Sustainability and Shariah Screening: Comparing Two Rules-Based Screening Frameworks

Contributor

Darius Nass
Associate Director
Global Equity Indices
darius.nass@spglobal.com

If an index has already been screened against sustainability criteria, how much more does a Shariah screen change?

At first glance, one may assume there is not much of a difference. The two approaches rule out some of the same business activities, such as tobacco, and point the same way on some measures. So, as of Aug. 31, 2026, the S&P 500® Shariah had a carbon intensity 28.7% below that of its benchmark index; this reflects differences in sector composition rather than any carbon screen or the shared principles themselves.

However, the number of companies excluded suggests otherwise. Of the 503 S&P 500 constituents, sustainability screening removed 177 and Shariah screening removed 237, while only 84 were removed by both (as measured by the S&P 500 Scored & Screened Index and S&P 500 Shariah, respectively, as of Aug. 31, 2026). Those 84 matching exclusions are close to what would be expected if the two screens operated independently of one another.

1. What the Screens Test

Both indices begin with the same 503 constituents. Neither index uses an optimizer, although the Scored & Screened Index applies a sector-neutrality mechanism by design. Each excludes companies and reweights what is left, so any difference between them comes down to the rules that determine which companies remain.

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Shariah screening assesses whether a company is compliant with Islamic law. Two ideas do most of the work: certain business activities are impermissible, and the prohibition of riba, or interest, means that conventional interest-bearing debt and interest-bearing assets are problematic irrespective of what a company does. Compliance is a determination rather than a ranking, so a company either satisfies the rules or it does not. The S&P Shariah Indices apply two kinds of considerations. Business activity exclusions cover areas such as alcohol, gambling, pork products, tobacco and conventional financial services. Accounting ratios then examine debt, cash and interest-bearing securities relative to an average market value of equity. Shariah compliance is assessed monthly by Ratings Intelligence, whose Islamic researchers work directly with a Shariah Supervisory Board of Islamic scholars that approves compliance determinations. The leverage test requires total debt divided by the 36-month average market value of equity to be below 33%. These accounting-based screens do not apply to companies run on a fully Shariah-compliant basis. A company can satisfy every activity rule and still fall outside the accounting thresholds. The S&P 500 Shariah Index applies these tests to the S&P 500. Shariah standards are not uniform. Standard setters, index providers and national Shariah boards apply closely related but distinct thresholds and denominators, so the same company can be compliant under one index family and non-compliant under another without any change in its fundamentals. The analysis that follows therefore describes the S&P Shariah Indices methodology rather than Shariah screening in general.

The S&P 500 Scored & Screened Index also excludes certain business activities, including specified involvement in thermal coal, tobacco and controversial weapons. The index also assesses conduct against the United Nations Global Compact principles, and it takes S&P Global Sustainable 1's Media and Stakeholder Analysis of company controversies into consideration. Then, it ranks the remaining companies. Companies with low S&P Global ESG Scores relative to their benchmark industry group are removed, and selection works down the remaining ranking within each industry group until a target share of that group's market capitalization is reached. The target is 75% of the float market capitalization of each GICS industry group, helping maintain broadly similar industry group weights to the parent index. The index therefore combines two distinct steps—exclusions that set the eligible universe and score-based selection within industry groups—so it is not an exclusions-only framework. Therefore, a company can pass every exclusion and still be left out because higher-ranked names filled the target first.

In this report, we will compare three S&P Shariah Indices (Shariah) and three S&P Scored & Screened Indices (Scored & Screened). Each respective pair starts from the same benchmark index, and observations are as of Aug. 31, 2026, with the exception of the Scored & Screened exclusion reasons cited in Section 4, which are as of April 23, 2026.

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2. How Much Do the Constituent Lists Overlap?

Sustainability screening retained 326 of the 503 S&P 500 constituents, while Shariah screening retained 266, with 173 present in both indices. These are index constituents rather than companies; the different share classes of one company can count separately. Of the 503 constituents, 173 passed both screens and 84 were excluded by both, with the remainder excluded by one screen only. It is tempting to read the 84 companies excluded by both screens as common ground. The problem is that even two selective screens operating independently of one another will still remove some of the same companies. The Scored & Screened screen removed 35.2% of the list and the Shariah screen 47.1%. When multiplying those proportions across the 503 constituents, roughly 83 companies would be excluded by both screens, without assuming any relationship between the screens.

Exhibit 1: Shared Exclusions Are Close to What the List Sizes Predict

Starting Index	Companies Excluded by Both Screens	Expected Exclusions If the Selections Were Independent
S&P 500	84	83.4
S&P Global 1200	213	214.2
S&P World Index	293	293.0

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2026. Table is provided for illustrative purposes.

Put as a conditional, the point is even stronger. Of the S&P 500 constituents absent from the Shariah index, 35.4% were also absent from the Scored & Screened Index. Across the whole starting list, 35.2% were absent. Knowing that a stock had been excluded by one screen moved the estimate by two-tenths of a percentage point.

Three index universes led to near-identical results. This was a snapshot at one date, and the three starting universes overlap, so they are related comparisons rather than independent ones.

3. Counts and Weights Tell Different Stories

The Shariah screen removed more companies: 47.1% of S&P 500 constituents compared with 35.2% for the Scored & Screened Index. Measured by the benchmark’s weight, the ranking reverses. Shariah removed 25.0% of the index's weight, while the Scored & Screened Index removed 38.1%.

The averages explain why. The 93 companies removed only by the Scored & Screened screen each averaged 0.316% of the benchmark’s weight, against a universe average of 0.199%. The 153 removed only by the Shariah screen averaged 0.106%. One screen took out a modest number of large companies, the other a long tail of smaller ones. The pattern held in all three universes. A screen can therefore remove a large share of an index's constituents while leaving most of the index’s market capitalization in place.

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Exhibit 2: How Much Each Screen Excluded

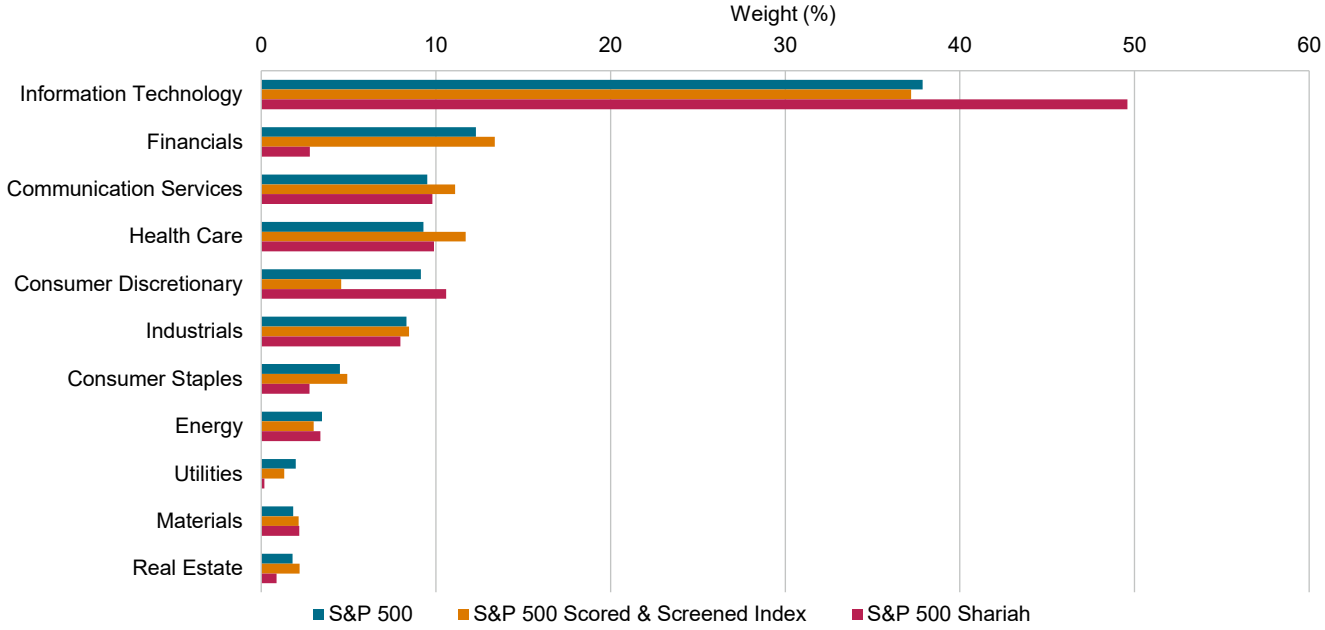
Benchmark Index	Benchmark Index – Count	After Scored & Screened	After Shariah	Scored & Screened Excluded: Count/Weight	Shariah Excluded: Count/Weight
S&P 500	503	326	266	35.2/38.1%	47.1/25.0%
S&P Global 1200	1,217	829	545	31.9/34.0%	55.2/33.5%
S&P World	1,355	838	587	38.2/35.1%	56.7/34.0%

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2026. Table is provided for illustrative purposes.

4. Why the Screens Diverge

Neither screen is indifferent to sector. The Shariah screen removed 90.8% of the S&P 500's Financials constituents, because interest income sits at the center of the sector's business model, and 9.6% of the S&P 500's Information Technology constituents. By comparison, the Scored & Screened screen removed 22.4% of Financials constituents and 41.1% of Information Technology constituents.

Exhibit 3: Sector Weights and How Far Each Screen Moves Them – S&P 500



Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2026. Chart is provided for illustrative purposes. The bars for the S&P 500 show the index weight; the screened bars show the difference from the benchmark in percentage points.

This raises an obvious objection. If the two screens simply target different sectors, the low overlap might be no more than that, and within any given sector, they could still be picking many of the same companies. Repeating the comparison inside each sector does not support that reading. Taken together across sectors, shared exclusions stayed close to what each sector's own exclusion rates would predict. Individual sectors varied, with Consumer Staples showing more overlap than predicted, which is consistent with tobacco appearing on both sets of activity rules; however, no departure was large enough to change the aggregate picture.

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The reasons behind the exclusions sharpen the point. Of the 237 companies removed from the S&P 500 by Shariah screening, 102 were excluded only because of the accounting ratios. Their business activities are permissible; they were excluded because of how they are financed.

Exhibit 4: Reasons for Exclusion from the S&P 500 Shariah

Reason	Companies	Share of Exclusions (%)	Share of Excluded Weight (%)
Accounting Ratios Only	102	43.0	28.8
Business Activity Only	68	28.7	39.3
Both Activity and Ratios	67	28.3	32.0

Source: S&P Dow Jones Indices LLC, Ratings Intelligence. Data as of Aug. 31, 2026. The Shariah exclusion reasons in Exhibit 4 are as of Aug. 31, 2026, and cover all 237 exclusions. The April 23, 2026, rebalance date applies only to the Scored & Screened exclusion reasons cited in the thermal coal and controversy figures. Table is provided for illustrative purposes.

The Scored & Screened methodology contains no equivalent of a leverage test. Therefore, for roughly two in every five Shariah exclusions, the deciding criterion is one the Scored & Screened screen does not assess at all. The reverse case exists too; 18 companies were excluded due to the Scored & Screened screen under its controversy overlay, and only 4 of those 18 were also absent from the Shariah index.

The pattern extends even to the cases in which the screens agree. Seventeen S&P 500 companies were excluded due to the Scored & Screened screen for thermal coal involvement, and all 17 were also excluded from the Shariah index. Every one of them failed on the debt ratio rather than on business activity. Among these 17 constituents, coal-related generation tends to be capital-intensive and is often associated with higher leverage; this is an observation about these constituents rather than a general rule. Two screens, the same 17 companies and no shared reason for removing any of them.

5. Different Holdings, Different Characteristics

Changing which companies an index holds changes what it looks like on measures the methodology never mentions.

Risk is the clearest case. The Shariah index's annualized standard deviation ran 2.15 percentage points above that of the benchmark over the three-year period ending Aug. 31, 2026; for the Scored & Screened Index, the gap was 0.11 percentage points. The sector weights are why. Shariah screening left 49.6% of the index in Information Technology compared with the benchmark's 37.9% and 2.8% in Financials against the benchmark's 12.3%. Concentration raises variability whether or not that is the intention. The higher standard deviation is an outcome of the resulting sector concentration, not a risk objective of either methodology.

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Exhibit 5: S&P 500 Screened Indices – Difference versus Benchmark

Period	Scored & Screened versus Benchmark	Shariah versus Benchmark
1-Year	292 bps	359 bps
3-Year	14 bps	77 bps
5-Year	94 bps	100 bps
10-Year	84 bps	156 bps
3-Year Standard Deviation	0.11 percentage points	2.15 percentage points

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2026. The S&P 500 Scored & Screened Index was launched on Jan. 28, 2019. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Carbon works the same way. Weighted average carbon intensity expresses constituents' emissions relative to revenue, weighted by their index shares. The S&P 500 had a weighted average carbon intensity of 121.77 metric tons of carbon dioxide equivalent per USD 1 million of revenue; for the S&P 500 Shariah, it was 86.88 metric tons. When changing the sector mix, this kind of measure moves, whether or not the methodology mentions emissions.

Exhibit 6: Carbon Characteristics – Each Shariah Index against Its Benchmark

Index	Weighted Average Carbon Intensity, tCO2e per USD 1 Million of Revenue	Carbon to Value Invested, tCO2e per USD 1m Invested
S&P 500	121.77	29.21
S&P 500 Shariah	86.88 (-28.7%)	19.87 (-32.0%)
S&P Global 1200	128.18	38.26
S&P Global 1200 Shariah	102.55 (-20.0%)	24.60 (-35.7%)
S&P Developed LargeMidCap	125.67	38.33
S&P Developed LargeMidCap Shariah	98.83 (-21.4%)	24.60 (-35.8%)

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2026. Table is provided for illustrative purposes. Changes calculated from published values. The third pair uses the S&P Developed LargeMidCap, the universe covered by the available carbon factsheets; the S&P World Index, used above, is the same universe excluding Korea.

These are selected characteristics at one date, not a full environmental profile, and they say nothing about whether the companies concerned would satisfy Scored & Screened selection criteria.

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6. What This Means for Combining the Two

Returning to the question at the start, if an index has already been screened against sustainability criteria, how much more does a Shariah screen change?

Our analysis shows it changes a great deal. In the S&P 500, 173 of 503 constituents satisfied both screens, representing 45.6% of the benchmark's weight. Because the two selections are close to independent, their effects accumulate rather than duplicate, so applying Shariah rules to a list already screened using the Scored & Screened methodology is not a light additional pass. The narrower list also carries the sector characteristics of both sets of rules at once.

The shared principles are real and explain why the two approaches are often discussed together, but comparing constituent lists shows that principles that look similar at a high level produce materially different outcomes. These findings are a snapshot at a single date, subject to the stated exception for certain Scored & Screened exclusion reasons. The three starting universes overlap, so the comparisons are related rather than independent, and no single definitive legal or regulatory test exists for labels such as ‘ESG’ or ‘sustainable’, so classification involves subjective judgment.

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