



IHS Markit™

IHS Markit Consultation on the Methodology Update for the iBoxx MSCI ESG USD Emerging Markets Sovereigns Quality Weighted Index

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.

The iBoxx MSCI ESG USD Emerging Markets Sovereigns Quality Weighted index is designed to reflect the adjusted performance of USD-denominated sovereign bonds issued by emerging market countries. The index rules aim to offer a targeted coverage of the USD-denominated emerging market sovereign bonds universe with adjusted weights, by allocating higher weights to countries with relatively solid fundamentals and higher MSCI ESG Government scores while reducing weights of countries with relatively weak fundamentals and lower MSCI ESG Government scores. The index is an integral part of the global iBoxx benchmark index families.

The current methodology applies the below rules sequentially after all other non ESG related bond selection rules and interim weights are calculated using the Fundamental Score:

- Countries will be ranked in ascending order by MSCI Government ESG Score. Countries starting with the lowest ranked score will be excluded until their cumulative weight exceeds 20%. In the event of a tie score, the country with the largest normalized weight will be excluded until the cumulative exclusion weight exceeds 20%
- Country capping will be applied at 8.0%. Any excess weight will be distributed to all the remaining countries on pro rata basis
- Countries with adjusted weights below 0.2% will be excluded. The cumulative weight of the excluded countries will be distributed to all the remaining countries on pro rata basis

As of the date of this consultation, the current ESG-related methodology indirectly results in the exclusion of some BB-rated countries that have a lower ranked MSCI Government ESG Score.

Index Name	Return Type	ISIN	Ticker
iBoxx MSCI ESG USD Emerging Markets Sovereigns Quality Weighted	TRi	GB00BL096Y92	IBXXESG1
iBoxx MSCI ESG USD Emerging Markets Sovereigns Quality Weighted	CPi	GB00BL096X85	IBXXESG2

3. Proposal

IMBA UK proposes to include a new requirement to the existing methodology for issuers to have a minimum MSCI ESG Government Rating of BB. The rationale is to maintain a minimum standard of ESG ratings in the index on an ongoing basis. The proposed methodology update will have no effect on the current composition of the index. The proposed change to the ESG exclusion methodology will prohibit issuers with a MSCI ESG Government Rating of B and below from joining the index in the future.

IMBA UK proposes to implement the changes on a going-forward basis, starting at the end of November 2021 rebalancing.

4. Impact Analysis

IMBA UK has investigated the theoretical impact of the updated methodology based on the end of August/September 2021 rebalancing and found no impact.

5. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 18 October 2021 Consultation opens
- 15 November 2021 Consultation closes
- 17 November 2021 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 30 November 2021 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?