



IHS Markit™

IHS Markit Consultation on the Methodology Update for the iBoxx GBP Corporates 1-5 ESG Screened Index (2022-01)

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 GBP Corporates 1-5 ESG Screened Index is designed to reflect the performance of Pound Sterling (GBP)-denominated investment-grade corporate debt with one to five years' time to maturity. The index further screens out issuers from the iBoxx GBP Corporates 1-5 Index that breach ESG product involvement screens for Controversial Weapons, Tobacco, Oil Sands, Thermal Coal, Oil & Gas production, and Shale Energy extraction as determined by Sustainalytics.

The current Sustainalytics Product Involvement Screening threshold for 'Thermal Coal' is outlined below:

- Thermal Coal
 - Extraction – all companies deriving 10% or more of their total revenue from thermal coal extraction are excluded

IMBA UK proposes to update this alongside incorporation of additional screening as detailed in the following section.

Index Name	Return Type	ISIN	Ticker	RIC
iBoxx GBP Corporates 1-5 ESG Screened Index	TRi	GB00BL0B1B79	IBXXGCE2	.IBXXGCE2
iBoxx GBP Corporates 1-5 ESG Screened Index	CPi	GB00BL0B1951	IBXXGCE1	.IBXXGCE1

3. Proposal

IMBA UK proposes to update the methodology of the iBoxx GBP Corporates 1-5 ESG Screened Index by adjusting the above mentioned Sustainalytics Product Involvement Screening thresholds for Thermal Coal and adding new screenings, as described below:

- Thermal Coal
 - Extraction – all companies involved in thermal coal extraction are excluded **(Updated)**
 - Power Generation - all companies involved in thermal coal power generation are excluded **(New)**
- Oil & Gas
 - Generation – all companies deriving 10% or more of their total revenue from oil & gas electricity generation are excluded **(New)**
 - Supporting Products/Services – all companies deriving 10% or more of their total revenue from providing tailor-made products and services that support oil and gas exploration, production, refining, transportation, and storage are excluded **(New)**
- Arctic Oil & Gas Exploration
 - Extraction - all companies deriving 10% or more of their total revenue from oil & gas exploration in Arctic regions are excluded **(New)**

The proposed methodology changes are driven by client demand and will update the ESG profile of the index by removing companies that derive 10% or more of their total revenue from either from Oil & Gas generation, from Oil & Gas supporting products/services, or from Arctic Oil & Gas exploration. Additionally, companies that are involved in Thermal Coal extraction or Thermal Coal power generation are excluded.

4. Impact Analysis

IMBA UK has investigated the theoretical impact of the updated methodology based on the end of November 2021 rebalance. Updating the involvement threshold for the extraction of thermal coal from 10% to any involvement leads to the exclusion of 2 bonds with a combined index weight of 0.80%. Excluding companies with any involvement in thermal coal power generation leads to the removal of 9 additional bonds, with a combined index weight of 3.63%. One of these bonds is also breaching the new 'Oil and Gas generation' screen (index weight of 0.46%). The proposed

methodology update will lead to the exclusion of 11 bonds with a combined index weight of 4.43%.

ISIN	Issuer	Index Weight
XS0834399635	BHP Billiton Finance Ltd	0.38%
XS0170732738	E.ON International Finance BV	0.43%
XS0397015537	EDP Finance BV	0.31%
XS0403958498	Electricite de France SA	0.35%
XS0452188054	Enel Finance International NV	0.75%
XS1968703345	Glencore Finance Europe Ltd	0.41%
XS0410370919	Iberdrola Finanzas SAU	0.46%
XS0633547087	NIE Finance Plc	0.39%
XS1820002308	NIE Finance Plc	0.28%
XS0082800375	Northern Powergrid Holdings Company	0.18%
XS2195190876	SSE Plc	0.49%

5. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 21 January 2022 Consultation opens
- 18 February 2022 Consultation closes
- 21 February 2022 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 28 February 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?