

# **MSCI Green Bond and Green Loan Assessment: Frequently Asked Questions**

MSCI ESG Research

February 2023



## Contents

1	Introduction .....	3
1.1	Role of MSCI in the Bloomberg MSCI Green Bond Indices .....	3
1.2	Role of MSCI ESG Research .....	3
2	Green Bond Eligibility Rules & Processes.....	4
2.1	What is the basis for considering a bond as ‘green’? .....	4
2.2	What happens if the UoP categories do not fall within the seven eligible UoP categories? .....	5
2.3	When is an issuer’s bond considered ineligible for the Bloomberg MSCI Green Bond Index? .....	6
2.4	How does MSCI ESG Research estimate the projected UoP at the time of issuance? .....	7
3	Contact Information for Issuers.....	7
3.1	What are the ways in which MSCI ESG Research contacts green bond issuers?.....	7
3.2	How can issuers contact MSCI ESG Research?.....	7
3.3	Where can issuers direct questions about a bond’s fixed income characteristics for eligibility in the Bloomberg MSCI Green Bond Indices? .....	8
4	Eligibility determination process and timing.....	8
4.1	When does MSCI ESG Research communicate bond eligibility? .....	8
4.2	What is the ‘Under Review’ process? .....	9
4.3	What are the reporting obligations required of an issuer? .....	9
5	Second-Party Opinions .....	10
	Contact us .....	11
	Notice and Disclaimer .....	12

This document addresses frequently asked questions from green bond issuers about the MSCI Green Bond and Green Loan Assessment Methodology, and processes on interacting with issuers.

The MSCI ESG Issuer Communications team addresses any questions issuers may have on their own ESG assessments and oversees the review of issuer feedback. Contact information for the MSCI ESG Issuer Communications team is in section 3.3.

## 1 Introduction

### 1.1 Role of MSCI in the Bloomberg MSCI Green Bond Indices

The key design features of the Bloomberg MSCI Green Bond Indices:

- MSCI ESG Research evaluates the “green” eligibility criteria along four dimensions: Use of Proceeds (UoP), project evaluation, management of proceeds, and reporting. These eligibility criteria reflect the core elements of the Green Bond Principles (GBP), as administered by the International Capital Markets Association (ICMA).
- Fixed-income eligibility criteria is chosen by Bloomberg so that the final index is both transparent and representative of the market. Bloomberg performs the index calculation and is the index administrator.
- A flexible design that allows for multiple variants. Sub-indices defined by credit quality, region, currency, maturity, and UoP, as well as issuer-capped indices, are also available as part of the indices.

### 1.2 Role of MSCI ESG Research

Green bonds are fixed-income securities in which the proceeds will be formally applied to projects or activities that promote climate or other environmental sustainability purposes and initiatives.

“Greenwashing” – the practice of some issuers pushing the boundary of what can be reasonably considered “green” – is seen by many investors as a serious potential threat to the credibility of this market. A key challenge in constructing a green bond

index is to set specific, transparent, and objective rules to identify what investors generally define as “green.”

To address this concern, MSCI ESG Research has established clearly defined rules for classifying green bonds, with an aim to provide sufficient transparency on the UoP for eligible securities and, most importantly, to present investors with an investment universe that is regarded as green against a methodology.

## **2 Green Bond Eligibility Rules & Processes**

### **2.1 What is the basis for considering a bond as ‘green’?**

For the Bloomberg MSCI Green Bond Index, securities are independently evaluated by MSCI ESG Research along four dimensions to determine whether a fixed-income security should be classified as a green bond. These eligibility criteria reflect themes articulated in the Green Bond Principles administered by International Capital Markets Association (ICMA) and require clarity about a bond’s:

1. Stated UoP in at least one of seven eligible environmental categories (defined by MSCI ESG Research, see figure 1):
  - a. Alternative Energy
  - b. Energy Efficiency
  - c. Pollution Prevention and Control
  - d. Sustainable Water
  - e. Green Building
  - f. Climate Adaption
  - g. Other
2. Process for green project evaluation and selection;
3. Process for management of proceeds; and
4. Commitment to ongoing reporting on the allocation of proceeds.

Figure 1  
**MSCI ESG Research Green Bond Use of Proceeds Categories and Sub-categories - Summary**

Green Bond Category	Sub-Category
Alternative Energy	Wind, Solar, Geothermal, Biomass (subject to additional sustainability criteria), Waste Energy, Wave and Tidal, Small Hydro, Large Hydro (subject to additional sustainability criteria), Biogas, Bio-fuels (first and second generation)
Energy Efficiency	Demand-Side Management, Battery, Fuel Cells/Hydrogen Systems, Smart Grid, Other Energy Storage (including pumped hydro storage), Superconductors, Natural Gas Combined Heat & Power, LED Lighting, Compact Fluorescent Lighting, Insulation, Hybrid/Electric Vehicles, Clean Transportation Infrastructure, Industrial Automation, IT Optimization Service & Infrastructure
Pollution Prevention & Control	Environmental Remediation, Waste Treatment (excluding landfill and incineration), Reuse & Recycling of Waste, Low Toxicity/VOC, Conventional Pollution Control
Sustainable Water	Water Infrastructure & Distribution (with impact on water quality and access), Rainwater Harvesting, Smart Metering Devices, Drought-resistant Seeds, Desalination, Wastewater Treatment, Water Recycling Equipment & Services, Watershed Conservation Efforts
Green Building	Green Certified Residential and Commercial Properties based on local environmental performance standards (e.g., Energy Star, NABERS >3, etc.), Green Certified Residential and Commercial Properties based on local environmental design standards (e.g., LEED Certified, BREEAM, etc.), Uncertified Green Property Investments (top 15% energy efficiency within local market), Green CMBS or renovated real estate (subject to additional sustainability criteria)
Climate Adaptation	Flood protection, food security and stress-resilient agricultural systems, reforestation and watershed management, climate resiliency services (modernization of meteorological systems, catastrophe risk insurance).
Other	The "other" use of proceeds category includes environmental activities and projects that are not included in the six use of proceeds categories.

Source: MSCI ESG Research

For more detailed information on the seven eligible UoP categories, refer to pages 4-7 of the Bloomberg MSCI Green Bond Indices Primer (<https://www.msci.com/documents/1296102/26180598/BBG+MSCI+Green+Bond+Indices+Primer.pdf>)

## 2.2 What happens if the UoP categories do not fall within the seven eligible UoP categories?

MSCI ESG Research will consider the bond eligible if at least 90% of the projected UoP falls within eligible categories. If over 10% of the projected UoP do not fall within at least one of the eligible categories, the bond is ineligible as per the MSCI Green Bond and Green Loan Assessment Methodology.

## 2.3 When is an issuer’s bond considered ineligible for the Bloomberg MSCI Green Bond Index?

### At Issuance

When the bond is issued, if MSCI ESG Research estimates (based on the bond-related documents and/or upon interacting with issuers) that over 10% of the projected UoP of the bond in consideration falls outside the eligible UoP categories, the bond is ineligible for inclusion.

If the bond meets the “green” criteria, as assessed by MSCI ESG Research, but does not meet the fixed-income criteria, as assessed by Bloomberg, the bond is ineligible for inclusion.

For further details on the fixed income criteria, please refer to pages 10-12 of the Bloomberg MSCI Green Bond Indices Primer (<https://www.msci.com/documents/1296102/26180598/BBG+MSCI+Green+Bond+Indices+Primer.pdf>)

### Upon Annual Review

Green bonds may become ineligible, necessitating removal from the index, if the issuer fails to meet the commitment to ongoing reporting of the bond’s UoP (Principle 4, section 2.1).

In cases where issuers do report on green bond UoP, but upon annual review of the bonds, it is evident that over 10% of the total proceeds of a green bond has been allocated to categories outside the eligible categories, the said bond will be removed from the index in the subsequent rebalance of the index.

### Other

If the bond, at any time, becomes ineligible as per the Bloomberg fixed income criteria<sup>1</sup>, it will be taken off the index.

---

<sup>1</sup> For further details on the fixed income criteria, please refer to pages 10-12 of the Bloomberg MSCI Green Bond Indices Primer.

## 2.4 How does MSCI ESG Research estimate the projected UoP at the time of issuance?

In cases where there is at least one UoP category/sub-category mentioned in an issuer’s bond framework falling outside the eligible categories defined in the MSCI Green Bond and Green Loan Assessment Methodology, then MSCI ESG Research will contact the issuer and request information to estimate whether the funding/allocation towards such categories will be less than or equal to 10% of the overall proceeds raised by the bond. If so, then the bond is considered eligible for inclusion to the Bloomberg MSCI Green Bond Index as per the 90% UoP principle outlined in Section 2.2 above.

## 3 Contact Information for Issuers

### 3.1 What are the ways in which MSCI ESG Research contacts green bond issuers?

MSCI ESG Research can email an issuer to assess the bond’s green credentials along the four principles via [msci\\_gssbonds@msci.com](mailto:msci_gssbonds@msci.com).

In order to maintain the independence of the index, MSCI ESG Research refrains from hosting phone calls with bond issuers (or their underwriters) to discuss the assessment of their bonds.

### 3.2 How can issuers contact MSCI ESG Research?

Issuers are encouraged to ask questions about the Green Bond Index to ([msci\\_gssbonds@msci.com](mailto:msci_gssbonds@msci.com)), and share information and relevant materials pertaining to their newly issued green bond(s) proactively by emailing the MSCI ESG Issuer Communications at [esgissuercomm@msci.com](mailto:esgissuercomm@msci.com).

### 3.3 Where can issuers direct questions about a bond’s fixed income characteristics for eligibility in the Bloomberg MSCI Green Bond Indices?

Bloomberg maintains responsibility for assessing a bond’s eligibility to the Bloomberg MSCI Green Bond Index based on its fixed income characteristics (like a certain rating/coupon type of a bond). Bloomberg can be contacted via email at [indexhelp@bloomberg.net](mailto:indexhelp@bloomberg.net).

## 4 Eligibility determination process and timing

### 4.1 When does MSCI ESG Research communicate bond eligibility?

Only the issuer of the bond (or its underwriter) can be informed about the eligibility of their bond by MSCI ESG Research over email upon request, after the rebalance of the Bloomberg MSCI Green Bond Index concludes every month. The Bloomberg MSCI Green Bond Index is rebalanced on the last business day of each month. Eligibility cannot be shared by MSCI ESG Research prior to the rebalance.

All relevant information (green bond framework, reporting, etc.) should be publicly accessible and provided to MSCI ESG Research by the 23rd of the month to enable a timely evaluation.

If the issuer misses this deadline, they can share materials/responses with MSCI ESG Research before the subsequent month’s rebalance date for consideration for potential index inclusion.

After the rebalance, a technical note will be shared with the clients of the Bloomberg MSCI Green Bond Indices on the MSCI ESG Manager platform. The monthly technical note includes the following:

- Bonds that have entered the Bloomberg MSCI Green Bond Index that month, along with a short commentary on the eligible Use of Proceeds that are expected to be funded along with estimated allocations;
- Bonds that are “Under Review” and information as to why



- Bonds that did not enter the Bloomberg MSCI Green Bond Index that month; and
- Bonds that are being evaluated for the annual UoP review.

## 4.2 What is the ‘Under Review’ process?

Inadequate information about the issuer’s green bond program may result in a bond being considered “Under Review.” If this is the case, the bond’s status will be mentioned in the technical note, but the bond will not be eligible for the index. If, in six months of issuance, MSCI ESG Research still lacks sufficient information to determine bond eligibility, the bond will be excluded from the Bloomberg MSCI Green Bond index permanently. Further information is available in the Bloomberg MSCI Green Bond Indices Primer (<https://www.msci.com/documents/1296102/26180598/BBG+MSCI+Green+Bond+Indices+Primer.pdf>).

## 4.3 What are the reporting obligations required of an issuer?

In the event an issuer’s bond is included in the Bloomberg MSCI Green Bond Index, MSCI ESG Research expects the issuer to initially publicly report on the actual UoP within 12 months of issuance, then subsequently within 12 months from the prior UoP report (delineated in Principle 4 of the Bloomberg MSCI Green Bond Indices Primer). This obligation is required until the bond’s proceeds have been fully disbursed.

There is a grace period of three months after the 12-month issuance. If the issuer has not published the report within 15 months from the date of issuance, it will be flagged as “ON WATCH” in the subsequent monthly green bond technical note (currently this has been relaxed to 21 months, due to the ongoing pandemic). If the issuer has not published a report within 18 months from issuance or since the last annual UoP allocation report (currently this has been relaxed to 24 months due to the ongoing pandemic), their bond(s) will be removed from the index upon its subsequent rebalance.

For further details, please refer to pages 8-9 of the Bloomberg MSCI Green Bond Indices Primer (<https://www.msci.com/documents/1296102/26180598/BBG+MSCI+Green+Bond+Indices+Primer.pdf>)

## 5 Second-Party Opinions

MSCI ESG Research also offers second-party opinions for green bonds. These are available for both corporate and non-corporate issuers. Please visit <https://www.msci.com/our-clients/corporates/achieving-your-sustainability-objectives> or contact [ESG\\_Corporate\\_Sales@msci.com](mailto:ESG_Corporate_Sales@msci.com) for additional information.

Please note that the issuance of a favorable second-party opinion by MSCI ESG Research has no bearing on the MSCI ESG Rating for the issuer (if one exists) and does not guarantee inclusion in any index maintained or advised by MSCI or MSCI ESG Research, including Bloomberg MSCI Green Bond Indices, due to additional fixed income eligibility criteria.

### AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

### EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

### ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

\* = toll free

## Contact us

[esgclientservice@msci.com](mailto:esgclientservice@msci.com)

### About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

### About MSCI ESG Research Products and Services

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

To learn more, please visit

[www.msci.com](http://www.msci.com)

## Notice and Disclaimer

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [www.msci.com](http://www.msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a



recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.