

CONSULTATION SUMMARY

Consultation subject: Rule changes CAC 40 ESG
Consultation started: December 2024
Summary published: 23 January 2025

Summary:

A consultation took place for the proposed changes to the methodology of the CAC 40 ESG.

The following proposed changes were covered:

- Change of ESG data provider from Moody's ESG to ISS-ESG
- Addition of two new exclusion criteria in order to align the Index Methodology with ESMA's ESG Fund naming guidelines
- Change of weighting methodology in favor of an optimization method instead of the current iterative approach

Number of Responses:

<5 Responses were received

Feedback received in the consultation:

All feedback received was in favour of the proposed changes.

Follow up

Euronext decided to update the methodology of the Index in line with the proposed changes in the consultation as per the March 2025 Review of the Index.

Detailed new Rules:

The following new rules will be implemented as of the March 2025 Review of the Index:

- 1) **Change of ESG data provider:**

Continuous eligibility screening

Companies facing a controversy of severity level 'RED' with regards to United Nations Global Compact, as determined by ISS-ESG are excluded .

Each controversy monitored by ISS remains active as long as there are updates on significant developments. If there is no new information for 3 years, the controversy severity is downgraded to 'AMBER'.

Exclusion type	Description	ISS-ESG Field Name
UN Global Compact Controversies	Companies flagged as "RED"	NBSOverallFlag = RED

New eligibility screening criteria at reviews:

ESG assessment/score

- Companies in the Index Universe (CAC Large 60) are ranked in decreasing order by ESG Performance score, as evaluated by ISS-ESG, i.e. Companies with better ESG Performance score will be preferred. Note that companies not covered by ISS-ESG are ranked lowest.

- In case of equal ESG Performance score, the Company with the higher Free Float Market Capitalization will rank higher.
- The bottom 20% of the Companies included in the Index Universe based on this rank are not eligible.

Activity exclusions

Companies that breach any of the following thresholds are not eligible. Note that companies not covered by ISS-ESG are not eligible as well.

- UN Global Compact Controversies:

Exclusion type	Description	ISS-ESG Field Name
UN Global Compact Controversies	Companies flagged as "RED" (As defined in "2.2 Continuous eligibility screening").	NBSOverallFlag = RED

- Tobacco:

Exclusion topic	Description	ISS-ESG Field Name
Production of Tobacco	Companies with any involvement in the production of tobacco.	TobaccoDistMaxRev > 0%
Distribution of Tobacco	Companies with maximum percentage of revenues derived from distribution of tobacco above 10% are excluded.	TobaccoProdMaxRev ≥ 10%

- Controversial Weapon:

Exclusion topic	Description	ISS-ESG Field Name
Controversial Weapons	Companies flagged as "RED" or "AMBER" on the following weapons, as determined by ISS, are excluded: biological weapons, chemical weapons, incendiary weapons, depleted uranium, white phosphorus, Anti-Personnel Landmines, cluster munitions.	BiologicalWeaponsOverallFlag ChemicalWeaponsOverallFlag ClusterMunitionsOverallFlag DepletedUraniumOverallFlag APMinesOverallFlag IncendiaryWeaponsOverallFlag WhitePhosphorusOverallFlag = RED or AMBER

A 'RED' flag refers to a verified involvement in any of the following activities: Development, production, acquisition, stockpiling, retention, transfer of controversial weapons, assistance in any of these activities

A 'AMBER' flag refers to either:

- Companies that are verifiably involved in equipment enabling the use of controversial weapons
- Companies that have a minority ownership of 20% to <50% of a company that is verifiably involved in controversial weapons, key components, or equipment enabling the use of controversial weapons

- Companies for which there is an imminent involvement, due to imminent Merger & Acquisition operations, or strong indications about an involvement in controversial weapons, key components or equipment enabling the use of controversial weapons

- **Civilian Firearms:**

Exclusion topic	Description	ISS-ESG Field Name & Thresholds
Civilian Fire Arms	Companies with maximum percentage of revenues derived from the production or sale of civilian firearms above 5% are excluded.	CivFARevShareMax \geq 5%

- **Energy:**

Exclusion topic	Exclusion criteria	ISS-ESG Field Name
Coal Mining	Companies with any involvement in Thermal Coal Mining are excluded.	CoalMiningRevShareMaxTotal > 0%
Coal Power Generation	Companies with maximum percentage of revenues from Coal-fuelled power generation are excluded above 5%.	CoalMiningAndPowGenRevShareMax \geq 5%
Arctic Drilling	Companies with any involvement in the production or exploration of arctic drilling are excluded.	ArcticDrillingShareMax > 0%
Oil Sands	Companies with any involvement in the production or exploration of Oil Sands are excluded.	OilSandsProdMaxRev > 0%
Shale Energy	Companies with any involvement in the production of Shale Energy are excluded	ShaleOilGasInvolvement = 'Production'
Deep Offshore Drilling	Companies with any involvement in Deep water drilling are excluded.	DeepwaterDrillingInvolvement = 'T'
Hydraulic Fracking	Companies with any involvement in the production or exploration of hydraulic fracturing are excluded.	HydraulicFracturingShareMax > 0%

New Selection Ranking rules:

The eligible Companies are ranked by decreasing order on the ESG Performance score as assigned by ISS-ESG. In case of an equal score the Company that is already included in the index ranks better. In case of equal ranking, the Company with the highest free float market capitalization will rank higher.

2) Addition of two new exclusion criteria in order to align the Index Methodology with ESMA's ESG Fund naming guidelines

The below requirements will be added to the methodology:

Exclusion topic	Exclusion criteria	ISS-ESG Field Name
Fossil Fuel	Companies that have a maximum turnover of 10% or more derived from fossil fuel (exploration, extraction, refining , processing, distribution) activities are not eligible	FossilFuelExplMaxRev + FossilFuelTotalExtracRevShareMax + FossilFuelTotalRefProRevShareMax + FossilFuelDistMaxRev ≥ 10%
Generation of Electric Power using Fossil Fuels	Companies that derive more than 50% of their turnover from fossil fuel (including oil & gas) power generation are not eligible	PowGenRevShareThermalMax ≥ 50%

3) Change of weighting methodology in favor of an optimization method instead of the current iterative approach

Capping factor

A Capping Factor is calculated based on the Review Weightings Announcement Date such that the Companies included in the index have a maximum weight of 10%, and the Index complies with the impact objectives with the following methodology:

The CAC 40 ESG aims at improving the Green-to-Brown ratio as well as the Weighted Average Carbon Footprint compared to the Index Universe. Both criteria are evaluated by ISS-ESG Solutions.

Green-to-brown ratio is defined as Company level weighted aggregation of Company revenue percentage derived from products or services with significant or limited contribution to SDG 13 Climate Action, divided by Company level weighted aggregation of Company revenue percentage derived from products or services with significant or limited obstruction to SDG 13 Climate Action. The weight is equal to the Company's weight in the index.

Weighted average Carbon Footprint is defined as Company-level Scope 1+2 emission weighted by each Company's weight in the index and then aggregated by summing.

A capping factor is calculated using an optimization method that satisfies the following objective function:

$$f(w_1, w_2, \dots, w_p) = \sum_{i=1}^p (w_i - w_i^{FFMC})^2$$

With:

- w_i = Weight of constituent i in the portfolio
- w_i^{FFMC} = Free Float Market Cap Weight of constituent i in the portfolio
- p = Number of constituents in the portfolio

The constraints imposed are the following:

- All weights are positive and sum to 1



- All weights are capped at 10%
- A reduction in WACI relative to Parent index (Scope 1+2)
- An improvement in Green to brown ratio relative to Parent index