

IHS Markit Benchmark Administration Limited Consultation on the iBoxx MSCI EUR/USD High Yield Paris Aligned Capped TCA Indices

LONDON, DECEMBER 5, 2022: IHS Markit Benchmark Administration Limited (IMBA) is conducting a consultation with market participants on potential changes to the iBoxx MSCI EUR High Yield Paris Aligned Capped TCA index and iBoxx MSCI USD High Yield Paris Aligned Capped TCA index (together, the “iBoxx MSCI EUR/USD HY PAB” indices).

BACKGROUND

The iBoxx MSCI EUR/USD HY PAB indices are designed to reflect the performance of high-yield corporate debt denominated in EUR/USD, respectively, and conform to the minimum standards required by the European Union (EU) for Paris-Aligned Benchmarks (PABs). For more information, see the respective [EUR](#) and [USD](#) index guides.

Index Name	ISIN (TRi)	Ticker (TRi)
iBoxx MSCI EUR High Yield Paris Aligned Capped TCA index	GB00BL0BJ354	IBXXEPAT
iBoxx MSCI USD High Yield Paris Aligned Capped TCA index	GB00BL0BJ792	IBXXUPAT

PROPOSAL

IMBA is considering updating the methodology of the iBoxx MSCI EUR/USD HY PAB indices in response to stakeholder feedback, as follows:

- (1) Replace Carbon Emissions Scope 3 **Reported** (metric tons) with Carbon Emissions Scope 3 **Estimated** (metric tons). This is driven by higher coverage and availability of Scope 3 Estimated Carbon Emissions data as compared to the Reported Carbon Emissions data.
- (2) Update the Carbon Emissions sector phase-in for Scope 3, using Scope 3 **Estimated** Carbon Emissions data, such that this is phased across all remaining economic activity (NACE) sectors. The EU PAB regulation mandates the use of Scope 3 data but allows for a specified phased-in approach.¹ This proposed update facilitates the immediate application of Scope 3 across all sectors, without the need for further phasing in, as it exceeds the minimum timelines necessary for the implementation of Scope 3. This update results in the removal of Scope 3 sector coverage criteria (for phased-in sectors).
- (3) Update the optimization objective function to incorporate the difference to bonds’ prior weight, as described in the table below. This aims to better control for index turnover.
- (4) Apply a new Scope 3 Estimated Carbon Emissions coverage criteria, such that bonds missing Scope 3 Estimated Carbon Emissions data will use the latest (‘non-null’) Scope 3 Estimated Carbon Emissions data between the previous month end and the rebalance date. Should this data remain unavailable then such bonds will be ineligible for the index.

¹ As per Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020: “However, due to the insufficient quality of data currently available for Scope 3 GHG emissions, it is necessary to set out an appropriate phase-in timeline and to allow for the use of fossil fuel reserves for a limited period of time. That phase-in timeline should be based on the list of economic activities set out in Regulation (EC) No 1893/2006.”

- (5) Update 'Outlier Correction' treatment, such that bonds with Scope 3 Estimated Carbon Emissions data that are deemed to be outliers, will no longer be overridden using the Average Scope 3 Sector Ratio estimation process.

As a result of the proposed changes, the base date for Carbon Emissions decarbonization trajectory calculation will be reset to month-end December 2022 to coincide with the proposed implementation date. This is in line with the EU BMR provision for resetting the base year upon significant changes in the calculation methodology of Carbon emissions. The table below summarizes the proposed changes:

Proposed Change	Methodology	
	Current	Proposed
(1) Carbon Emissions Scope 3 – Data	Carbon Emissions Scope 3 Reported (metric tons) provided by MSCI ESG Research	Carbon Emissions Scope 3 Estimated (metric tons) provided by MSCI ESG Research
(2) Carbon Emissions Scope 3 – Phase-In Schedule	Apply Scope 3 data based on minimum phased-in approach set by EU PAB regulation	Apply Scope 3 data across all sectors, removing the need for phasing in and removal of Scope 3 sector coverage criteria (for phased-in sectors).
(3) Optimization	$\min \sum_{i=1}^n \frac{(\text{Optimised Weight}_i - \text{Profile Weight}_i)^2}{\text{Profile Weight}_i}$ <p>where: <i>n</i> = number of bonds <i>Profile weight</i> is the weight of the bonds in the profile index <i>Optimised weight</i> is the output of the optimisation</p>	$\min \left(0.5 \times \sum_{i=1}^n (\text{Optimised Weight}_i - \text{Profile Weight}_i)^2 + 0.5 \times \sum_{i=1}^n (\text{Optimised Weight}_i - \text{Prior Weight}_i)^2 \right)$ <p>where: <i>n</i> = number of bonds <i>Profile weight</i> is the weight of the bond in the profile index <i>Prior weight</i> is the weight of the bond in the index on rebalancing day, prior to rebalancing. For bonds that were not part of the index membership at the previous rebalance, the <i>prior weight</i> is zero. <i>Optimised weight</i> is the output of the optimisation</p>
(4) Treatment of missing Scope 3 Estimated Carbon Emissions	--	Bonds missing Scope 3 Estimated Carbon Emissions data will use the latest ('non-null') Scope 3 Estimated Carbon Emissions data between the previous month end and the rebalance date. Should this data remain unavailable then such bonds will be ineligible for the index.
(5) 'Outlier Correction' Treatment	Scope 3 emissions levels that are outliers will be replaced by estimated levels using the Average Scope 3 Sector Ratio, if the estimated emissions are lower than the outlier.	No replacement of outliers. These will reflect the new Scope 3 Estimated Carbon Emissions data.

IMPACT ANALYSIS

IMBA has analyzed the impact of the proposed changes based on the October 2022 month-end rebalancing and found that the number of constituents would increase from 924 to 939 for the USD Index and from 441 to 447 for the EUR Index. Specifically, the proposed methodology update leads to the exclusion of 27 bonds for USD and 15 bonds for EUR bonds with a combined index weight of 2.96% and 3.92% respectively. This is compared to 46 bonds for USD and 21 bonds for EUR with respective weights of 4.36% and 3.89% using the current methodology. The tables on the following page provide a summary of the impact.

CONSULTATION

iBoxx MSCI EUR High Yield Paris Aligned Capped TCA index 2022-10-31	Methodology	
	Current	Proposed
Parent emissions*	4,983,709	21,757,338
Final index emissions*	1,440,094	10,878,669
Parent bond count	804	804
Parent # bonds for which Scope 3 is included **	54	804
Number of bonds	441	447
Bond removed due to Scope 3 Estimated non-coverage	N/A	15
Bonds removed due to Scope 3 Reported Emissions phased in sector coverage	21	N/A
Bonds removed due to minimum weight threshold	0	0
Turnover %	6.7%	9.7%

iBoxx MSCI USD High Yield Paris Aligned Capped TCA index 2022-10-31	Methodology	
	Current	Proposed
Parent emissions*	5,799,555	20,660,795
Final index emissions	844,445	10,330,397
Parent bond count	1632	1632
Parent # bonds for which scope 3 is included**	223	1632
Number of bonds	924	939
Bond removed due to Scope 3 Estimated non-coverage	N/A	27
Bonds removed due to Scope 3 Reported Emissions phased in sector coverage	46	N/A
Bonds removed due to minimum weight threshold	3	7
Turnover %	6.6%	7.7%

* Where index emissions for the current methodology are based on MSCI Scope 1+2 and Scope 3 Reported Emissions for phased-in sectors, versus the new proposed methodology based on Scope 1+2 and Scope 3 Estimated Emissions for all sectors.

** Where Scope 3 for current methodology is based on MSCI Scope 3 Reported Emissions for phased-in sectors, versus new proposed methodology based on Scope 3 Estimated Emissions for all sectors.

The full list of excluded bonds and their respective weights can be found [here](#).

IMPLEMENTATION TIMING

IMBA is proposing to implement the previously described methodology changes, if adopted, following the December 2022 month-end rebalancing, which takes effect prior to the market open on **Monday, January 2, 2023**.

QUESTIONS

Please answer the following questions and provide IMBA with the reasoning behind your answers:

1. Do you agree with the proposal to update the methodology of the iBoxx MSCI EUR/USD HY PAB indices?
2. Should the proposed methodology changes be adopted, do you agree with the proposed implementation date?
3. Do you have any other comments or feedback regarding the proposed changes outlined above?

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences on the proposal herein and the suggested timetable for its implementation. Please respond to this survey by **December 16, 2022**. After this date, IMBA will no longer accept survey responses. Prior to the Index Committee's final review, IMBA may request clarifications from respondents as part of that review.

CONSULTATION

To participate in this consultation, please visit the online survey available [here](#).

IMBA may publish summaries of stakeholders' comments along with IMBA's responses to those comments unless the stakeholder in question expressly requests confidentiality.

Please be advised that all comments will be reviewed and considered before a final decision is made; however, IMBA 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. If IMBA decides to change the index methodology, an announcement will be posted on our website. IMBA reserves the right to make a final decision on the proposal.

Thank you for taking the time to complete this survey.

For further information about this consultation, please contact IMBA at SPDJI_Index_Governance@spglobal.com.

FOR MORE INFORMATION:

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