

S&P Paris-Aligned & Climate Transition (PACT) Indices Consultation on Eligibility Requirements and Constraints

AMSTERDAM, APRIL 20, 2021: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P Paris-Aligned & Climate Transition (PACT™) Indices.

S&P DJI is proposing to make several changes to the eligibility requirements and optimization constraints used in these indices. The table below summarizes the changes, and which indices they will impact. Background and further explanations of the proposed changes are detailed on the following page.

Change	Index Family ¹		Methodology	
	CT	PA	Current	Proposed
Environmental Score Constraint to ESG Score Constraint	X	X	<p>CT: Weighted-average S&P DJI Environmental Score (waE) of the CT Index should be \geq the waE of the eligible universe.</p> <p>PA: Weighted-average S&P DJI Environmental Score (waE) of the PA Index should be \geq the waE of the eligible universe + $(20\% \times (\text{max E score in eligible universe} - \text{eligible universe's waE}))$</p>	<p>CT: Weighted-average S&P DJI ESG Score (waESG) of the CT Index should be \geq the eligible waESG of the eligible universe.</p> <p>PA: Weighted-average S&P DJI ESG Score (waESG) of the PA Index should be \geq the waESG of the universe after 20% of the worst ESG score performing companies by count are removed and weight redistributed.</p>
Introduce buffer rule and revise stock cap	X	X	No buffer, minimum stock weight lower threshold of 0.01%, maximum weight of 5%.	<p>Minimum stock weight threshold ≥ 1 bps for existing constituents and $\max(1\text{bps}, \min(5\text{bps}, 0.5 \times \text{weight in underlying index}))$ for new constituents.</p> <p>Max stock weight: $\max(5\%, \text{weight in underlying index})$</p>
UNGC Exclusion	X	X	All companies at or below the bottom 5% of the Arabesque GC score universe globally are ineligible.	Companies that are deemed by Sustainalytics to be non-compliant are ineligible.
Exclusions based on Business Activities		X	Stocks are excluded for involvement in Controversial Weapons and Tobacco, as defined in the methodology.	Stocks are excluded for involvement in Controversial Weapons, Tobacco, Small Arms, Military Contracting, Thermal Coal, Oil Sands, Shale Energy, Gambling and Alcohol, as defined in the “Exclusions based on Business Activities” section below.

¹ “CT” refers to the S&P Climate Transition Indices and “PA” to the S&P Paris-Aligned Climate Indices

BACKGROUND

The proposed changes are designed to ensure the indices continue to meet their objective, reflect evolving expectations for environmental, social and governance (ESG) business exclusions, while including additional stability to the turnover and stock counts following fluctuations caused by the existing rules. The changes proposed are detailed below:

ENVIRONMENTAL SCORE CONSTRAINT

S&P DJI is proposing to replace the S&P DJI Environmental Score constraint for both the S&P Paris-Aligned Climate and Climate Transition indices with an overall S&P DJI ESG Score constraint. This change is proposed to help ensure the index continues to meet the climate objective without impacting other social and governance objectives. In addition, the constraint for the S&P Paris-Aligned Climate indices (only) will also be amended to ensure an improvement in the weighted average ESG score of the underlying index after 20% of the worst ESG score performing members (by count) are removed and the weight redistributed. This constraint is being introduced to incorporate one of the criteria from the guidelines for the French socially responsible investment label.

INTRODUCE BUFFER RULES AND REVISE STOCK CAP

S&P DJI is proposing to replace the existing threshold of 1bps for all constituents, with a minimum threshold weight of 1bps for existing constituents and a threshold weight of the maximum of either 1bps, or the minimum of 5bps or half the weight in the underlying index for new constituents. In addition, a stock cap of the maximum of either 5% or the stock's weight in the underlying index is being proposed. These changes are designed to reduce turnover and provide more stability to the index count. These proposed changes would be implemented for both the S&P Paris-Aligned Climate and Climate Transition indices.

UNGC EXCLUSIONS

S&P DJI is proposing to change the provider of United Nations Global Compact data for both the S&P Paris-Aligned Climate and Climate Transition indices from Arabesque to Sustainalytics, and to exclude stocks that are deemed by Sustainalytics to be Non-Compliant. This change is being proposed to move away from the use of a continuous data set towards a discrete data set, which is a more effective mechanism to achieve the index objective.

EXCLUSIONS BASED ON BUSINESS ACTIVITIES

S&P DJI is proposing to introduce additional exclusions based on Sustainalytics Product Involvement data in the S&P Paris-Aligned Climate indices (only). The additional exclusions cover Small Arms, Military Contracting, Thermal Coal, Oil Sands, Shale Energy, Gambling and Alcohol involvement areas. In addition, the existing Tobacco exclusion for Retail will be modified. Details of the additional and amended exclusions are described in the table on the following page. These changes are being proposed to ensure the indices remain consistent with the index objective and help the indices meet climate objectives without increasing exposure to activities that run counter to the index objective.

CONSULTATION

Product Involvement Area	Category of Involvement	S&P DJI Level of Involvement Threshold ²
Tobacco	Retail	≥5% ³
Small Arms	Civilian Customers (Assault Weapons)	>0%
	Military/Law Enforcement Customers	>0%
	Key Components	>0%
	Retail/Distribution (Assault Weapons)	>0%
	Retail/Distribution (Non-Assault Weapons)	>0%
	Civilian Customers (Non-Assault Weapons)	>0%
Military Contracting	Weapons	>0%
	Weapon Related Products and/or services	>0%
Thermal Coal	Power Generation	≥5%
Oil Sands	Extraction	≥5%
Shale Energy	Extraction	≥5%
Gambling	Operations	≥10%
Alcoholic Beverages	Production	>0%
	Related Products/Services	≥10%
	Retail	≥10%

IMPACT ANALYSIS

For an analysis of the impact⁴ of the proposed changes, please refer to the file available [here](#).

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, in conjunction with the upcoming rebalancing, which takes effect prior to the market open on Thursday, July 1, 2021. If adopted, the changes will first be visible to clients beginning on Wednesday, June 23, 2021.

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. Do you agree with the proposal to replace the Environmental Score Constraint with an ESG Score Constraint for both the S&P Paris-Aligned Climate and Climate Transition Indices, and revise the constraint for the S&P Paris-Aligned Climate Index?
2. Do you agree with the proposal to introduce a buffer rule and revise the stock cap for both the S&P Paris-Aligned Climate and Climate Transition Indices?
3. Do you agree with the proposal to change the UNGC data provider from Arabesque to Sustainalytics for both the S&P Paris-Aligned Climate and Climate Transition Indices?
4. Do you agree with the proposal to expand and amend the Business Activities Exclusions for the S&P Paris Aligned Climate Indices (only)?
5. If any/all of the proposed changes are adopted, do you agree with the proposed implementation date?
6. Do you have any other comments or feedback regarding the proposed changes outlined above?

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Please respond to this survey by

² All involvements are based on revenues.

³ Currently ≥10%. This change is non-impactful.

⁴ The hypothetical impact analysis and statistics apply proposed consultation rules as of the index rebalancing in March 2021.

CONSULTATION

May 10, 2021. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at SPDJI_Index_Governance@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit www.spdji.com.

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