

Zug, August 1st, 2024

Market Consultation on proposed changes to DAX & STOXX indices impacted by the ESMA Guidelines on funds' names using ESG or sustainability-related terms

Dear Sir or Madam,

STOXX Ltd. has decided to conduct a market consultation on proposed changes to indices related to ESMA's Guidelines on funds' names using ESG or sustainability-related terms.

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@stox.com.

The consultation is open to all market participants until 24th of September 2024.

STOXX intends to announce the results of the market consultation, as well as an announcement about potential changes to the index methodology, by 30th of September 2024.

STOXX intends to implement any changes resulting from this consultation at the ordinary index review in December 2024 and March 2025.

Motivation for the Market Consultation

The final report on European Securities and Markets Authority (ESMA) [guidelines on funds' names](https://www.esma.europa.eu/sites/default/files/2024-05/ESMA34-472-440_Final_Report_Guidelines_on_funds_names.pdf)¹ (the "ESMA Guidelines") using ESG or sustainability-related terms was published on May 14, 2024. Funds that are not aligned with the ESMA Guidelines will have to either change the fund's name or change the fund's investment strategy.

The ESMA Guidelines apply to fund managers who may want to use the name of the STOXX ESG index in the name of the fund which is tracking the index. If STOXX were not to align the names and methodologies of its ESG benchmarks with the ESMA Guidelines, clients would have to adjust associated products by renaming the product and/or changing the product's description. Therefore, STOXX wants to ensure that the names and methodologies of its ESG indices are aligned with the requirements of the ESMA Guidelines. In this context, STOXX has developed a series of proposed modifications to certain indices to align their methodologies with the ESMA Guidelines and now seeks market participants' feedback on the proposed changes.

Another aspect of this consultation relates to the fact that Sustainalytics has decided to decommission their legacy ESG scores in December 2024. We are planning to replace this data with ESG scores provided by ISS ESG (which is a separate organizational unit of the ISS STOXX group of companies). With ISS ESG's research as part of ISS STOXX, in-house data and knowledge can be used more broadly in STOXX' ESG indices. This plan is based on a thorough analysis of the respective data sets.

¹ https://www.esma.europa.eu/sites/default/files/2024-05/ESMA34-472-440_Final_Report_Guidelines_on_funds_names.pdf

Proposed Treatments/Amendments and Affected Indices

1. Satisfying the new ESMA Guidelines on funds' names using ESG or sustainability-related terms

STOXX proposes changing the indices to align their methodologies with the ESMA Guidelines subject to the respective index category. STOXX has listed the proposed amendments for each affected index in a supplemental Excel file and refers to it as per the proposed amendments described below.

Column C to H shows the category to which the index would be categorized under the new ESMA Fund Names Category guideline. ESMA defined the requirements for each ESMA fund Names Index Category. An index can only be in one of the categories. We propose to amend the methodology to satisfy these requirements based on the respective index category.

- Example I: All indices that fall under the index category of "green", "environmental", "climate", may include "ESG", "SRI". This index category has to meet (a) and (b) requirements of the table below, respectively shown in column I and J of the supplemental Excel file. E.g., DAX 30 ESG in the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.
- Example II: All indices that fall under the index category of "Sustainability", "Sustainable", cases when S stands for Sustainable. This index category has to meet (a), (b) and (d) requirements of the table below, respectively shown in column I, J and L of the supplemental Excel file. E.g., EURO STOXX Sustainability in the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.
- Example III: All indices that fall under the index category of "Transition". This index category has to meet (a), (c) and (e) requirements of the table below, respectively shown in column I, K and M of the supplemental Excel file. E.g., STOXX Europe 600 Climate Transition Benchmark in the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.
- Example IV: All indices that fall under the index category of "Impact". This index category has to meet (a), (b) and (e) requirements of the table below, respectively shown in column I, J and M of the supplemental Excel file. E.g., STOXX Europe Climate Impact Ex Global Compact Controversial Weapons & Tobacco in the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.
- Example V: All indices that fall under the index category of " Social". This index category has to meet (a) and (c) requirements of the table below, respectively shown in column I and K of the supplemental Excel file. E.g., EURO STOXX Women in Management High Dividend 30 in the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.

	Requirements				
	(a) Meet an 80% threshold linked to the proportion of investments used to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of the investment strategy, which are to be disclosed in Annexes II and III of CDR (EU) 2022/1288	(b) Exclude investments in companies referred to in Article 12(1)(a) to (g) of CDR (EU) 2020/1818 (PAB exclusionary screens)	(c) Exclude investments in companies referred to in Article 12(1)(a) to (c) of CDR (EU) 2020/1818 (CTB exclusionary screens)	(d) Commit to invest meaningfully in sustainable investments referred to in Article 2(17) of the SFDR.	(e) Should also ensure that investments used to meet other thresholds are on a clear and measurable path to social or environmental transition or are made with the objective to generate a positive and measurable social or environmental impact alongside a financial return
Interpretation based on the draft guidelines	The underlying universe is explicitly reduced by at least 20% due to ESG exclusions. ESG exclusions will include norms-based and product involvement screens, as well as removing companies with poorer ESG scores.	CW, Tobacco, Coal (>1%), Oil fuels (>10%), Gaseous fuels (>50% / Power generation), UNGC principles / OECD guidelines	- companies involved in any activities related to controversial weapons ; - companies involved in the cultivation and production of tobacco ; - companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;	SI percentage - positive sustainable revenue contribution not embedded in the methodology, make sure there is improvement in SI percentage relative to parent index	
"green", "environmental", "climate", may include "ESG", "SRI"	Yes	Yes			
"Sustainability", "Sustainable", cases when S stands for Sustainable	Yes	Yes		Yes	
"Transition"	Yes		Yes		Yes
"Impact"	Yes	Yes			Yes
"Social"	Yes		Yes		
"Governance"	Yes		Yes		

2. ESG Data provider switch

STOXX plans to replace legacy Sustainability indicators with the suitable indicators provided by ISS ESG. Affected Indices in scope to switch to ISS ESG are marked "Yes" in column N of the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.

STOXX has listed the planned amendments for each affected index in the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.

Affected indices

STOXX has listed affected indices in the supplemental Excel file, tab 'Indices Impacted by 24-09-24'.

Questions

Clients are invited to indicate their preference for the original indices or the amended versions.

1. Do you have any objections to amending the affected indices according to its defined index category as proposed in the supplemental Excel file, see column C to H for index category and columns I to M for the respective proposed changes? Please state the affected indices you would like to provide feedback on.
2. Do you have any objections to switching the ESG data provider from Sustainalytics to ISS ESG as shown in column N of the supplemental Excel file? Please state the affected indices for which you would like to provide feedback.

If you have objections to any of the above questions, please also kindly explain your reasons behind it.