a lot of time talking about what we're
5 doing with our diversity/inclusion, what we're doing
6 with our sustainable efforts, what we're doing with our
7 sustainable sourcing initiatives. So we are seeing this
8 expanded. That primarily used to be European analysts'
9 conversation. That is increasingly now part of our
10 regular dialogue with the US investors as well, not from
11 the using CME product side but invested in CME as a
12 public company. So I think that pre-messages what to
13 expect over time, but, again, I think standardization is
14 going to get us there. I think Europe is ahead, but I
15 do think the US is following but not on its own parallel
16 track.

17 CHAIRPERSON WIGGINS: Megan, did you have a
18 comment?

19 MS. MORGAN: I mean, no. I echo the same.
20 It's the same. It's pretty much the same message. I
21 mean, the one comment that when I talk to my colleagues
22 internally, including, the height of our regulatory

1 efforts, it's very interesting because usually Europe
2 follows US regulation when it comes to our -- especially
3 when it comes to our market. And this is for the first
4 time where we feel like the EU is in the pole position
5 to set the standardization. Yes. And that is really
6 being driven by the way the investors are investing
7 their money, especially with, like I said, the
8 Scandinavians. They just have a very robust process in
9 which they define ESG, the E, the S, and the G. And
10 they have been thinking about this. I mean, this is
11 hitting our radars in the past couple of years. This is
12 not a new phenomenon for them. They have been investing
13 in this way for almost a decade.

14 COMMISSIONER BERKOVITZ: Thank you. Thanks.

15 CHAIRPERSON WIGGINS: Okay. I think we need
16 to ask for any comments from the EEMAC Members. And I
17 understand that we have one question. Is that correct,
18 Abigail?

19 MS. KNAUFF: We actually have one question
20 from Paul Cicio, who is an Associate Member. We are
21 slightly out of order, but we have been having some
22 technical difficulties.

1 CHAIRPERSON WIGGINS: Okay.

2 MS. KNAUFF: I just want to open it up and ask
3 if Paul is able to speak if he could speak now. If not,
4 I can read his question.

5 MR. CICIO: Yes. Can you hear me?

6 MS. KNAUFF: Yes. Thank you.

7 MR. CICIO: Yes. All right. I love this
8 panel. Thank you.

9 My member companies are very diverse
10 manufacturing companies. They are primarily raw
11 material providers, plastics, chemicals, cement, steel,
12 aluminum. And so, you know, they produce the products
13 that are then used in the, let's say, very top-of-mind
14 environmental products, like wind and solar. Well, with
15 that given, what is the correlation between the ESG
16 indexes and the stock values of manufacturing companies?
17 That's question number one.

18 Number two, given the diversity of the
19 manufacturing sector that I just spoke of, it raises the
20 question of, are there fair standards in measuring ESG?

21 And, then, third, given the diversity of these
22 manufacturing industries, do you have manufacturers, you

1 know, companies on your advisory boards to advise you so
2 that you have good information?

3 Thank you.

4 MR. SAMMANN: Maybe I'll take a stab at number
5 two there in terms of the kind of standardized ways in
6 which firms are assessed from an ESG perspective. I
7 think the short answer there is a qualified sort of.
8 This is, there are a lot of folks out there trying to
9 determine that they are the authoritative determiners of
10 ESG compliance. There are some very, very basic ways in
11 which firms are falling under a general ESG score. The
12 way a lot of those scores get captured -- and there's a
13 handful of firms that are out there that are sort of
14 compiling these scores. Largely, they are sort of
15 screen-scraping websites. And they're pulling publicly
16 available information about everything from population
17 of boards and diversity of senior leadership through to
18 employee relations issues through to carbon-neutral
19 footprints and commitments to climate implications.

20 And I just want to mention that you heard all
21 three of us talk about the lack of standardization but
22 the drive towards standardization. Relative to your

1 second question, though, there is not a standardized way
2 in which there is a definitive scoring system for firms.
3 And, more frustratingly, the ways in which that
4 information is captured and then entered into a scoring
5 system for a firm is very limited at this point.

6 I think a lot of firms -- I mentioned in my
7 prepared comments earlier that we as a firm put our
8 first ESG scoring report out there just this summer
9 because we had recognized that as analysts are looking
10 at firms and you are trying to clear screens of an
11 investable asset, the ways in which we were making
12 information available that certain screening firms are
13 looking for to calculate a score, if they're not sort of
14 found on your website, you kind of get a zero for them.
15 So it's an evolving engagement with the industry. It's
16 an evolving process of those entities that are scoring
17 those firms and calculating, capturing the data, and
18 then calculating those as a score. So I think you will
19 see a lot more traction along those lines. And I think
20 all public companies right now are determining how it is
21 that scoring entities are gathering that information if
22 they are not speaking directly to those firms and how is

1 it that they can make that information available so that
2 those scores are correctly reflecting what individual
3 firms are doing.

4 So I've got some insight into that. As I
5 said, I sit on the Executive Committee of our
6 Diversity/Inclusion Council. I also sit on our Steering
7 Committee for our ESG initiatives. Those are things
8 that we have worked with for our entities and
9 consultants out there that are surveying this landscape
10 and explaining to us how this is getting done and how
11 the market has not coalesced around standards at this
12 point, although there is no shortage of desire to do
13 that.

14 So hopefully that gives you a little bit of
15 perspective on the second question of your three that
16 you posed.

17 MS. MORGAN: I think, quite quickly, just as a
18 quick comment to your question and concern, one of the
19 ways in which we have started, as I had mentioned, in
20 the first wave of indices is right now where the
21 industry is at. We are making simple, very simple
22 exclusions that the market can agree on. And, still,

1 what we are seeing is that, even though that I would say
2 is the farthest along in agreement, there is still
3 disagreement on things like nuclear power. So when it
4 comes to manufacturing, I mean, that is certainly one
5 area that we just do not see standardized yet. As Derek
6 mentioned as well, there is no standard proxy.

7 I would say that while we are cognizant of
8 that, when I discussed the next Phase II of our
9 benchmarked design, we are very cognizant that if we
10 just do simple ESG best in class, we would screen out
11 certain industries. And so what we are doing is making
12 sure that the industries are properly weighted, just as
13 they are in the like-for-like benchmark and then doing
14 the methodology with them to take best-in-class company.

15 MR. HAMILTON: I'm not sure I have anything to
16 add on manufacturing. I'd like to be able to come back
17 on the question and have a conversation with the index
18 provider on that specific subject. I will say that one
19 of the subjects that we often end up talking to to our
20 clients about is sustainability and climate change and
21 why these things are in the news and an issue and that
22 the problem we are trying to address is not difficult

1 through lack of motivation, if you like, but that
2 perhaps the tools of that unsustainability has spread
3 out over -- what are we now? -- nearly 8 billion people,
4 all enjoying 100 percent of the benefits of the actions
5 of plastic bags, fossil fuel-powered carbon homes, but
6 only bearing a tiny fraction of the cost. Right? So
7 individually there is no economic incentive to take
8 action.

9 And that has been known in economics since the
10 tragedy of the commons, which was based on an old
11 British economist whose name I regularly forget. So
12 before this call, I made sure I looked him up, William
13 Lloyd. He hypothetically looked at the effects of
14 grazing on common land in Britain, where cattle owners
15 were able to graze on that land incentivized to add one
16 more animals without incurring additional costs until
17 resources were depleted. That generally became known as
18 the tragedy of commons more than a century later with
19 another article, in '68. ESG looked to provide some
20 information to help solve some of those issues using,
21 regulatory and economic incentives for companies and
22 providing vast economic incentives to investors. But I

1 think the short summary of that rather long answer is
2 that it is very new. We're right at the start of trying
3 to measure the inputs here. And I think we have a long
4 way to go.

5 CHAIRPERSON WIGGINS: Abigail, do we have any
6 questions pending from Members or anyone else?

7 MS. KNAUFF: I don't see any questions from
8 any Members. I am not sure if we have any questions
9 from the Commissioners.

10 CHAIRPERSON WIGGINS: Commissioners, does
11 anyone have a question or a comment?

12 (No response.)

13 CHAIRPERSON WIGGINS: Seeing none, I think we
14 are ready to move to the third panel. Is that right,
15 Abigail?

16 MS. KNAUFF: Yes. Thank you.

17 CHAIRPERSON WIGGINS: Okay. Thank you.

18 Our third and final panel today will provide a
19 staff update from the Risk Surveillance Branch within
20 the Division of Clearing and Risk on initial margin
21 performance in the energy markets between Q1 and Q3 of
22 2020. We will hear from Sayee Srinivasan, the Deputy

1 Director of the Risk Surveillance Branch in DCR; and
2 John Paul Rothenberg, a Risk Analyst in the Risk
3 Surveillance Branch of DCR as well.

4 Sayee?

5 MR. SRINIVASAN: Thank you. Let me start by
6 thanking Commissioner Berkovitz for inviting us to
7 present at today's EEMAC meeting. Joining me at the
8 meeting presentation will be John Paul Rothenberg. He
9 goes by JP. He works with us and the team. I would
10 also like to thank Abigail for all of the hard work in
11 helping us prepare for this presentation.

12 So before we get started, I just wanted to
13 sort of provide some context. A couple of months ago at
14 the MRAC meeting, our staff had presented some high-
15 level macro analysis of the IM and the margin flows that
16 we had observed in the trading system in March and
17 April. In today's presentation, J. and I will sort of
18 walk you guys through the margin performance of key
19 energy benchmark contracts.

20 If we can go to the next slide? The standard
21 disclaimer, the views presented by JP and me today are
22 those of the staff and of our views and not those of the

1 Commission or the Division of Clearing and Risk, and so
2 on.

3 The Commission receives pretty granular data
4 on margins and position information and account level of
5 customer clients. And we take a lot of care to ensure
6 that the information we disclose is consistent with
7 Section 8 of the statute and we are not disclosing
8 positions or transactions of market participants, so
9 just wanted to highlight that.

10 Next slide, please. So this might be the
11 first time, at least from my recollection, that the team
12 here is presenting to the EEMAC. So I apologize for
13 spending a couple of minutes sharing with folks as to
14 what do we do. So this is the Risk Surveillance Branch.
15 We serve in the Division of Clearing and Risk. We call
16 ourselves the quants in the Division of Clearing and
17 Risk. And we can sort of break up our core function
18 into three different buckets. The first one is margin
19 model oversight. As we all know, in the cleared
20 derivative space, if you cannot post margin, then you
21 cannot transact. So margin, initial margin, of course,
22 is the first line of defense. And we have a dedicated

1 team which looks at CCPs' margin models, changes that
2 they make to the models, and also on an ongoing basis
3 doing analysis of the performance of margin models. And
4 JP sits on that team.

5 The second function that we perform is what I
6 call the daily risk surveillance. As I said earlier,
7 end-of-day, every day, we get position and margin
8 information from all of the CCPs for futures and swaps.
9 And we have a dedicated team which does quantitative
10 analysis. We have started looking for vulnerabilities
11 at a product level, account level, and across futures
12 and swaps and across all of the different asset classes.

13 And, finally, this is a more recent
14 development over the past three or four years and
15 focuses on stress testing, supervisory stress testing.
16 To date, we have published three staff-level reports on
17 supervisory stress tests done by CFTC staff. We are
18 typically looking for systemic issues within CCPs, do
19 CCPs have enough prefunded resources to absorb extreme,
20 and in some cases even implausible, shocks.

21 In addition to these macro-type and systemic-
22 type issues, we are also interested in assessing for

1 what are the abilities of the account level or the
2 product level. And we have developed a suite of stress
3 testing capabilities that we use on an intra-day basis.

4 So that is a quick overview of what we do.

5 And, with that, I will turn it to JP.

6 MR. ROTHENBERG: Thank you, Sayee. Hello,
7 everyone. So I am JP. And I work with Sayee on the
8 Surveillance Branch. And I want to thank everyone for
9 contributing their time and expertise to this meeting.
10 It has been a really fascinating conversation to hear
11 how industries are responding with new policies and
12 products to what we are experiencing.

13 So for this presentation, I will focus on a
14 somewhat dryer topic of initial margins and how they
15 perform for energy products in 2020. And I will start
16 by briefing touching on what IM is and how it fits into
17 CCP risk management. And then I will show the energy
18 sector size and composition in the futures and options
19 markets and how energies performed on a product level
20 earlier this year. And, finally, I will finish with
21 some observations.

22 Next slide, please. So risk management is a

1 core offering of central counterparties. And much of
2 their risk management efforts actually focus on
3 monitoring creditworthiness and preemptively sizing
4 credit exposures to prevent and minimize defaults, but
5 in case of default, initial margin, seen as the blue
6 part in this left chart, is the largest and most visible
7 pool of capital and often represents 90 percent of
8 prefunded resources that we see in this stylized
9 example.

10 Now, while IM is the largest pool, it is only
11 the first line of capital that kicks in in the event of
12 an actual default. First, we see that a counterparty to
13 IM, seen in green on the right chart, is designed to
14 cover most of the risk that a CCP faces in
15 reestablishing a market-neutral exposure post-default,
16 but this is sufficient only most of the time. The
17 remaining tail of default risk is covered by the
18 defaulter's guarantee fund contribution, the CCP skin-
19 in-the-game, and the remaining members' guarantee funds,
20 in that order. If that is still not enough, CCPs have
21 the power of assessment on their members for even more
22 capital depending on the number of defaulting

1 participants.

2 Next slide, please. So while we will be
3 looking at IM at a product level, I want to stress that
4 it is actually collected on a portfolio level. And for
5 a given portfolio, we can use a histogram to kind of
6 conceptualize the distribution of profit and loss. Here
7 we see that most of the P&L is green, which indicates
8 that it is covered by an IM, but the larger and rarer
9 losses, as shown in the left tail, is orange. So if we
10 rotate this chart, instead, the orange point faces down,
11 and zoom in a bit, we can see more details about what
12 IMs should cover.

13 Next slide. Next slide, please. There we go.
14 So here, again, we're looking at kind of a rotation of
15 the last chart. And the vertical y-axis is the
16 hypothetical loss of a portfolio, where the x-axis
17 represents the potential likelihood of that loss going
18 from 5 times per year event to a 1-in-50-year event.
19 And this is a Student's T for anybody that's interested.
20 So the red line is the size of the loss while the light
21 green area is the portion of that loss that is covered
22 by initial margin. So IM is typically designed to cover

1 99 percent of portfolio moves, and the cost and impact
2 of reestablishing a market-neutral position for the CCP
3 after a default. As such, it covers most of the credit
4 exposure most of the time. And on this chart, that is
5 all the area to the left of the black line associated
6 with 99 percent of P&L.

7 Next turn, please. So, by design, some of
8 those potential losses are actually not covered by IMs
9 because it would be capital-inefficient. Now, to the
10 right of that center black line, we see the worst 1
11 percent of moves. For daily margins we expect to see
12 these losses about two to three times per year. It is
13 important to stress that this is only a statistical
14 expectation. So even exceeding this number of breaches
15 occasionally is not necessarily a concern. Further,
16 larger diversified accounts tend to actually breach less
17 than the products that make up on those accounts due to
18 conservative diversification assumptions.

19 Now, so while IM covers the large portion of
20 these losses, as represented by the green shading, we
21 still expect losses over initial margin, as represented
22 by the orange shading, to be covered by other capital

1 that we mentioned earlier, such as the guarantee fund,
2 and throttled by credit limits.

3 Further, the guarantee fund is actually sized
4 to handle the simultaneous default of two clearing
5 members with major mark-to-market losses at a minimum.
6 So, to summarize, IM is designed to cover most of the
7 losses most of the time, but some breaches are still
8 expected and aren't covered by other capital.

9 The next slide, please. Now we are going to
10 move into the specifics of the energy market. We are
11 looking at a highly aggregated estimate of how much
12 market risk a contract represents for the first half of
13 2020 across major CCPs. It is important to note that
14 this is a combination of all CCPs.

15 So in cleared futures and options, we see that
16 energy markets is the red area on the left chart, make
17 up about a quarter of the risk-weighted open interest
18 among major CCPs. Then, digging into energy exposure
19 with the right chart, we see that WTI and Brent crude
20 contracts represent about 30 percent of the energy space
21 while the main natural gas contracts represent about 10
22 percent. The remaining risk is usually made up of

1 various tangential crude, distillates, and natural gas
2 contracts.

3 So next slide, please. So here we are
4 actually going to start digging into the performance of
5 an individual risk factor starting with ICE's Brent
6 contract. We are looking at a rolling front-month
7 exposure, with the bars representing the P&L of a single
8 contract. The bars are colored red when a breach
9 occurs. So here we are counting two breaches for long
10 exposure in the first half of 2020. Dates associated
11 with those breaches are also highlighted in red. I
12 consider long exposure a different risk factor from
13 short exposure. So we actually see breaches for the
14 shorts.

15 Now, the gray line in the background is the
16 price path and shows the kind of general down trend in
17 Brent returns. An important note here is that this is
18 the price path of a rolling strategy and not the price
19 level of the contract, which would be different due to
20 the rolling conventions.

21 Next slide, please. So here we simply layer
22 on initial margin as gold lines in the top chart and can

1 see that ICE steadily increased margins as 2020 evolved.
2 We also include open interest and the days until
3 expiration, the bottom to give us additional information
4 about the rolling exposure and some sense of the dollar
5 importance of a breach and how it related to expiration.
6 So for this chart, we see that the front-month breaches
7 did have significant open interest associated with them.
8 Next chart. Okay. So, finally, we add a P&L
9 histogram to the left of the chart, in light blue, to
10 give us some context going back to the beginning of
11 2018. So this suggests that margins were not very tight
12 relative to history as we see only a few ticks outside
13 the starting margin levels.
14 So 2020 has been a busy year in general and
15 for energy, in particular. We started with heightened
16 trade tensions between China and a bull market that was
17 one of the longest seen in history. And that was less
18 than a year ago even though it seemed like forever.
19 Then COVID started traveling around the globe
20 and eventually spurred lockdowns and some of the most
21 severe economic contraction that we've ever seen. Now,
22 during this, oil-producing countries could not agree on

1 production quotas, which then triggered a price war
2 between Saudi Arabia and Russia for a time. So in this
3 chart, we see that Brent, which is a benchmark for cash-
4 settled European crude oil, responds to the Saudi-
5 Russian oil spat price war with the largest down move.
6 And that was over twice any move seen since 2018.

7 Now, ICE responded by gradually raising
8 margins and fully covered some of the subsequent March
9 moves. Now, margin for the front-month Brent contract
10 ended up about 40 percent higher by the end of May than
11 where it started in 2020.

12 Next slide, please. So WTI experienced the
13 same global macro factors as Brent. And we see the same
14 large breaches that we saw in Brent. This was followed
15 by two large whipsaw moves that breach as March expiry
16 approach for WTI. Then we see a major breach on 4/20,
17 the day before expiration in April.

18 Now, CME was, anticipating some issues and
19 raised margin by 1,000 going into settlement, but the
20 move was still 7 times what margin was at the time.
21 Now, this April move was unique to the expiring
22 contract. And no other contract along the curve

1 breached. Since the contract was expiring, open
2 interest was low at around 14,000 contracts. And there
3 was no option risk as those that had settled a few days
4 earlier. This meant that the clearing systems' exposure
5 to the move was actually pretty limited. So in the
6 first half of 2020, we count about 5 breaches for the
7 long exposure and 1 breach for short exposure.

8 Next slide, please. So next we will take a
9 look at ICE's Henry Hub natural gas contract. The
10 histogram at the top left tells us that natural gas
11 experienced some very, very fat tails with multiple
12 points outside of margin at the beginning of the year.
13 Now, further analysis shows that, actually, much of this
14 is due to seasonality. We can even see that margin for
15 natural gas lowered from earlier in the year as the
16 model price ended typically lower spring volatility. We
17 see one breach for the shorts on April 20th that is
18 corresponding to the WTI settlement and another breach
19 on May 6, so slight differences in IM.

20 So let's move on to the next chart. So here
21 we take, actually, a look at the CME's Henry Hub
22 contract, which is a sister contract to ICE's. Note,

1 this is actually four times the size and is physically
2 settled from ICE's contract.

3 Now, the contracts move in lockstep but with
4 slight differences in IM due to the discretion of the
5 CCPs. So here we see two breaches for the shorts and
6 one breach for the long but nothing concerning.

7 The next slide, please. So finally at a
8 product level, we take a look at Gasoil, which is an ICE
9 Europe contract. And we see that the histogram on the
10 left shows that margins were fairly conservative
11 relative to history of only one tick outside the initial
12 margins at the start of Feb. The Gasoil contract
13 experienced three breaches for front month, long
14 exposure, each day correlating with a large down move in
15 Brent and WTI, but margins for the product were
16 relatively stable. And there's really nothing
17 concerning that we saw for such a dramatic event in the
18 general and energy markets.

19 If we move on to the next slide, we are going
20 to start taking a look at all of those products in
21 aggregate. So here we are looking at the relative
22 change of margin levels across all the products we

1 looked at. So margins for all products are indexed to
2 one on January 1, 2020. So a print of two would mean
3 that margins doubled for that product. In oil, we see
4 the green WTI line rise the most and peaking at over
5 three times what margins started at at the beginning of
6 the year. The Brent contract, in blue, peaked at about
7 1.5 times what margins were at the beginning of the
8 year. So by August, crude margins were off their highs
9 but still up about one and a half times than what
10 margins started for for 2020, but it has since actually
11 come down to about 1.2 times what they started for in
12 2020.

13 Now, while the WTI contract started with
14 margins about 22 percent lower than the Brent contract,
15 WTI briefly had margins 60 percent higher than Brent as
16 the May expiry approached. And, while related, WTI and
17 Brent are significantly different products with
18 different contract designs that resulted in different
19 narratives for 2020.

20 So much of the margin patterns, then, we see
21 in natural gas are seasonal, which is why we see it
22 actually decreasing in 2020. The margin performance for

1 the two ICE and CME natural gas products are fairly
2 similar. And they end the sample period down to about
3 20 percent from where they started. So, in general,
4 margins rose, sometimes significantly, during the crisis
5 but have largely retraced from their highs.

6 The next chart, please. So, finally, we will
7 take a look at the characteristics of the margin
8 breaches we saw in aggregate for these energy products.
9 The top chart shows the P&L is a multiple of the margin.
10 So a mark around 1x means that margin is barely
11 breached. Please note that this is on a log scale. The
12 size of the circle then gives us a relative sense for
13 how much margin is allocated to that product at the time
14 of the breach. So a larger circle is a larger product
15 of open interest times initial margin.

16 The bottom charts stack the amount of dollars
17 each breach represents for the day, with the largest on
18 the bottom. So WTI is green, and Brent is blue, appear
19 to dominate the dollar impacts.

20 Now, important note is that this is not
21 actually any dollar lost that a clearing member or
22 customer or CCP actually faced. It is just an estimate.

1 So it becomes obvious, then, that the March 9th event,
2 with the large bar on the bottom chart, with the most
3 impactful from a systematic perspective and is shared
4 largely by Brent is blue and WTI is green. Above the
5 large bar, we see that Brent had more margin dedicated
6 to it at the time of the breach than WTI, but WTI had a
7 greater breach as a percent of margin.

8 Now, jumping over to the April 20th event, we
9 see that there is a small circle at the top of the chart
10 at around seven times for that WTI breach. Now, looking
11 at the associated bar, we see a significant dollar
12 impact but not something systemic like what we saw in
13 March 9th.

14 So, moving on to the last slide, so this brief
15 survey, then, showed us that multiple product levels
16 breach occurred during 2020, but that is to be expected
17 when a crisis unfolds. The histograms suggest that
18 margin was not at cyclical lows, and we saw few breaches
19 stretching back to 2018. Additionally, while not shown,
20 margins were generally above what near-term volatility
21 and applied volatility would suggest.

22 So in crude, we definitely saw an increase in

1 margins, but this is to be expected when you layer an
2 oil price war on top of the global pandemic. And for
3 the other products, we actually saw the other front
4 month margin decrease, but, again, this was largely due
5 to seasonality. So, in general, IM for the major
6 products performed adequately.

7 And we would like to open it up to any
8 questions. Thank you.

9 MS. KNAUFF: Hi. This is Abigail. Are there
10 any questions from the Associate Members?

11 MR. COTA: Hi. This is Sean Cota from NEFI.
12 Will we be getting a copy of these slide decks or is
13 that possible?

14 MS. KNAUFF: The slide decks will be posted to
15 the EEMAC public website, and I can send a copy to all
16 of the Members, Associate Members, and guest panelists
17 participating today.

18 MR. COTA: Thank you so much.

19 CHAIRPERSON WIGGINS: Abigail, any other
20 questions from Associate Members?

21 MS. KNAUFF: I'm not see any from Associate
22 Members.

1 CHAIRPERSON WIGGINS: If there are none from
2 Associate Members, let's move on to EEMAC Members. Are
3 there any questions from EEMAC Members?

4 MS. KNAUFF: Yes. We have a question from
5 Demetri Karousos at Nodal Exchange.

6 CHAIRPERSON WIGGINS: Okay. Demetri?

7 MR. KAROUSOS: Hi, everyone. Good afternoon.
8 Hi, JP. Hi, Sayee. Good to see you. I noted that the
9 analysis in the presentation focused on natural gas and
10 crude oil. I was just wondering if you had also had a
11 chance to look at power markets. I know from my
12 perspective that they were not under nearly any kind of
13 the same stress that, of course, crude went through this
14 spring but just wanted to ask if you had also looked at
15 that as well.

16 MR. ROTHENBERG: Yes. We do actively monitor
17 electrical markets. And, as you said, there just wasn't
18 the same level of stress in those markets that we saw in
19 crude, in particular. The energy markets are
20 fascinating in that way, where even though you have
21 highly, highly related products, they're just really
22 idiosyncratic. So it's something that we keep an eye on

1 and is further being kind of included in that daily
2 systematic surveillance. And it was, interesting this
3 year, but the other products kind of really stole the
4 show as far as concern.

5 CHAIRPERSON WIGGINS: Thank you. Any other
6 questions from EEMAC Members?

7 MS. KNAUFF: I'm not seeing any questions from
8 the other EEMAC Members. We do have a question from
9 Commissioner Berkovitz.

10 CHAIRPERSON WIGGINS: Go ahead, Commissioner.

11 COMMISSIONER BERKOVITZ: Thank you. Thank
12 you, JP and thank you, Sayee. Could you explain to what
13 extent the breaches -- is it the breach? Is it the
14 volatility of that day; and when the volatility changes
15 or when there is a breach, just the process in terms of
16 what is incumbent upon the exchange at that point with
17 respect to margin? Is there an automatic requirement or
18 is it discretionary?

19 And then also, if you could maybe explain for
20 the audience and us, our role, what you do at the CFTC,
21 what we're doing real time in this time period and our
22 involvement at that time? In terms of your

1 surveillance, are you just watching? Are you
2 interacting with the exchanges in terms of how we are
3 following this and what our role is? If you could
4 explain both the regulatory requirement with respect to
5 margin and what the exchange must do, how much
6 discretion they have, and then our actual surveillance,
7 and what our role in that is, I think that would be
8 helpful.

9 MR. ROTHENBERG: I can take the kind of first
10 part of that question. I'll pass the broader part to
11 Sayee.

12 So when a margin model breaches, there is kind
13 of an immediate notification. And then we kind of look
14 at how that breach corresponds in history. And it is
15 important that we are looking at the margin model from a
16 holistic standpoint. So a breach in a particular
17 product or a particular risk factor is not cause for
18 concern in and of itself, especially since accounts,
19 which is where the regulation really kind of hits home,
20 rarely see the number of breaches that a particular
21 product may experience. And that's largely due to
22 diversification in that margin from multiple products,

1 even though they are slightly offsetting, is typically
2 much higher than the risk that a single product faces.

3 So when that happens, we take a detailed look
4 at the margin breach and how it kind of filters up to
5 the account level and try, again, to take a very
6 holistic view to whether this breach indicates a problem
7 with the model's covering of a particular type of
8 portfolio or a particular risk factor. But there is a
9 lot of discretion and expertise that goes into risk
10 management. So it's not something that there is a
11 bright line for action.

12 Now, from the broader perspective, I will pass
13 it on to Sayee for what RSB does.

14 (Pause.)

15 MR. ROTHENBERG: I think you need to unmute.

16 MR. SRINIVASAN: Sorry. Yes.

17 So thank you, Commissioner, for the question.
18 So the margin models are very model-driven. And
19 increasingly, there's less of human intervention in
20 those models. And from our perspective, we actually
21 have a whole suite of tools where intra-day we are
22 tracking activity in the market. So, we don't need to

1 wait to hear from the clearinghouse that a breach has
2 occurred. We could give them alerts that we have pulled
3 where we can sort of see these things building up.

4 And we have sort of a mix of different tools
5 at our disposal. Once again, as JP was saying, we sort
6 of take a very risk-based approach to it. We might be
7 on the phone with the clearinghouse, during the day
8 inquiring about what is happening during March and
9 April, during all of the interesting days that JP was
10 highlighting, we were on the phone with the
11 clearinghouses and deciding how they are managing
12 things.

13 We have account-level information we received
14 from clearing firms and from the CCPs. So we have watch
15 lists as we are tracking vulnerable accounts. We speak
16 to the CCPs. We speak to the clearing members because
17 the clearing members, once again, are much closer to the
18 clients. And if we need be, we can also all go and
19 speak to the client. So our first call is typically to
20 the clearinghouse. And then we sort of speak to the
21 clearing members. And in some of these things, we work
22 pretty closely with our colleagues in the Division of

1 Clearing and Risk so that it is sort of a joint approach
2 to monitoring the markets.

3 I hope that is helpful. And I can sort of
4 elaborate some more on what we do.

5 COMMISSIONER BERKOVITZ: That's very helpful,
6 Sayee. And I would just say to the people who are tuned
7 in and watching, the Members and Associate Members and
8 the public, during this whole period, we were getting,
9 the Commission was getting, daily briefings by our staff
10 on these market developments. And I was pretty
11 impressed with our real-time capabilities. And, Sayee,
12 we had discussions during this period about what was
13 going on. And, really, seeing the plumbing in action
14 firsthand during a period of extreme volatility really
15 gave me a lot of confidence that our systems have really
16 been upgraded and that we have this capability. And I
17 just want to make sure to give the public some
18 understanding and appreciation of the capabilities and
19 the monitoring that we have.

20 And what we saw today was retrospective as to
21 what has happened over the past six months, but we have
22 been compiling that picture and staying on top of it

1 throughout the period and the dialogue with the
2 clearinghouses the whole time. So I think it is very,
3 very helpful. And I appreciate the presentation where
4 we could take the six-month look back and see it in
5 perspective. But we actually had the view of this day-
6 by-day, which was helpful.

7 So thank you. I appreciate that and all the
8 work you have done in your team, you and JP and the
9 whole team, during this period. It's been a pretty
10 intense time.

11 MR. SRINIVASAN: Thank you.

12 CHAIRPERSON WIGGINS: Abigail, do any other
13 Commissioners have questions or comments?

14 MS. KNAUFF: I'm not seeing any at this time.

15 CHAIRPERSON WIGGINS: Okay. Well, with that,
16 we thank everyone for participating. And thanks to all
17 of the Members, the Associate Members, and the guest
18 panelists for the thoughtful participation and
19 thoughtful comments today. We look forward to the
20 ongoing work of the EEMAC and our next meeting, on a
21 date still to be determined, in Spring of 2021.

22 And I will turn it over to Abigail for closing

1 remarks. Abigail?

2 MS. KNAUFF: Thank you. Thank you, Dena.

3 I now recognize Commissioner Behnam to give
4 his closing remarks.

5 COMMISSIONER BEHNAM: Thanks, Abigail.

6 I just want to thank the committee again,
7 these great presentations. Especially this afternoon
8 was very insightful. Thank you, Abigail and Dena, for
9 your organization, the Members for your participation.
10 As we always say, these advisory committees are
11 absolutely critical for us. And especially with all
12 that is going on in the world, in all markets, it has
13 become so much more valuable. And, again, thanks to
14 Commissioner Berkovitz for his leadership, for bringing
15 these issues to the floor and having a really healthy
16 discussion so that we could continue to think about them
17 together.

18 I hope everyone is doing well. And thanks
19 again. I look forward to future meetings.

20 MS. KNAUFF: Thank you, Commissioner Behnam.

21 I now can recognize Commissioner Berkovitz to
22 provide his closing remarks.

1 COMMISSIONER BERKOVITZ: Thank you, Abigail.
2 I just again want to thank all of the panelists today.
3 This has been a really interesting and important meeting
4 on a topic that is very timely.

5 As Commissioner Behnam said, every one of
6 these meetings that we have just reinforces my belief in
7 the value of these meetings, the importance. It is
8 always important. I wish we could do it in person, as I
9 said earlier. But the fact that we can't do it in
10 person, now we have the televideo capability, which is
11 great, but the importance of just the dialogue and
12 keeping the Commission informed. We have been doing a
13 lot of rulemakings this year. And, just talking with
14 Sayee, we have our daily surveillance activities. So we
15 tend to get focused on the near term. And it is really
16 important for us to broaden our perspectives and look at
17 what is going on in the market generally and some of the
18 issues that we don't necessarily focus on when we are
19 doing a particular rulemaking, so taking a step back,
20 talking to market participants, being informed on what
21 the trends and issues are, and also where the market
22 might be going, new products. This is I think our

1 second meeting where we have talked about new products.
2 We focused on environmental products last year, just
3 really important.

4 I just want to thank all of the committee
5 Members. The success of the committee depends on the
6 Members and Associate Members. It can't be successful
7 without your participation, your voluntary
8 contributions. Everything that you do on this committee
9 is voluntary. And we are all busy. We are even busier
10 during the pandemic. So folks who have taken the time
11 and given the presentations and participated in the
12 meeting, I really want to express my appreciation
13 because it is really voluntary efforts on your behalf
14 that help us be successful. And I am really proud of
15 our committee and the members and all of the advisory
16 committees.

17 This is a great tradition we have at the CFTC.
18 And we are talking about diversity and inclusion. One
19 of the great traditions we have at the CFTC is the
20 advisory committees, which are sponsored by individual
21 commissioners. So we have more than five advisory
22 committees I think. We have five commissioners,

1 including the Chairman, who can sponsor advisory
2 committees. And so the diversity that those viewpoints
3 and the diversity the committees bring really help
4 strengthen the Commission overall.

5 So thank you all again. It is an important
6 topic. I look forward to the continuing discussions on
7 equity, diversity, and inclusion. Significant progress
8 is being made. Significant progress will be needed in
9 the future. It's something that we will need to keep a
10 focus on going forward. And I'm glad to see that such
11 important strides have been made. And it was really
12 interesting to hear about that today.

13 Of course, I want to thank our Chair of the
14 committee, Dena, for your continued efforts into making
15 these meetings successful; and, of course, Abigail, our
16 Designated Federal Official, who really -- again, I have
17 to tell the committee that Abigail's duties as
18 Designated Federal Official are also all voluntary, not
19 part of her technical job description. So this is above
20 and beyond what she does in the Division of Clearing and
21 Risk. And we're all grateful for that.

22 There is a tremendous amount of work, as you

1 know, in terms of organizing, getting the dates, getting
2 the paperwork, getting the new Members on. And that was
3 all done in a timely fashion. And those require
4 Commission approval and Federal Register notices and all
5 of that. And so we owe a great debt of gratitude to
6 Abigail for all of that work and Lucy Hynes in my
7 office, too. I want to thank Lucy for all of the work
8 she does in working with Abigail and supporting me and
9 helping my office work with all of the other Commission
10 offices and the committee in making these meetings
11 successful.

12 So, again, thanks to everybody. And I look
13 forward to our activities next year.

14 MS. KNAUFF: Thank you, Commissioner
15 Berkovitz.

16 As an amendment to the roll call earlier in
17 the meeting, I am stating for the record that EEMAC
18 Members Lopa Parikh and Jackie Roberts as well as
19 Associate Members Matt Agen, Susan Bergles, Delia
20 Patterson, and Dr. Richard Sandor have confirmed
21 separately they are in attendance for this meeting.

22 Thank you to all of the EEMAC Members,

1 Associate Members, and guest panelists for your
2 participation at today's meeting. Please stay well and
3 keep an eye out for our survey for dates for the next
4 EEMAC meeting in 2021.

5 This meeting is now adjourned. Thank you.

6 (Whereupon, at 12:57 p.m., the meeting was
7 adjourned.)

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