

# Wilshire

## Paris-Aligned Benchmarks

Exclusion Criteria

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This Research Paper describes in detail the framework, the sources, the process, and the exclusionary criteria which, according to EU Regulation, defines a Paris-Aligned Benchmark (PAB) and a Climate-Transition Benchmark (CTB).

## The EU Regulation on PAB and CTB

### The regulatory text and framework

The regulations on Paris-Aligned Benchmarks (PABs) and a Climate-Transition Benchmarks (CTBs) were established on July 17, 2020, following discussion and feedback from various stakeholders and market participants.

Three regulations describe and define the obligations and mandatory requirements to be incorporated in such indexes:

- [EU BMR \(Act\)](#) : in particular Annex III
- [Delegated Acts to EU BMR: Principles, Definitions, Criteria, Thresholds](#)
- [Handbook of climate transition benchmarks, Paris-aligned benchmark and benchmarks' ESG disclosures](#)
- [SFDR \(ACT\): sustainability-related disclosure in the financial services sector | European Commission \(europa.eu\)](#)
- [Implementation, disclosure and reporting on ESG and Climate: implementing and delegated acts | European Commission \(europa.eu\)](#)  
[EU Regulation defining the industrial classification scheme \(NACE\) to support exclusions and the progressive phase-in of Scope 3 emissions into EU BMR:](#)

### Transparency

This document demonstrates how Wilshire intends to comply with the transparency obligations created by the Delegated Acts to EU BMR and in particular with article 13: "Transparency requirements for estimations", as follows:

"For the purposes of Article 12(2), administrators of EU Paris-aligned Benchmarks shall comply with the following requirements:

Administrators of EU Paris-aligned Benchmarks that use estimations that are based on data provided by an external data provider shall formalize, document and make public all of the following information:

- i. the name and contact details of the data provider;
- ii. the methodology used and the main assumptions and precautionary principles, where available; a hyperlink to the website of the data provider, and to the relevant methodology used, where available."

### Sources for Exclusion data: use of a third-party data vendor

Wilshire intends to comply with all the obligations required by the EU Regulations related to PAB and CTB indexes.

In particular, Wilshire has outsourced the data collection process to [ISS ESG](#), a well-recognized third-party ESG provider that is committed to cover all the exclusion criteria that may arise from the regulation.

[Wilshire is however responsible for defining and maintaining the thresholds and metrics that are then to be applied for the exclusion rules.](#)

## The Main Exclusion Criteria

The main exclusion criteria linked to PAB indexes are defined in the Article 12 of the Delegated Act, as follows:

### Exclusions for EU Paris-aligned Benchmarks

1. Administrators of EU Paris-aligned Benchmarks shall exclude all of the following companies from those benchmarks:
  - 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 Co-operation and Development (OECD) Guidelines for Multinational Enterprises;
  - companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
  - companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
  - companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
  - companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO<sub>2</sub> e/kWh.

For the purposes of point (a), controversial weapons shall mean controversial weapons as referred to in international treaties and conventions, United Nations principles and, where applicable, national legislation.

2. Administrators of EU Paris-aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council, in accordance with the rules on estimations laid down in Article 13(2) of this Regulation.

3. Administrators of EU Paris-aligned Benchmarks shall disclose in their benchmark methodology any additional exclusion criteria

The PAB regulation thus requires the addition of a substantial number of rules that are not directly related to decarbonization and climate change. The spirit of those supplementary criteria is to avoid the inclusion of companies in a PAB index that might negatively affect other critical ESG objectives, whether on the social or on the environmental front. Different categories of exclusion can be identified:

- Ethical screening focused on products:
  - Involvement in controversial weapons
  - Involvement in tobacco (cultivation and production)
- Ethical screening focused on environmental, social and governance bad practices:
  - Possible violations of the UNGC principles, and/or
  - Possible violations of the OECD guidelines
- Specific climate screening that relate to existing carbon intensity criteria
  - Significant revenues derived from hard coal and lignite
  - Significant revenues derived from oil fuels
  - Significant revenues from gaseous fuels
  - Significant revenues from fossil-fuel oriented electricity generation

- Additional ESG criteria derived from the concept of Do No Significant Harm<sup>1</sup>
  - These criteria are adopted to avoid causing involuntary specific hazardous risks that an activity could cause in four domains:
    - Climate change adaptation
    - Sustainable use and protection of water and marine resources
    - Pollution prevention and control regarding use and presence of chemicals
    - Protection and restoration of biodiversity and ecosystems

## Exclusion rules for Wilshire PAB and CTB indexes

Based on the rules and framework detailed above, and according to the data provided by ISS as our main external source for ESG and Climate change, Wilshire has defined the following rules to be implemented in all PAB and CTB indexes. In particular, Wilshire sets the score and flag thresholds under its sole responsibility.

These thresholds and scores may be revised from time to time according to the various factors, including the evolution of legislation, demand from clients, change in sources and statistical significance.

These rules are supervised and regularly reviewed according to Wilshire's internal processes. Any change will be published in advance and, at the latest, one month (30 days) before any index rebalance.

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<sup>1</sup> See [EU delegated Act on Green Taxonomy](#), in particular annexes A, B, C, and D

## Ethical screening focused on ESG practices

Category	Label	Threshold	Description
<i>Ethical screening focused on ESG bad practices</i>			
<b>UNGC Principles and OECD Guidelines</b>	Norm-Based Research – Overall Flag	RED	NBR Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's link with any breaches of international standards. The "Red" value covers instances of a failure to respect established norms which has been verified by an authoritative body and where the issue remains unaddressed. The "Amber" value covers instances where the issuer has entered contract(s) that would, when actualised, lead to a failure to respect established norms; where there are credible allegations that the issuer is involved in a failure to respect an established norm; where the failure to respect established norms has been verified, yet the issuer is implementing remedial measures; or where there are credible allegations but there is fragmentary information about the issuer's ongoing involvement. The "Green" value covers instances where there are allegations of a failure to respect international norms, but the information is fragmentary or the severity has yet to be established; where the incidents are not severe and the issuer has committed to improve its practice, but the issue is not yet fully addressed.

## Ethical screening focused on products

Category	Label	Threshold	Description
<i>Ethical screening focused on products</i>			
<b>Controversial Weapons</b>	Biological Weapons – Overall Flag	RED	Biological Weapons - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any biological weapons programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
<b>Controversial Weapons</b>	Chemical Weapons – Overall Flag	RED	Chemical Weapons - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any chemical weapons programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
<b>Controversial Weapons</b>	Nuclear Weapons – Overall Flag	RED	Nuclear Weapons - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any nuclear weapons programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.

Category	Label	Threshold	Description
<b>Controversial Weapons</b>	Nuclear Weapons Outside NPT – Overall Flag	RED	Nuclear Weapons Outside NPT - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any nuclear weapons programme outside of the Non-Proliferation Treaty (NPT). The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
<b>Controversial Weapons</b>	Cluster Munitions – Overall Flag	RED	Cluster Munitions - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any cluster munitions programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
<b>Controversial Weapons</b>	Depleted Uranium – Overall Flag	RED	Depleted Uranium - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any depleted uranium programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
<b>Controversial Weapons</b>	Anti-personnel Mines – Overall Flag	RED	Anti-personnel Mines - Overall Flag: This factor assigns an overall Red, Amber, or Green flag to an issuer based on the issuer's involvement in any anti-personnel mines programme. The Overall Flag is determined by the lowest individual assessment signal within the issue area. For example, if the issuer is assigned both a Red signal and an Amber signal for different assessments in this issue area, the issuer's Overall Flag will be Red.
<b>Tobacco</b>	Tobacco – Production Average Percentage of Revenues (%)	> 0%	Tobacco - Production Average Percentage of Revenues (%): This factor identifies the average percentage value of revenue derived from involvement in the production of tobacco.



## Specific Do No Significant Harm principle screening

Category	Label	Threshold	Description
<i>DNSH - SDG Impact Rating</i>			
DNSH	SDG Impact Rating – Climate Action	<= -9	SDG Impact Rating - Climate Action: This factor assesses an issuer's impact on Sustainable Development Goal 13 – Climate Action. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.
DNSH	SDG Impact Rating – Life On Land	<= -9	SDG Impact Rating - Life On Land: This factor assesses an issuer's impact on Sustainable Development Goal 15 – Life On Land. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.
DNSH	SDG Impact Rating – Life Below Water	<= -9	SDG Impact Rating - Life Below Water: This factor assesses an issuer's impact on Sustainable Development Goal 14 – Life Below Water. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.

Category	Label	Threshold	Description
DNSH	SDG Impact Rating – Responsible Consumption and Production	<= -9	SDG Impact Rating - Responsible Consumption and Production: This factor assesses an issuer's impact on Sustainable Development Goal 12 – Responsible Consumption and Production. The rating is determined by the issuer's Products and Services, Operations, and Controversies Scores for this goal. Ratings range on a scale from -10.0 (significant negative impact) to +10.0 (significant positive impact). For funds and other aggregated issuers, the score is based on the median score among holdings.

## Specific Climate screening

Category	Label	Threshold	Description
<i>Specific Climate screening</i>			
Coal	Thermal Coal Mining – Average Percentage of Revenues (%)	>= 1%	Thermal Coal Mining - Total Average Percentage of Revenues: This factor provides the average percentage of recent-year revenues for the issuer's total involvement in thermal coal mining, including any exposure in Production or Services. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.
Oil	Oil - Total Average Percentage of Revenues (%)	>= 10%	Oil - Total Average Percentage of Revenues: This factor provides the average percentage of recent-year revenues for the issuer's involvement in the extraction and refining of oil, the pre-production stages of the extraction of fossil fuels, as well as the distribution of fossil fuels. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.

Category	Label	Threshold	Description
<b>Natural Gas</b>	Natural Gas – Total Average Percentage of Revenues (%)	>= 50%	Natural Gas - Total Average Percentage of Revenues: This factor provides the average percentage of recent-year revenues for the issuer's involvement in the extraction and refining of natural gas, the pre-production stages of the extraction of fossil fuels, as well as the distribution of fossil fuels. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.
<b>Power Generation</b>	Power Generation – Thermal Average Percentage of Revenues (%)	>= 50%	Power Generation - Thermal Average Percentage of Revenues (%): This factor provides the average percentage of recent-year revenues for the issuer's involvement in the generation of electric power using fossil fuels. The average percentage of revenues values are based on the best available data, which may include reported revenues, reported percentage of revenues, or estimated revenues based on available information.

In particular for this last category of fossil-fuel additional criteria, the following table details the very specific sub-criteria and rules derived from the % of revenues as collected and/or estimated by ISS:

### Technical details on fossil fuel

Category	Label	Description
<i>Fossil Fuels Exposure</i>		
<b>A</b>	<b>Oil</b>	<b>Oil - Total Average Percentage of Revenues (%)</b>
		<b>Oil Extraction (C) + Oil Refining &amp; Processing (D) + Fossil Fuels Distribution (G) + Fossil Fuels Exploration (H)</b>
<b>B</b>	<b>Natural Gas</b>	<b>Natural Gas - Total Average Percentage of Revenues (%)</b>
		<b>Gas Extraction (E) + Gas Refining &amp; Processing (F) + Fossil Fuels Distribution (G) + Fossil Fuels Exploration (H)</b>
<i>Oil Extraction &amp; Refining</i>		

C	<b>Oil Extraction</b>	Fossil Fuel - Oil Extraction Average Revenue Share (%)	Fossil Fuel - Oil Extraction Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in the extraction of oil (including crude oil, condensate, shale oil, bitumen, synthetic crude oil from oil/tar sands, and heavy oils).
D	<b>Oil Refining &amp; Processing</b>	Fossil Fuel - Oil Refining & Processing Average Revenue Share (%)	Fossil Fuel - Oil Refining & Processing Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in the refining of oil (including liquefied petroleum gas, naphtha, gasoline, kerosene, diesel, fuel oil, and other combustive oil products).
<i>Gas Extraction &amp; Refining</i>			
E	<b>Gas Extraction</b>	Fossil Fuel - Gas Extraction Average Revenue Share (%)	Fossil Fuel - Gas Extraction Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in the extraction of natural gas (including coalbed/coal seam methane).
F	<b>Gas Refining &amp; Processing</b>	Fossil Fuel - Gas Refining & Processing Average Revenue Share (%)	Fossil Fuel - Gas Refining & Processing Average Revenue Share (%): This factor provides the average percentage of recent-year revenues for the company's involvement in natural gas processing and gas-to-liquids operations.
<i>Fossil Fuels Distribution &amp; Exploration</i>			
G	<b>Fossil Fuels Distribution</b>	Fossil Fuel - Distribution Average Percentage of Revenues (%)	Fossil Fuel - Distribution Average Percentage of Revenues (%): This factor provides the average percentage of revenues for the company's involvement in the distribution of fossil fuels for the most recent fiscal year period.
H	<b>Fossil Fuels Exploration</b>	Fossil Fuel - Exploration Average Percentage of Revenues (%)	Fossil Fuel - Exploration Average Percentage of Revenues (%): This factor provides the average percentage of revenues for the company's involvement in the pre-production stages of the extraction of fossil fuels for the most recent fiscal year period.

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