

Market Consultation- Solactive ISS ESG Screened Index Series

06 April 2020

Content of the Market Consultation

Solactive AG has decided to conduct a Market Consultation with regard to changing the Index Methodology of the following Indices (the ‘Indices’):

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| **NAME** | **RIC** | **ISIN** |
| Solactive ISS ESG Screened Europe Index PR | .SESGEUP | DE000SLA6Z99 |
| Solactive ISS ESG Screened Europe Index NTR | .SESGEUN | DE000SLA60A8 |
| Solactive ISS ESG Screened Europe Index TR | .SESGEUT | DE000SLA60B6 |
| Solactive ISS ESG Screened Japan Index PR | .SESGJPP | DE000SLA60C4 |
| Solactive ISS ESG Screened Japan Index NTR | .SESGJPN | DE000SLA60D2 |
| Solactive ISS ESG Screened Japan Index TR | .SESGJPT | DE000SLA60E0 |
| Solactive ISS ESG Screened USA Index PR | .SESGUSP | DE000SLA60F7 |
| Solactive ISS ESG Screened USA Index NTR | .SESGUSN | DE000SLA60G5 |
| Solactive ISS ESG Screened USA Index TR | .SESGUST | DE000SLA60H3 |
| Solactive ISS ESG Screened USA Small Cap Index PR | .SESGUSSP | DE000SLA60J9 |
| Solactive ISS ESG Screened USA Small Cap Index NTR | .SESGUSSN | DE000SLA60K7 |
| Solactive ISS ESG Screened USA Small Cap Index TR | .SESGUSST | DE000SLA60L5 |
| Solactive ISS ESG Screened Developed Markets Index PR | .SESGDMP | DE000SLA60M3 |
| Solactive ISS ESG Screened Developed Markets Index NTR | .SESGDMN | DE000SLA60N1 |
| Solactive ISS ESG Screened Developed Markets Index TR | .SESGDMT | DE000SLA60P6 |
| Solactive ISS ESG Screened Developed Markets Small Cap Index PR | .SESGDMSP | DE000SLA60Q4 |
| Solactive ISS ESG Screened Developed Markets Small Cap Index NTR | .SESGDMSN | DE000SLA60R2 |
| Solactive ISS ESG Screened Developed Markets Small Cap Index TR | .SESGDMST | DE000SLA60S0 |
| Solactive ISS ESG Screened Emerging Markets Index PR | .SESGEMP | DE000SLA7XD4 |
| Solactive ISS ESG Screened Emerging Markets Index NTR | .SESGEMN | DE000SLA7XE2 |
| Solactive ISS ESG Screened Emerging Markets Index TR | .SESGEMT | DE000SLA7XF9 |
| Solactive ISS ESG Screened Global Markets Index PR | .SESGGMP | DE000SLA7XG7 |
| Solactive ISS ESG Screened Global Markets Index NTR | .SESGGMN | DE000SLA7XH5 |
| Solactive ISS ESG Screened Global Markets Index TR | .SESGGMT | DE000SLA7XJ1 |
| Solactive ISS ESG Screened GM Asia ex Japan Index PR | .SESGAJP | DE000SLA7Y08 |
| Solactive ISS ESG Screened GM Asia ex Japan Index NTR | .SESGAJN | DE000SLA7Y16 |
| Solactive ISS ESG Screened GM Asia ex Japan Index TR | .SESGAJT | DE000SLA7Y24 |
| Solactive ISS ESG Screened Brazil Small & Mid Cap Index PR | .SESGBRP | DE000SLA7Y65 |
| Solactive ISS ESG Screened Brazil Small & Mid Cap Index NTR | .SESGBRN | DE000SLA7Y73 |
| Solactive ISS ESG Screened Brazil Small & Mid Cap Index TR | .SESGBRT | DE000SLA7Y81 |
| Solactive ISS ESG Screened EM EMEA Index PR | .SESGEAP | DE000SLA7ZC1 |
| Solactive ISS ESG Screened EM EMEA Index NTR | .SESGEAN | DE000SLA7ZD9 |
| Solactive ISS ESG Screened EM EMEA Index TR | .SESGEAT | DE000SLA7ZE7 |
| Solactive ISS ESG Screened Golden Dragon Index PR | .SESGGDP | DE000SLA7ZJ6 |
| Solactive ISS ESG Screened Golden Dragon Index NTR | .SESGGDN | DE000SLA7ZK4 |
| Solactive ISS ESG Screened Golden Dragon Index TR | .SESGGDT | DE000SLA7ZL2 |
| Solactive ISS ESG Screened DM Health Care Index PR | .SESGHCP | DE000SLA7ZQ1 |
| Solactive ISS ESG Screened DM Health Care Index NTR | .SESGHCN | DE000SLA7ZR9 |
| Solactive ISS ESG Screened DM Health Care Index TR | .SESGHCT | DE000SLA7ZS7 |
| Solactive ISS ESG Screened Latin America Large, Mid & Small Cap Index PR | .SESGLAP | DE000SLA7ZW9 |
| Solactive ISS ESG Screened Latin America Large, Mid & Small Cap Index NTR | .SESGLAN | DE000SLA7ZX7 |
| Solactive ISS ESG Screened Latin America Large, Mid & Small Cap Index TR | .SESGLAT | DE000SLA7ZY5 |
| Solactive ISS ESG Screened Europe Small Cap Index PR | .SESGEUSP | DE000SL0AU40 |
| Solactive ISS ESG Screened Europe Small Cap Index NTR | .SESGEUSN | DE000SL0AU57 |
| Solactive ISS ESG Screened Europe Small Cap Index TR | .SESGEUST | DE000SL0AU65 |

Rationale for Market Consultation

# The Solactive ISS ESG Screened Index Series aims to track various size and regional segments of the global stock market including only companies operating in accordance with market standards on ESG controversy screens. Those standards are based on established norms such as the United Nations Global Compact and the exclusion of significant involvement in defined sectors. Solactive deems the current Index Methodology lacking with regards to Norm-Based Research. The Methodology excludes companies involved in a verified violation of international norms and conventions. To be excluded, the violation needs to ‘have been verified by an authoritative body that the company is engaging in the activity or conduct’.

However, given the reliance of Norm-Based Research on verification and on the transparency granted by a free press, it must be acknowledged that in some countries there will be restrictions on information that would provide verification. This is the case in territories involved in military conflict, and in authoritarian or repressive regimes, where human rights standards are low, and where independent media is all but absent and unable to report on the plight of citizens. Given the non-negligible risk that state-owned enterprises in these countries may benefit from lax regulatory standards and an opaque media environment, and may even be involved in furthering the state’s violation of civil rights (such as through surveillance), the methodology updates are proposed, offering an expansion of ISS ESG’s Norm-Based Research methodology.

Proposed Change to the Index Guideline

The following Methodology changes are proposed in the following point of the Index Guideline:

Section 2.1 Selection of the Index components

The following additional section will be included in the theme “Norms-Based Research” to further refine the norms violations that shall be excluded from the Index:

|  |  |  |
| --- | --- | --- |
| Theme | | Exclusion criterion |
| Norms-Based Research | Companies incorporated in countries identified with high social risk | More than 50% ownership by the state |
| Alleged failure to respect established norms |
| Explanation: High social risk countries will be updated annually based on new information. This is aimed at incorporating risks associated with a repressive state violating fundamental civil rights via its controlled entities | | |

Therefore, chapter 2.1 will read as follows:

The initial composition of each Index of the Solactive ISS ESG Screened Index Series as well as any ongoing adjustment are based on the following non-discretionary rules. On the Selection Days, Solactive AG defines the respective Index Universe as outlined in Section 4. The selection of the Index Components proceeds as follows:

Solactive evaluates all companies in the respective Index Universe based on the criteria outlined in the table below. The evaluation is based on data provided by ISS ESG:

|  |  |  |
| --- | --- | --- |
| Theme | | Exclusion criterion |
| Norm-Based Research | Environment | Verified ongoing failure to respect established norms |
| Human Rights |
| Corruption |
| Labour Rights |
| Companies incorporated in countries identified with high social risk | More than 50% ownership by the state |
| Alleged failure to respect established norms |
| Controversial Weapons Research | Chemical weapons | Verified ongoing involvement |
| Biological weapons |
| Nuclear weapons |
| Depleted Uranium |
| Nuclear weapons outside the NPT |
| Cluster munitions |
| Anti-personnel mines |
| Sector-Based Screening | Fossil Fuel | 50% Services <OR> 5% Production <OR> 5% Distribution <OR> 5% Exploration |
| Oil sands | 0% Production <OR> 0% Exploration |
| Military | 50% Services <OR> 5% Production <OR> 5% Distribution |
| Pornography | 5% overall <OR> 0% Production |
| Tobacco | 50% Services <OR> 0% Production <OR> 5% Distribution |
| Gambling | 50% Services <OR> 5% Production <OR> 5% Distribution |
| Alcohol | 50% Services <OR> 5% Production <OR> 5% Distribution |
| Cannabis | 50% Services <OR> 5% Production <OR> 5% Distribution |
| Explanation: % figures refer to revenue threshold (for degree of involvement) above which criterion is breached; High social risk countries will be updated annually based on new information. This is aimed at incorporating risks associated with a repressive state violating fundamental civil rights via its controlled entities | | |

All companies violating any of the exclusion criteria above are excluded. All companies for which an evaluation of these exclusion criteria is not possible due to insufficient and/or missing information or data are excluded.

The remaining companies constitute the respective Index.

Feedback on the proposed changes

If you would like to share your thoughts with Solactive, please use this consultation form and provide us with your personal details and those of your organization.

|  |  |
| --- | --- |
| Name |  |
| Function |  |
| Organization |  |
| Email |  |
| Phone |  |
| Confidentiality (Y/N) |  |

Solactive is inviting all stakeholders and interested third parties to evaluate the proposed changes to the Methodology for the Solactive ISS ESG Screened Index Series and welcomes any feedback on how this may affect and/or improve their use of Solactive indices.

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Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until *15thApril 2020 (cob).*

Please send your feedback via email to [compliance@solactive.com](mailto:compliance@solactive.com), specifying “Market Consultation- Solactive ISS ESG Screened Index Series” as the subject of the email, or

via postal mail to: **Solactive AG**

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Germany

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| --- | --- |
| Should you have any additional questions regarding the consultative question in particular, please do not hesitate to contact us via above email address. |  |



# Contact

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