

## S&P Global Clean Energy Index Consultation on Index Universe Expansion, Weighting Scheme Changes, and Incorporation of Exclusion Criteria

**NEW YORK, AUGUST 20, 2021:** In accordance with the Future Considerations section of the [S&P Global Clean Energy Index Consultation on Exposure Scores, Target Constituent Count, and Constituent Weightings](#) issued on March 12, 2021, S&P DJI is conducting a follow-up consultation with market participants on potential changes to the S&P Global Clean Energy Index.

In order to enhance index diversification, S&P DJI is proposing to expand the index universe and amend the index's weighting scheme. Under these proposals, the index would:

- Allow for the inclusion of emerging market listings.
- Use FactSet's Revere Business Industry Classification System ("RBICS") classifications.
- Introduce Trucost Power Generation Data for Utility companies.
- Introduce two classification segments: Production and Non-Production.
- Introduce new scopes including Energy Storage, Smart Grid Technologies & Meters, Alternative Energy Vehicle Manufacturers and Efficient Energy Application.
- Refine the liquidity cap rule and introduce new stock-level and group-level caps on companies in the Non-Production segment.
- Clarify the Exposure Score calculations to increase methodological transparency.

In conjunction with the proposed index universe expansion, S&P DJI is also considering changes to the Carbon Intensity Screen in order to further reduce the index's carbon footprint.

Additionally, S&P DJI is considering the introduction of the following exclusion criteria in order to align the index methodology with market trends and sustainable investing norms:

- Sustainalytics Business Activity Screenings
- Exclusions Based on Sustainalytics' Global Standards Screening
- Media and Stakeholder Analysis Overlay

Details of these proposed changes can be found below and on the following pages.

### Index Universe Expansion

In order to expand the index universe and provide more transparency regarding the selection process, S&P DJI is considering updating the Domicile/Trading Location eligibility factor and the index construction process to the following:

**Domicile/Trading Location.** Companies must be domiciled and trading in an emerging or developed market location.

**Index Construction.** Stocks that meet the eligibility criteria are reviewed for specific practices related to clean energy. Index constituents are drawn from the S&P Global BMI.

The preliminary universe of companies is identified based on ANY of the following screens:

- Companies that derive at least 25% in aggregate revenue from Clean Energy Production & Non-Production related businesses as defined by RBICS data (see list in Appendix 1)
- Companies from “General Utilities” as defined by the following GICS sub-industries, that generate at least 20% of their power (as measured by Trucost Data) from renewable sources (i.e. Wind, Solar, Hydroelectric, Biomass, Geothermal):
  - Electric Utilities (55101010)
  - Multi-Utilities (55103010)
  - Independent Power Producers & Energy Traders (55105010)
- Companies from “Renewable Utilities” as defined by the GICS Sub-industry Renewable Electricity (55105020).
- Companies that had an exposure score of at least 0.5 in the universe for consideration as of the previous rebalancing

“General Utilities”, “Renewable Utilities” and companies identified through RBICS sub-industries that are classified as Production (see Appendix 1) will form the universe of Production companies. The universe of Non-Production companies is identified through RBICS sub-industries that are classified as Non-Production (see Appendix 1).

For companies with exposure scores of 0.5 as of the previous rebalancing that do not fall into the above buckets, the assignment of Production vs. Non-Production will be determined by the Index Committee based on relevant revenue and business descriptions.

Please refer to <https://insight.factset.com/resources/factset-revere-business-industry-classifications-datafeed> for more information on RBICS.

**Weighting Scheme Changes**

In order to maintain diversification between Production and Non-Production companies within the index under the proposed expanded index universe, S&P DJI is considering the introduction of separate stock-level and group-level caps on companies labeled as Non-Production, as detailed in Appendix 1.

1. The aggregate weight of the segment is capped at 33%
2. Individual stocks are subject to caps depending on their exposure score as outlined in the table below.

Exposure Score	Cap
1	4%
0.75	3%
0.5	2%

*Note: Individual stocks within the Production segment will maintain their current caps of 8%, 6%, and 4% for exposure scores of 1, 0.75, and 0.5, respectively.*

**Refining the Liquidity Cap Rule.** The current 5x liquidity weight cap will be refined to ensure that it continues to serve its purpose. As such, the initial liquidity weight calculated for each stock will be subject to the individual exposure score caps defined for both Production and non-Production segments. The excess weight will be redistributed proportionally across the rest of the index to arrive at

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a final liquidity weight. The liquidity cap for each stock, as defined as five times (5x) its liquidity weight, will be determined based on this final liquidity weight.

**Carbon Intensity Screen Changes**

In order to improve the carbon footprint of the index with the proposed expanded universe, S&P DJI is considering amending the current carbon-to-revenue footprint scoring approach. Under this proposal the calculation would use all stocks in the preliminary universe (before introducing the exclusion criteria described on the following pages) with an exposure score of 1 instead of eligible stocks with exposure scores of 1, 0.75, and 0.5.

The carbon-to-revenue footprint standard score would be calculated by subtracting the mean carbon-to-revenue footprint of all preliminary universe stocks with an exposure score of 1 as of the rebalancing reference date from each stock’s carbon-to-revenue footprint and then dividing the difference by the standard deviation (also determined based on preliminary universe stocks with an exposure score of 1). The top and bottom five percent (5%) are excluded from the mean and standard deviation calculations.

**Clarification on Exposure Score Calculations**

In conjunction with the above proposed changes, S&P DJI will further describe the calculation and thresholds used to determine the Exposure Scores used for selection and weighting purposes, as detailed below.

**Exposure Score Assignment Steps**

1. Calculate Clean Revenue Score
  - Calculate a revenue score for all eligible companies by aggregating the percentage of revenue across all in-scope sub-industries based on RBICS data described in Appendix 1.
2. Calculate Clean Power Generation Score for Utilities/Power Generation companies
  - Calculate the percentage of clean power generation for companies that are involved in power generation businesses. These are companies that primarily belong to “General Utilities” or “Renewable Utilities”.
  - Adjust the percentage of clean power generation for each company by multiplying into “Relevant Revenue”. “Relevant Revenue” is considered revenue sourced from power generation and distribution activities, as defined by RBICS data (see Appendix 1). (Note: The purpose of this adjustment is to ensure power generation companies involved in other businesses such as water supply, engineering services or natural gas supply are scaled appropriately to reflect a more representative score, see example in Appendix 2).

3. Step 3: Calculate Final Exposure Score

For non-power generation companies, assign scores based on the following clean revenue thresholds

Non-Power Generation Companies	Exposure Scores			
	1	0.75	0.5	0
Clean Revenue Score (x)	$x \geq 75\%$	$50\% \leq x < 75\%$	$25\% \leq x < 50\%$	$x < 25\%$

For power generation related companies, including “General Utilities” and “Renewable Utilities”, there will be two scores available for each company: Clean Revenue Score and Clean Power Generation Score. Score assignment will be based on the maximum of the two scores:

Clean Score = Max (Clean Revenue Score, Clean Power Generation Score)

Power Generation Companies (Utilities) Clean Score (x)	Exposure Scores			
	1	0.75	0.5	0
	$x \geq 75\%$	$50\% \leq x < 75\%$	$25\% \leq x < 50\%$	$x < 25\%$

## Sustainalytics Business Activity Screenings

As of each rebalancing reference date, companies with specific Levels of Involvement and/or Significant Ownership Thresholds, as specified and measured by Sustainalytics, are excluded from the eligible universe:

Sustainalytics Product Involvement	Sustainalytics Category of Involvement and Description	Sustainalytics Involvement Proxy	S&P DJI Level of Involvement Threshold	S&P DJI Significant Ownership Threshold
Controversial Weapons	Tailor Made and Essential & Non-Tailor Made and Non-Essential: The company is involved in the core weapon system, or components/services of the core weapon system that are, and are not, considered tailor-made and essential for the lethal use of the weapon.	NA	>0%	≥25%
Small Arms	Civilian Customers (Assault and Non-Assault Weapons): The company manufactures and sells assault weapons and/or small arms (Non-assault weapons) to civilian customers.	Revenue	>0%	Not Relevant
	Military/Law Enforcement Customers: The company manufactures and sells small arms to military/law enforcement customers.			
	Key Components: The company manufactures and sells key components of small arms.			
Retail/Distribution (Assault and Non-Assault Weapons): The company is involved in the retail and/or distribution of assault weapons and/or small arms (Non-assault weapons).	>5%		Not Relevant	
Weapons: The company manufactures military weapon systems and/or integral, tailor-made components or these weapons.				
Military Contracting	Weapon-related products and/or services: The company provides tailor-made products and/or services that support military weapons.		>10%	
	Production: The company manufactures tobacco products.		>0%	Not Relevant
Tobacco	Related Products/Services: The company supplies tobacco-related products/services.		≥5%	
	Retail: The company derives revenues from the distribution and/or retail sale of tobacco products.		≥5%	
	Extraction: The company extracts thermal coal.		≥5%	Not Relevant
Thermal Coal	Power Generation: The company generates electricity from thermal coal.	≥25%		
Oil Sands	Extraction: The company extracts oil sands.	≥5%	Not Relevant	
Shale Energy	Extraction: The company is involved in shale energy exploration and/or production.			
Arctic Oil & Gas Exploration	Extraction: The company is involved in oil and gas exploration in Arctic regions.			

## Exclusions Based on Sustainalytics' Global Standards Screening

Sustainalytics' Global Standards Screening ("GSS") provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes or is linked to violations of

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international norms and standards. The basis of the GSS assessments are the United Nations Global Compact (“UNGC”) Principles. Information regarding related standards is also provided in the screening, including the Organization for Economic Co-operation and Development (“OECD”) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as their underlying conventions. Sustainalytics classifies companies into the following three statuses:

- **Non-Compliant.** Classification given to companies that do not act in accordance with the UNGC principles and its associated standards, conventions and treaties.
- **Watchlist.** Classification given to companies that are at risk of violating one or more principles, for which all dimensions for Non-Compliant status could not be established or confirmed.
- **Compliant.** Classification given to companies that act in accordance with the UNGC principles and its associated standards, conventions and treaties.

As of each rebalancing reference date, companies classified as **Non-Compliant**, according to Sustainalytics, are ineligible for index inclusion.

Companies without Sustainalytics coverage are ineligible for index inclusion until they receive such coverage.

## Media and Stakeholder Analysis Overlay

S&P Global uses RepRisk, a leading provider of business intelligence on environmental, social, and governance risks, for daily filtering, screening and analysis of controversies related to companies within the index.

In cases where risks are presented, S&P Global releases a Media and Stakeholder Analysis (“MSA”) which includes a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labor disputes, workplace safety, catastrophic accidents, and environmental disasters.

The Index Committee will review constituents that have been flagged by S&P Global’s MSA to evaluate the potential impact of controversial company activities on the composition of the indices. In the event that the Index Committee decides to remove a company in question, that company would not be eligible for re-entry into the indices for one full calendar year, beginning with the subsequent rebalancing.

*For more information on RepRisk, please refer to [www.reprisk.com](http://www.reprisk.com). This service is provided for most of S&P Dow Jones Indices’ Sustainability Indices and is not considered a direct contribution to the index construction process.*

## IMPACT ANALYSIS

For an analysis of the impact<sup>1</sup> 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 Monday,

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<sup>1</sup> The hypothetical impact analysis and statistics apply the proposed changes outlined in this consultation to the data used in the April 2021 index rebalancing.

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October 18, 2021. If adopted, the changes will first be visible to clients beginning on Friday, October 8, 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 expand the eligible universe to include more companies involved in Clean Energy?**
2. **Do you agree with the proposal to expand the index universe by including emerging market listings?**
3. **Do agree with the proposed changes to the weighting scheme?**
4. **Do you agree with the proposed changes to the Carbon Intensity Screen?**
5. **Do you agree with the proposal to apply the previously described exclusion criteria (i.e. Sustainalytics Business Activity Screenings, Exclusions Based on Sustainalytics' Global Standards Screening, and Media and Stakeholder Analysis Overlay)?**
6. **If any of the proposed changes are adopted, do you agree with the proposed implementation timing?**
7. **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 **September 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](mailto: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](http://www.spdji.com).

## APPENDIX 1 – FactSet’s Revere Business Industry Classification System (RBICS) Data

RBICS is a comprehensive structured taxonomy designed to offer precise classification of global companies and their individual business units. The RBICS taxonomy structure offers six levels of classifications starting with the most general (Economies) to the most specialized (Sub-Industries).

*L1 Economies > L2 Sectors > L3 Sub-Sectors > L4 Industry Groups > L5 Industries > L6 Sub-Industries*

RBICS standardizes and assigns revenue percentages into the most granular sectors of the RBICS taxonomy based on reported revenue by segment of companies under coverage.

The following sub-industries (L6)<sup>2</sup> (based on data as of June 30, 2021) have been identified to capture the scope of the S&P Global Clean Energy Index.

Sub-Industry (L6) Name	Category
US Alternative Wholesale Power	Production
Canada Alternative Wholesale Power	Production
Latin America Alternative Wholesale Power	Production
China Alternative Wholesale Power	Production
Other Asia/Pacific Alternative Wholesale Power	Production
Europe Alternative Wholesale Power	Production
Middle East and Africa Alternative Wholesale Power	Production
Photovoltaic and Solar Cells and Systems Providers	Production
Wind Energy Equipment Manufacturing	Production
Biodiesel Fuel Manufacturing	Production
Ethanol Fuel Manufacturing	Production
Heavy-Duty and High-End Batteries Manufacturing <sup>3</sup>	Non-Production
Fuel Cell Equipment and Technology Providers	Non-Production
Smart Grid Technology and Smart Meter Products <sup>3</sup>	Non-Production
Alternative Energy Car Manufacturers <sup>3</sup>	Non-Production
Energy Efficient Lighting and LED Manufacturing <sup>3</sup>	Non-Production
Light Emitting Diode Discrete Semiconductors <sup>3</sup>	Non-Production

The following Industry-Groups (L4) have been identified as business segments that contribute towards “Relevant Revenue”

Industry Group (L4) Name	
Electric Utilities	Multinational Wholesale Power
Asia/Pacific Wholesale Power	United States Wholesale Power
Americas Wholesale Power	Wholesale Power Generation and Marketing
Other International Wholesale Power	

<sup>2</sup> FactSet has announced that it will be releasing structural enhancements to the RBICS industry classification systems that will become effective on August 21, 2021. As a result, companies with primary and/or secondary lines of business mapped to the affected industries will be remapped to the updated taxonomy. The sub-industries impacted by this change, based on the current selection for the S&P Global Clean Energy Index, are Alternative Wholesale Power and Heavy-Duty and High-End Batteries. S&P DJI has made the relevant assessments of this change and we believe that the change will improve the systematic implementation of this methodology.

<sup>3</sup> Except Fuel Cell Equipment and Technology Providers, all Non-Production sub-industries (L6) are part of the scope expansion.

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## APPENDIX 2 – Clean Power Generation Score Adjustment Example

Company A is classified under the GICS Multi-Utilities Sub-industry. Company A has the following revenue segments:

<b>RBICS Industry Group (L4)</b>	<b>RBICS Sub-Industries (L6)</b>	<b>Tag</b>	<b>% Revenue</b>
Electric Utilities	International Electricity Generator Utilities	Relevant Revenue	25.0
Other International Wholesale Power	Other International Energy Utilities	Relevant Revenue	10.0
Electric Utilities	Europe, Middle East and Africa Electric Utilities	Relevant Revenue	3.0
General Waste Collection	General Waste Collection		2.5
Other International Wholesale Power	Europe Alternative Wholesale Power	Relevant Revenue	25.0
International Water Utilities	Americas Water Utilities		1.5
Natural Gas Utilities	Europe Natural Gas Utilities		3.0
International Water Utilities	Europe, Middle East and Africa Water Utilities		30.0
<b>Sum of Relevant Revenue</b>			<b>63.00</b>

Based on Trucost Power Generation data, Company A has 90% of power generation from renewable sources. The adjusted Clean Power Generation Score for Company A will be  $90\% \times 63\% = 56.7\%$ . Based on this score, Company A will be assigned a score of 0.75. Without the adjustment, the company would have been assigned a score of 1 despite its involvement in other businesses such as Water Utilities, Natural Gas Supply and Waste Collection.

## ABOUT S&P DOW JONES INDICES

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