



IHS Markit™

IHS Markit Consultation on the Methodology Update for 5 iBoxx MSCI ESG custom indices

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (IMBA UK) is the Index Administrator of the iBoxx indices. IMBA UK administers the indices in accordance with the International Organisation of Securities Commissions Principles for Financial Benchmarks (the IOSCO Principles) and the UK Benchmarks Regulation (UK BMR).

2. Background

IHS Markit Benchmark Administration Ltd. administers more than 33,000 benchmarks across asset classes, including fixed income, derivatives, economic indicators, equity and commodities, and both proprietary and third-party benchmarks.

IHS Markit proposes several updates to the methodology of 5 existing iBoxx MSCI ESG benchmarks identified below. The current index methodology and ESG filter criteria for the below indices can be found in the index guides that are published [here](#).

Index Name	Return Type	ISIN	Ticker	RIC
iBoxx MSCI ESG EUR Financials TCA	TRi	GB00BYT2R259	IBXXELC3	.IBXXELC3
iBoxx MSCI ESG EUR Corporates BBB TCA	TRi	GB00BZ0PLY02	IBXXELBT	.IBXXELBT
iBoxx MSCI ESG EUR High Yield Corporates TCA	TRi	GB00BCDP8W33	IBXXLHYT	.IBXXLHYT
iBoxx MSCI ESG EUR FRN Investment Grade Corporates TCA	TRi	GB00BLD2FH19	IBXXFRNT	.IBXXFRNT
iBoxx MSCI ESG USD FRN Investment Grade Corporates TCA	TRi	GB00BVFMHX99	IBXXFRN3	.IBXXFRN3

3. Proposal

IMBA UK proposes to update the ESG methodology of the 5 iBoxx MSCI ESG custom indices to consider the below factors:

- Broaden the **MSCI ESG Business Involvement Screening** methodology (exclusion driven by exposure to the following activities):
 - Addition of 'Arctic Oil & Gas' screening
 - All companies that derive any revenue from Arctic Oil and Arctic Gas production are excluded.
 - Addition of 'Unconventional Oil & Gas' screening

- All companies that derive any revenue from unconventional oil and gas are excluded. This includes revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It excludes all types of conventional oil and gas production including Arctic onshore/offshore, deepwater, shallow water and other onshore/offshore.
- All Weapons
 - Updating of 'Conventional Weapons' screening
 - All companies deriving 3% or more revenue from the production of conventional weapons and components are excluded.
 - Proposal to decrease the threshold from 5% to 3%.
 - All companies deriving 3% or more aggregate revenue from weapons systems, components, and support systems and services are excluded.
 - Proposal to decrease the threshold from 15% to 3%.
 - Updating of 'Civilian Firearms' screening
 - All companies deriving 3% or more aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use are excluded.
 - Proposal to decrease the threshold from 5% to 3%.

The proposed methodology updates will make the indices compliant with the German BVI ESG label. The theoretical impact on the index for the end of November 2021 rebalance is outlined in the next section. All existing screens that are not mentioned in this proposal remain unchanged.

4. Impact Analysis

IMBA UK has investigated the theoretical impact of the updated methodology based on the end of November 2021 rebalance.

The proposed ESG methodology updates would not have affected the membership of the iBoxx MSCI ESG EUR FRN Investment Grade Corporates TCA, the iBoxx MSCI ESG EUR Financials TCA, and the iBoxx MSCI ESG USD FRN Investment Grade Corporates TCA index based on the end of November 2021 rebalance.

Regarding the iBoxx MSCI ESG EUR Corporates BBB TCA index, the proposed ESG methodology updates would have excluded 2 additional bonds at the end of November rebalance. More specifically, 2 bonds with a combined index weight of 0.12% would have been

excluded from the index due to the 'Unconventional Oil & Gas' screening described in the section above. The affected issuers are Origin Energy Finance Ltd and Kinder Morgan Inc.

For the iBoxx MSCI ESG EUR High Yield Corporates TCA index, 3 additional bonds would have been excluded due to the proposed ESG methodology updates based on the end of November 2021 rebalance. All 3 bonds are issued by ThyssenKrupp AG. The combined index weight of 1.81% would have been excluded from the index due to the 'All Weapons' screening described in the section above.

5. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 23 December 2021 Consultation opens
- 20 January 2022 Consultation closes
- 21 January 2022 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 31 January 2022 Implementation

6. Consultation process

The participation of stakeholders in this consultation is important as IMBA UK seeks to gather views on the proposals herein and the suggested timetable for implementation of those proposals. IMBA UK may publish summaries of stakeholders' comments along with IMBA UK's responses to those comments unless the stakeholder in question expressly requests confidentiality.

To participate in this consultation please respond to IMBA UK Administration Services at MK-IndexAdminConsultation@ihsmarkit.com. Please be advised that all comments will be reviewed and considered before a final decision is made; however, IMBA UK makes no guarantee and is under no obligation to comply with any of the responses. The consultation may result in no changes or outcome of any kind. An announcement will be posted on our website accordingly. IMBA UK reserves the right to make a final decision on the proposal.

Key question

Do you have any concerns regarding IMBA UK's proposal or the implementation timeline?