

IHS Markit Benchmark Administration Limited Consultation on the ESG Methodology update for iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8/5% Issuer Cap) Index (2022-15)

LONDON, JUNE 15, 2022: IHS Markit Benchmark Administration Limited (**IMBA UK**) is conducting a consultation with market participants on potential changes to the iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8/5% Issuer Cap) index.

Background

The Markit iBoxx Contingent Convertible Index family is designed to reflect the performance of contingent convertible debt issued by financial institutions. The index rules aim to offer a broad coverage of the contingent convertible bond universe, whilst upholding minimum standards of investability and liquidity. The iBoxx USD Contingent Convertible Liquid Developed Markets AT1 (8/5% Issuer Cap) index is a customized version of the iBoxx USD Contingent Convertible Liquid Developed Market AT1 index. The bond selection rules mirror the rules of the Markit iBoxx USD Contingent Convertible Liquid Developed Market AT1 index. In addition, below criteria are applied.

Index Name	ISIN (TRI)	Contingent convertible	Country of risk	Tier	Capped
iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8/5% Issuer Cap)	GB00BF9QH132	Yes	Developed Markets	AT1	8% and 5% at issuer-level

The weight of the five largest issuers is capped at 8%, the weight of the remaining issuers eligible for the index is capped at 5%. The capping takes effect when the index has at least 17 issuers. The index methodology guide is published [here](#).

PROPOSAL

3.1 ESG Screening

IMBA UK proposes to update the methodology of the iBoxx Contingent Convertible Liquid Developed Market AT1 (8/5% issuer cap) index to include ESG eligibility criteria based on the Sustainability Product Involvement Screenings that are outlined below and exclude companies that are non-compliant with United Nations Global Compact (UNGC) principles.

Sustainalytics Product Involvement Screening

- Controversial weapons
 - Tailor-made and essential – all companies involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon are excluded.
 - Non-tailor-made or non-essential – all companies involved in the provision of components/services for the core weapon system, which are either not considered tailor-made or not essential to the lethal use of the weapon are excluded.
 - Significant ownership (Tailor-made and essential) - all companies involved, through corporate ownership, in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon are excluded.
 - Significant ownership (non-tailor-made or non-essential) - all companies that provide, through corporate ownership, components/services for the core weapon system, which are either not considered tailor-made or not essential to the lethal use of the weapon are excluded.
- Small Arms
 - Civilian customers (assault weapons) – all companies involved in the manufacturing and selling of assault weapons to civilian customers are excluded.
 - Military/law enforcement customers – all companies deriving 5% or more of their total revenue from selling small arms to military/law enforcement are excluded.
 - Key Components – all companies deriving 5% or more of their total revenue from manufacturing and selling key components of small arms are excluded.
 - Retail / Distribution (assault weapons) – all companies deriving 5% or more of their total revenue from the retail and/or distribution of assault weapons are excluded.
 - Retail / Distribution (non-assault weapons) – all companies deriving 5% or more of their total revenue from the retail and/or distribution of small arms (non-assault weapons) are excluded.
 - Civilian customers (non-assault weapons) – all companies involved in the manufacturing and selling of small arms (non-assault weapons) to civilian customers are excluded.
- Military Contracting
 - Weapons – all companies deriving 5% or more of their total revenue from manufacturing military weapon systems and/or integral, tailormade components of these weapons are excluded.
 - Weapon related products and/or services – all companies deriving 5% or more of their total revenue from providing tailormade products and/or services that support military weapons are excluded.
- Oil Sands
 - Extraction – all companies involved in the extraction of oil sands are excluded.
 - Significant ownership (extraction) – all companies that own 20% or more of another company with involvement in extraction of oil sands is excluded.
- Thermal Coal
 - Extraction – all companies deriving 5% or more of their total revenue from thermal coal extraction are excluded.
 - Power Generation – all companies deriving 5% or more of their total revenue from thermal coal-based power generation are excluded.

- Tobacco
 - Production – all companies involved in the manufacturing of tobacco products are excluded.
 - Retail – all companies deriving 5% or more of their total revenue from the distribution and/or retail sale of tobacco products are excluded.
 - Related products/services – all companies deriving 5% or more from the supply of tobacco-related products/services are excluded.
- Cannabis
 - Production (recreational cannabis) – all companies involved in the development and/or cultivation of cannabis for recreational purposes are excluded.
 - Significant ownership (production recreational cannabis) – all companies that own 20% or more of another company with involvement in the development and/or cultivation of cannabis for recreational purposes are excluded.
 - Retail (recreational cannabis) – all companies deriving any revenue from the distribution and/or retail sale of cannabis for recreational purposes are excluded.
 - Significant ownership (retail production recreational cannabis) – all companies that own 20% or more of another company with involvement in the distribution and/or retail sale of cannabis for recreational purposes are excluded.
- Predatory lending
 - Operations – all companies involved in predatory lending activities are excluded.

Sustainalytics Global Standards Screening – exclusion is driven by non-compliance:

- United Nations Global Compact (UNGC)
 - All non-compliant rated companies are excluded. A company is assessed as non-compliant when it is found to be responsible for egregious and severe violations of commonly accepted international norms related to human rights, labour rights, the environment and business ethics. In other words, a company is assessed as non-compliant when it does not act in accordance with the UN Global Compact Principles and its associated standards, conventions, and treaties.

Corporate issuers that have incomplete Sustainalytics data coverage as of the bond selection cut-off date are to be excluded from the iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8% Issuer Cap) index.

The rationale for introducing ESG screenings for this index is to reflect the expectations of investors to meet certain environmental, social and governance standards in their index-driven investments.

3.2 Capping update

In addition, IMBA UK proposes to remove the 5% issuer cap from the index methodology while updating the 8% issuer cap to be applicable to all issuers in the index. Accordingly, IMBA UK proposes to update the index name to “iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8% Issuer Cap)”.

The reasoning for this change is to reduce transaction costs. Issuers can be affected by new issuances and redemptions, which may result in an issuer being subject to the 5% or 8% capping only temporarily.

IMPACT ANALYSIS

IMBA UK has analysed the impact of the proposed changes on the constituents of the iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8/5% Issuer Cap) index based on the April 2022 end of month rebalance. No issuer would have been excluded based on the before mentioned Sustainalytics Product Involvement Screening thresholds and no issuer is non-compliant with the UNGC principles.

IMBA UK has further analysed the impact of the issuer cap change on the constituents of the iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8/5% Issuer Cap) index based on the April 2022 end of month rebalance. Please find the impact on the issuer weight below. The five largest issuers (BNP, CS, HSBC, SOCGEN, and UBS) are unaffected as they are already capped at 8% as per the current methodology.

Ticker	Initial weight	New weight (proposal)	Delta
INTNED	5.00%	8.00%	3.00%
BACR	5.00%	8.00%	3.00%
ACAFP	5.00%	7.12%	2.12%
DANBNK	3.99%	2.84%	-1.14%
SANTAN	3.86%	2.75%	-1.11%
NDASS	3.82%	2.72%	-1.10%
BBVASM	3.49%	2.49%	-1.00%
LLOYDS	5.00%	4.25%	-0.75%
NWG	5.00%	4.30%	-0.70%
UCGIM	2.36%	1.68%	-0.68%
STANLN	5.00%	5.66%	0.66%
WSTP	2.15%	1.54%	-0.62%
ANZ	1.94%	1.38%	-0.56%
CMZB	1.80%	1.28%	-0.52%
SEB	1.60%	1.14%	-0.46%
DB	5.00%	4.85%	-0.15%

CONSULTATION TIMETABLE

The timetable IMBA UK is suggesting is as follows:

- 15 Jun 2022 Consultation opens
- 13 Jul 2022 Consultation closes
- 15 Jul 2022 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 31 Aug 2022 Implementation of the rule change in the indices

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

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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 to update the methodology of the described custom indices and/or the implementation timeline?

FOR MORE INFORMATION:

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