

Zug, October 24<sup>th</sup>, 2023

## Market Consultation on proposed changes to the STOXX Low Carbon, STOXX Climate Awareness and STOXX Climate Impact family of indices

Dear Sir and Madam,

STOXX Ltd. decided to conduct a market consultation on proposed changes to the methodology of the STOXX Low Carbon, STOXX Climate Awareness and STOXX Climate Impact family of indices.

The market consultation may or may not lead to changes in the index methodology.

### Process and Timeline

STOXX invites relevant stakeholders and interested third parties to submit responses to [consultation@stoxx.com](mailto:consultation@stoxx.com).

The consultation is open to all market participants until November 17th, 2023.

STOXX intends to announce the results of the market consultation, as well as an announcement about potential changes to the index methodology, by November 24th, 2023.

STOXX intends to implement the potential change of indices where the annual review shall change from December to March with the ordinary review on December 18th, 2023. In such instance, the annual review of these indices would be performed with the ordinary review on March 18th, 2024, instead of December 2023.

STOXX intends to implement the potential changes for all other proposals resulting from this consultation with the ordinary review on March 18th, 2024.

### Motivation for the Market Consultation

As part of STOXX's ongoing methodology reviews and as sustainable investing continues to evolve, we would like to seek market opinion regarding the proposed sustainability screens for the affected indices.

Proposed enhancements aim to help investors align their ESG objectives with the current developments in the sustainable finance space - i.e. Sustainable Finance Disclosure Regulation (SFDR)<sup>1</sup> and the Markets in Financial Instruments Directive II (MiFID II)<sup>2</sup>. The new screens have the objective of a stricter ESG screening criteria as well as broadening considerations of some SFDR principal adverse impact (PAI) indicators, at the same time keeping to a consistent threshold approach and maintaining a close tracking error to the parent benchmarks.

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<sup>1</sup> [https://eur-lex.europa.eu/eli/reg\\_del/2022/1288](https://eur-lex.europa.eu/eli/reg_del/2022/1288)

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TEXT/?uri=CELEX:32021R1253>

## Proposed Treatments/Amendments

STOXX is looking to enhance the methodology of the **STOXX Low Carbon Indices** with these additional screens.

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
(a) Norms Based Screening		STOXX will exclude companies that ISS ESG identifies to have a "RED" Norms Based Screening	New criterion	PAI 10 (fully aligned)
(b) Controversial Weapons		STOXX will exclude companies that ISS ESG identifies to be involved Controversial Weapons through the "RED" screening	New criterion	PAI 14 (fully aligned)
(c) Tobacco		STOXX will exclude companies that ISS ESG identifies to have: > 0% Revenues from involvement in the production of tobacco products > 5% Revenues from the wholesale or retail distribution of tobacco products > 5% Revenues from services related to tobacco products	New criterion: Reduce exposure to companies involved in tobacco-related products and services or distribution of tobacco products	
(d) Thermal Coal	Exclusion of ICB 60101040	STOXX will exclude companies that ISS ESG identifies to have: > 5% Revenues from thermal coal mining, including any exposure in production or services > 5% Revenues from generation of electric power using coal	Expanded criterion: Reduce exposure to companies involved in thermal coal extraction and power generation	
(e) Civilian Firearms		STOXX will exclude companies that ISS ESG identifies to have: > 0% Revenues from involvement in the production of civilian firearms and/or the provision of related services > 5% Revenues from involvement in the	New criterion: Reduce exposure to companies involved in manufacturing and selling small arms, or key components of small arms, and distribution of small arms (both assault and non-assault weapons).	

		distribution of civilian firearms		
(f) Military		STOXX will exclude companies that ISS ESG identifies to have:  > 10% Revenues from involvement in military equipment and services	New criterion:  Reduce exposure to companies involved in military contracting	
(g) Unconventional Oil & Gas Involvement		STOXX will exclude companies that ISS ESG identifies to have:  > 5% Revenues from the extraction and processing of oil sands  > 5% Revenues from the extraction of oil and gas extraction through arctic drilling  > 5% Revenues from hydraulic fracturing	New criterion:  Expand the fossil fuel screen to exclude companies involved in unconventional oil & gas exploration and/or production	PAI 4 and 5 (partially aligned)

**Table 1: Proposed changes for STOXX Low Carbon Indices**

STOXX is looking to enhance the methodology of the **STOXX Climate Awareness and Climate Impact Indices** with these additional screens.

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
(a) Norms Based Screening	STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment	STOXX will exclude companies that ISS ESG identifies to have a "RED" Norms Based Screening	Change provider to ISS	PAI 10 (fully aligned)
(b) Controversial Weapons	STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons.	STOXX will exclude companies that ISS ESG identifies to involved Controversial Weapons through the "RED" screening	Change provider to ISS	PAI 14 (fully aligned)
(c) Tobacco	Exclusion of ICB 45103010  (this currently applies only for STOXX Climate Awareness Ex Global Compact, Controversial Weapons and Tobacco and STOXX Climate Impact Ex Global Compact, Controversial	STOXX will exclude companies that ISS ESG identifies to have:  > 0% Revenues from involvement in the production of tobacco products  > 5% Revenues from the wholesale or retail distribution of tobacco products	New/Expanded criterion:  Reduce exposure to companies involved in tobacco-related products and services or distribution of tobacco products	

	Weapons and Tobacco families)	> 5% Revenues from services related to tobacco products		
(d) Thermal Coal	Exclusion of ICB 60101040	<p>STOXX will exclude companies that ISS ESG identifies to have:</p> <ul style="list-style-type: none"> <li>&gt; 5% Revenues from thermal coal mining, including any exposure in production or services</li> <li>&gt; 5% Revenues from generation of electric power using coal</li> </ul>	Expanded criterion: Reduce exposure to companies involved in thermal coal extraction and power generation	
(e) Civilian Firearms		<p>STOXX will exclude companies that ISS ESG identifies to have:</p> <ul style="list-style-type: none"> <li>&gt; 0% Revenues from involvement in the production of civilian firearms and/or the provision of related services</li> <li>&gt; 5% Revenues from involvement in the distribution of civilian firearms</li> </ul>	New criterion: Reduce exposure to companies involved in manufacturing and selling small arms, or key components of small arms, and distribution of small arms (both assault and non-assault weapons).	
(f) Military		<p>STOXX will exclude companies that ISS ESG identifies to have:</p> <ul style="list-style-type: none"> <li>&gt; 10% Revenues from involvement in military equipment and services</li> </ul>	New criterion: Reduce exposure to companies involved in military contracting	
(g) Unconventional Oil & Gas Involvement		<p>STOXX will exclude companies that ISS ESG identifies to have:</p> <ul style="list-style-type: none"> <li>&gt; 5% Revenues from the extraction and processing of oil sands</li> <li>&gt; 5% Revenues from the extraction of oil and gas extraction through arctic drilling</li> <li>&gt; 5% Revenues from hydraulic fracturing</li> </ul>	New criterion: Expand the fossil fuel screen to exclude companies involved in unconventional oil & gas exploration and/or production	PAI 4 and 5 (partially aligned)

**Table 2: Proposed changes for STOXX Climate Awareness and Climate Impact Indices**

**For all affected indices:**

In addition, STOXX is proposing to change the annual review frequency of these indices from December to March of the following year.

STOXX is also proposing to amend the Carbon Intensity data provider to ISS ESG from CDP. The Carbon Intensity definition [Carbon Intensity = (Scope 1 + Scope 2 GHG emissions) / Revenue (USD million)] remains.

**For Your Information:**

If the proposed changes are to be agreed and implemented, then the below indices [see table 3] would result in the same, identical index from the implementation date of March 18th, 2024. Following the results of this market consultation and depending on client interest, a review of a potential decommissioning of one of the then identical indices may be performed.

STOXX Asia/Pacific Climate Awareness Ex Global Compact and Controversial Weapons
STOXX Asia/Pacific Climate Awareness Ex Global Compact Controversial Weapons & Tobacco
<a href="#">STOXX Asia/Pacific Climate Impact Ex Global Compact and Controversial Weapons</a>
<a href="#">STOXX Asia/Pacific Climate Impact Ex Global Compact Controversial Weapons &amp; Tobacco</a>
STOXX Europe Climate Awareness Ex Global Compact and Controversial Weapons
STOXX Europe Climate Awareness Ex Global Compact Controversial Weapons & Tobacco
<a href="#">STOXX Europe Climate Impact Ex Global Compact and Controversial Weapons</a>
<a href="#">STOXX Europe Climate Impact Ex Global Compact Controversial Weapons &amp; Tobacco</a>
STOXX Global Climate Awareness Ex Global Compact and Controversial Weapons
STOXX Global Climate Awareness Ex Global Compact Controversial Weapons & Tobacco
<a href="#">STOXX Global Climate Impact Ex Global Compact and Controversial Weapons</a>
<a href="#">STOXX Global Climate Impact Ex Global Compact Controversial Weapons &amp; Tobacco</a>
STOXX North America Climate Awareness Ex Global Compact and Controversial Weapons
STOXX North America Climate Awareness Ex Global Compact Controversial Weapons & Tobacco
<a href="#">STOXX North America Climate Impact Ex Global Compact and Controversial Weapons</a>
<a href="#">STOXX North America Climate Impact Ex Global Compact Controversial Weapons &amp; Tobacco</a>
<b>Table 3: Overview of possible identical indices after implementing proposed changes</b>

## Impacted Indices

### **STOXX Low Carbon family**

EURO STOXX 50 Low Carbon  
EURO STOXX Low Carbon  
EURO STOXX Reported Low Carbon  
STOXX Europe 600 Low Carbon  
STOXX Europe Low Carbon 100  
STOXX Europe Low Carbon 100 Equal Weight  
STOXX Europe Low Carbon 50  
STOXX Europe Low Carbon 50 Equal Weight  
STOXX Europe Low Carbon Footprint  
STOXX Europe Reported Low Carbon  
STOXX Global 1800 ex Australia Low Carbon  
STOXX Global 1800 ex Europe Low Carbon  
STOXX Global 1800 ex Japan Low Carbon  
STOXX Global 1800 ex USA Low Carbon  
STOXX Global 1800 Low Carbon  
STOXX Global Climate Change Leaders  
STOXX Global Low Carbon 100  
STOXX Global Low Carbon 100 Equal Weight  
STOXX Global Low Carbon 400  
STOXX Global Low Carbon 400 Equal Weight  
STOXX Global Low Carbon Footprint  
STOXX Global Reported Low Carbon  
STOXX Japan Low Carbon  
STOXX USA Low Carbon  
STOXX USA Low Carbon 50  
STOXX USA Low Carbon 50 Equal Weight  
STOXX USA Reported Low Carbon

### **STOXX Climate Awareness and Climate Impact families**

STOXX Asia/Pacific Climate Awareness Ex Global Compact and Controversial Weapons  
STOXX Asia/Pacific Climate Awareness Ex Global Compact Controversial Weapons & Tobacco  
STOXX Asia/Pacific Climate Impact Ex Global Compact and Controversial Weapons  
STOXX Asia/Pacific Climate Impact Ex Global Compact Controversial Weapons & Tobacco  
STOXX Europe Climate Awareness Ex Global Compact and Controversial Weapons  
STOXX Europe Climate Awareness Ex Global Compact Controversial Weapons & Tobacco  
STOXX Europe Climate Impact Ex Global Compact and Controversial Weapons  
STOXX Europe Climate Impact Ex Global Compact Controversial Weapons & Tobacco  
STOXX Global Climate Awareness Ex Global Compact and Controversial Weapons  
STOXX Global Climate Awareness Ex Global Compact Controversial Weapons & Tobacco  
STOXX Global Climate Impact Ex Global Compact and Controversial Weapons  
STOXX Global Climate Impact Ex Global Compact Controversial Weapons & Tobacco  
STOXX North America Climate Awareness Ex Global Compact and Controversial Weapons  
STOXX North America Climate Awareness Ex Global Compact Controversial Weapons & Tobacco  
STOXX North America Climate Impact Ex Global Compact and Controversial Weapons  
STOXX North America Climate Impact Ex Global Compact Controversial Weapons & Tobacco

## Derived Indices

EURO iSTOXX 50 Low Carbon Decrement 4.75%  
EURO iSTOXX 50 Low Carbon Decrement 5%  
EURO iSTOXX 50 Low Carbon NR Decrement 3.75%  
EURO STOXX Low Carbon Diversification Select 50  
EURO STOXX Low Carbon Select 50  
iSTOXX Europe Climate Impact Ex GC CW & Tobacco GR Decrement 5%  
iSTOXX Europe Climate Impact Ex GC CW & Tobacco NR Decrement 4.75%  
iSTOXX Europe ESG Climate Awareness Select 50  
STOXX Europe Low Carbon Diversification Select 50  
STOXX Europe Low Carbon Select 50  
STOXX Global Low Carbon Diversification Select 100  
STOXX Global Low Carbon Select 100  
STOXX USA Low Carbon Diversification Select 50  
STOXX USA Low Carbon Select 50

## Questions

1. Do you agree that the STOXX Low Carbon, STOXX Climate Awareness and STOXX Climate Impact family of indices should be enhanced to reflect the current developments in the sustainable finance space?
2. Do you agree that the proposed screens below would bring the STOXX Low Carbon, STOXX Climate Awareness and STOXX Climate Impact family of indices in closer alignment to relevant regulatory requirements?

### For STOXX Low Carbon indices:

3. For STOXX Low Carbon indices, do you agree that there should be a Norms Based Screening [see (a) Norms Based Screening in the STOXX Low Carbon table 1]?
4. For STOXX Low Carbon indices, do you agree that there should be a Controversial Weapons Based Screening for the XXX indices [see (b) Controversial Weapons in the STOXX Low Carbon table 1]?

### For STOXX Climate Awareness and Climate Impact indices:

5. For STOXX Climate Awareness and Climate Impact indices, do you agree with changing the Norms Based Screening provider to ISS ESG to align with the other screens [see (a) Norms Based Screening in the STOXX Climate Awareness and Climate Impact table 2]?
6. For STOXX Climate Awareness and Climate Impact indices, do you agree with changing the Controversial Weapons provider to ISS ESG to align with the other screens [see (b) Controversial Weapons in the STOXX Climate Awareness and Climate Impact table 2]?

### For STOXX Low Carbon, STOXX Climate Awareness and Climate Impact indices:

7. Do you agree that there should be reduced exposure to companies involved in tobacco-related products and services or distribution of tobacco products [see (c) Tobacco in both tables]?
8. Do you agree that there should be thresholds for companies involved in thermal coal mining and power generation [see (d) Thermal Coal in both tables]?
9. Do you agree that there should be reduced exposure to companies involved in manufacturing and selling civilian firearms, or distribution of civilian firearms [see (e) Civilian Firearms in both tables]?
10. Do you agree that there should be reduced exposure to companies involved in military [see (f) Military in both tables]?
11. Do you agree that there should be reduced exposure to companies involved in unconventional oil & gas extraction [see (g) Unconventional Oil & Gas in both tables]?

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12. Are you in favour of changing the annual review from December to March of the following year?

13. Are you in favour of changing the Carbon Intensity provider to ISS ESG?

**If your answer to the any of the above questions is NO, please also kindly explain your reasons behind it.**

14. Are there any other product involvement screens that you think should be included in the methodology?

15. Do you have other considerations that you would like to see in the methodology?