

# Consultation Proposals

**1) ELIGIBILITY OF EU BONDS IN MSCI GOVERNMENT BOND INDEXES**

**2) SHIFTING THE PRIMARY PRICING PROVIDER FOR MSCI'S SUITE OF INDEXES**

This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the result of the consultation

**May 2024**

# Question: Should EU Bonds be eligible for inclusion within the MSCI Government Bond Indexes?

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# The EU: A unique union of sovereign states

The European Union (EU) is an economic and political union of 27 sovereign Member States, defined by a unique institutional structure unlike a typical supranational entity, which has the following characteristics:

Decision-making capacity in areas where member states have transferred their sovereignty to the EU.

Power to establish, implement and enforce EU laws in certain areas.



Distinct legal personality, participating in international forums like the WTO and the UN.

Common currency for the Eurozone and an independent Central Bank.

Common budget to finance EU policy priorities and back EU debt issuance (unlike a typical supranational with debt backed by pooled or committed capital).

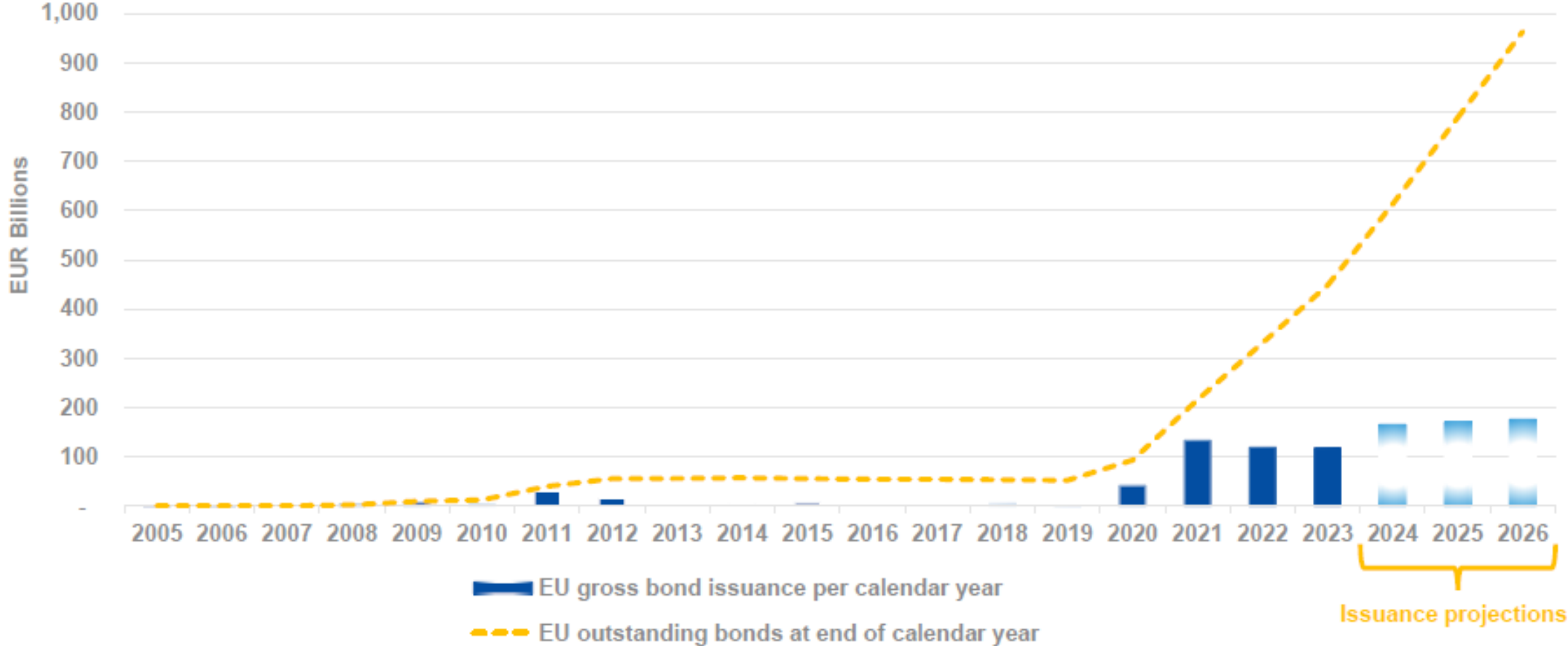
Empowered by the EU Treaties to borrow from international capital markets on behalf of the European Union.

# The EU Commission bonds are rated nearly AAA by every rating agency

Agency					
EU Credit Rating	<b>AAA</b> / F1+ Outlook stable	<b>Aaa</b> / (P) P-1 Outlook stable	<b>AA+</b> / A-1 + Outlook stable	<b>AAA</b> / S-1 + Outlook stable	<b>AAA*</b> / R-1 (high)* Outlook stable

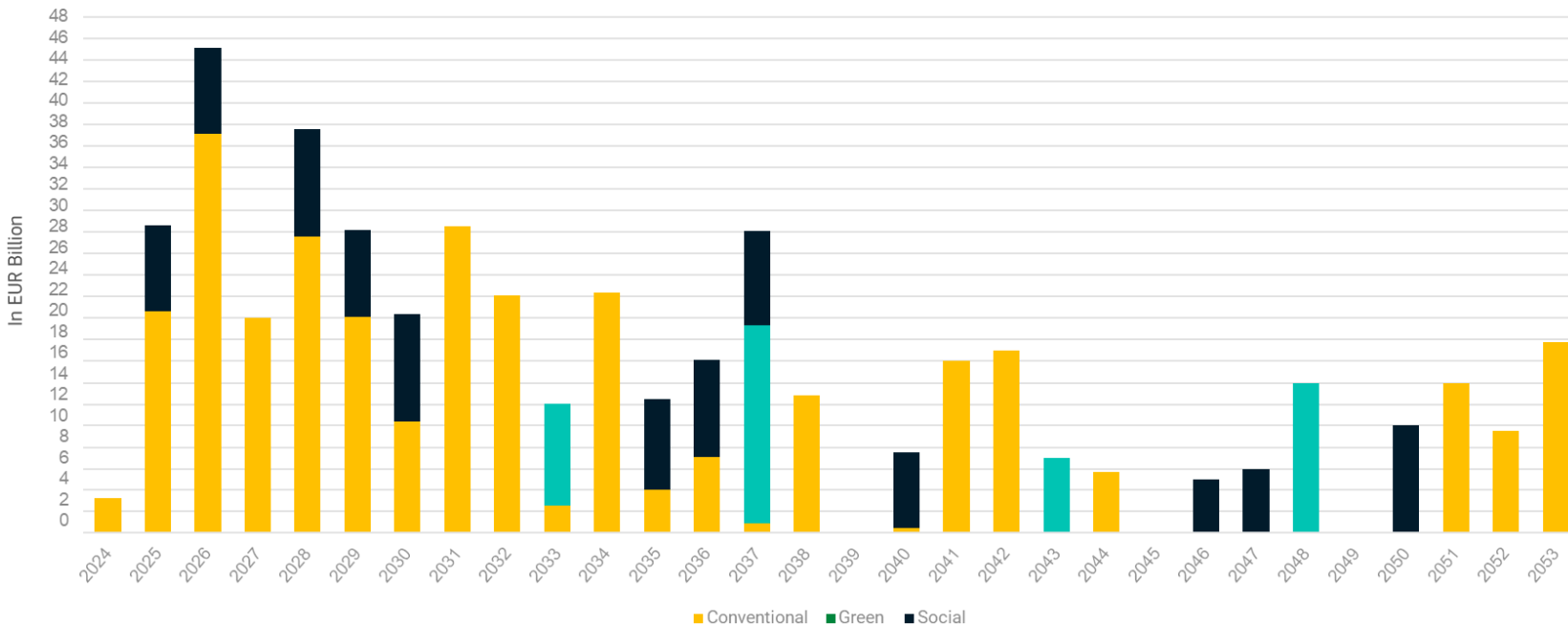
\* Unsolicited rating

# Evolution of EU debt issuances: There is a significant increase in bond supply since the Covid-19 pandemic



# EU Bonds: A pillar of EU funding

## EU Issuances: A liquid curve of EU benchmark bonds

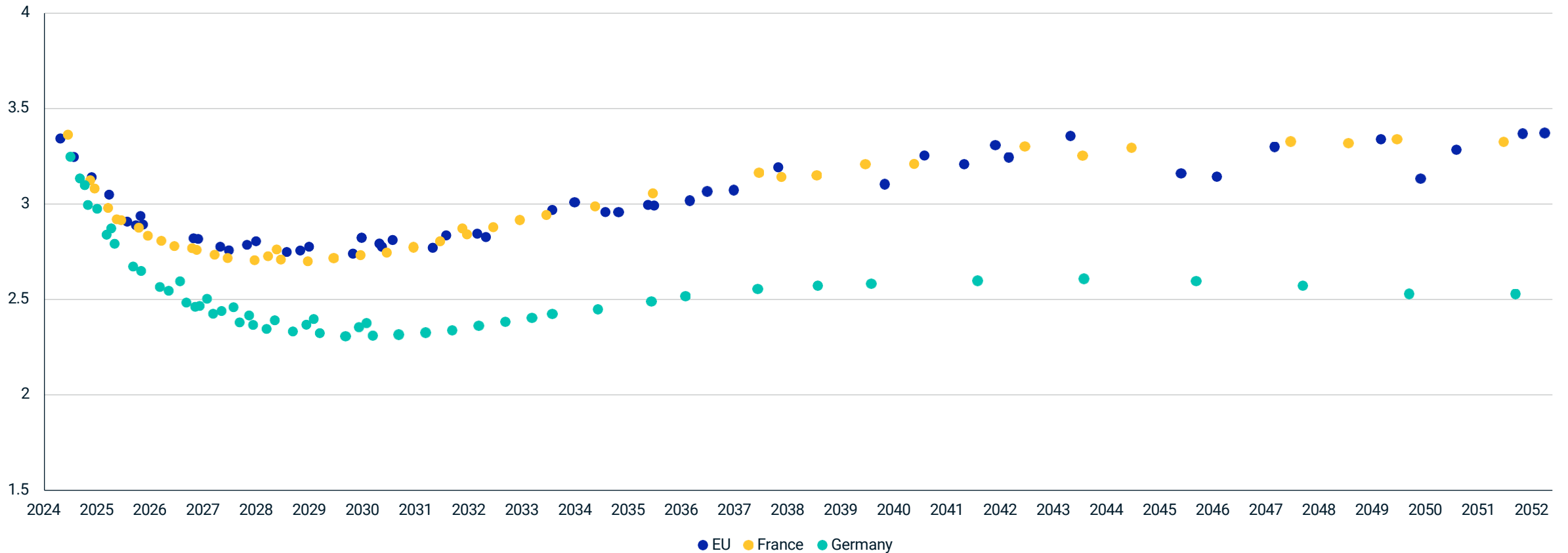


Source: European Commission

- Regular issuance of liquid benchmark bonds from 3 to 30 years.
- Conventional and green bonds via issues or taps.
- Expected total volume and issuance weeks announced in 6-monthly funding plans.
- Bond issuances via syndicated transactions and auctions.

# EU bond yield curve compared to German and French government bonds

Yield curves of the EU, French and German bonds (as of April 2024)



# Simulated Impact of including eligible EU Bonds to MSCI's Suite of Indexes

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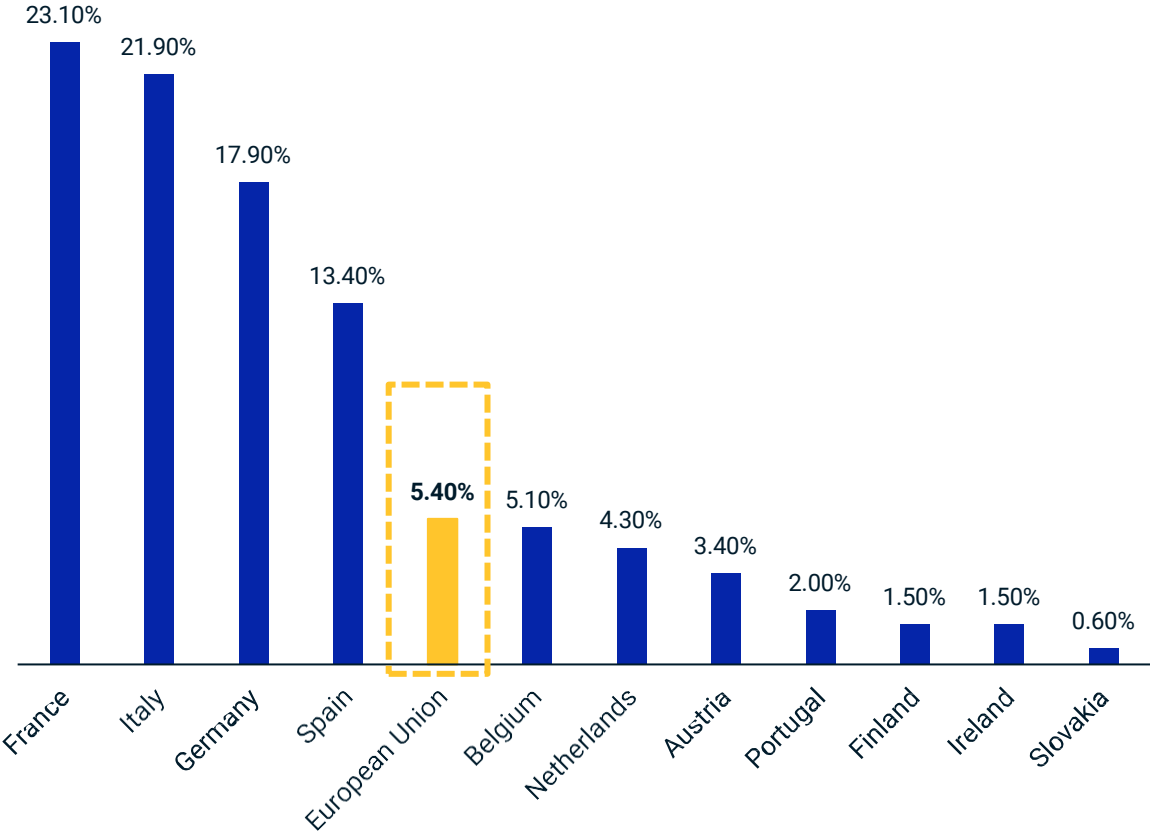


# Impact of including eligible EU bonds in MSCI's Eurozone Government Bond Index

- The European Union is currently classified as a Supranational entity.
- Index eligible EU bond totals approximately EUR 467 billion, resulting in approximately 5% weight in the **MSCI Eurozone Government Bond Index**.
- The weighted average curve yield is 3.04% and a duration of 9.47.

	MSCI Eurozone Government Bond Index	MSCI Eurozone Government Bond Index (incl. EU bonds)
Duration	7.26	7.35
Yield	3.04	3.04
Time To Maturity	9.49	9.68
Coupon	2.02	1.99
# of Bonds	423	473
Total Debt Outstanding	EUR 7.6 trillion	EUR 8.1 trillion
Weight of EU Bonds Added	-	5.40%
# of EU Bonds Added	-	50

**% Market Value Weight in the Index by Country**



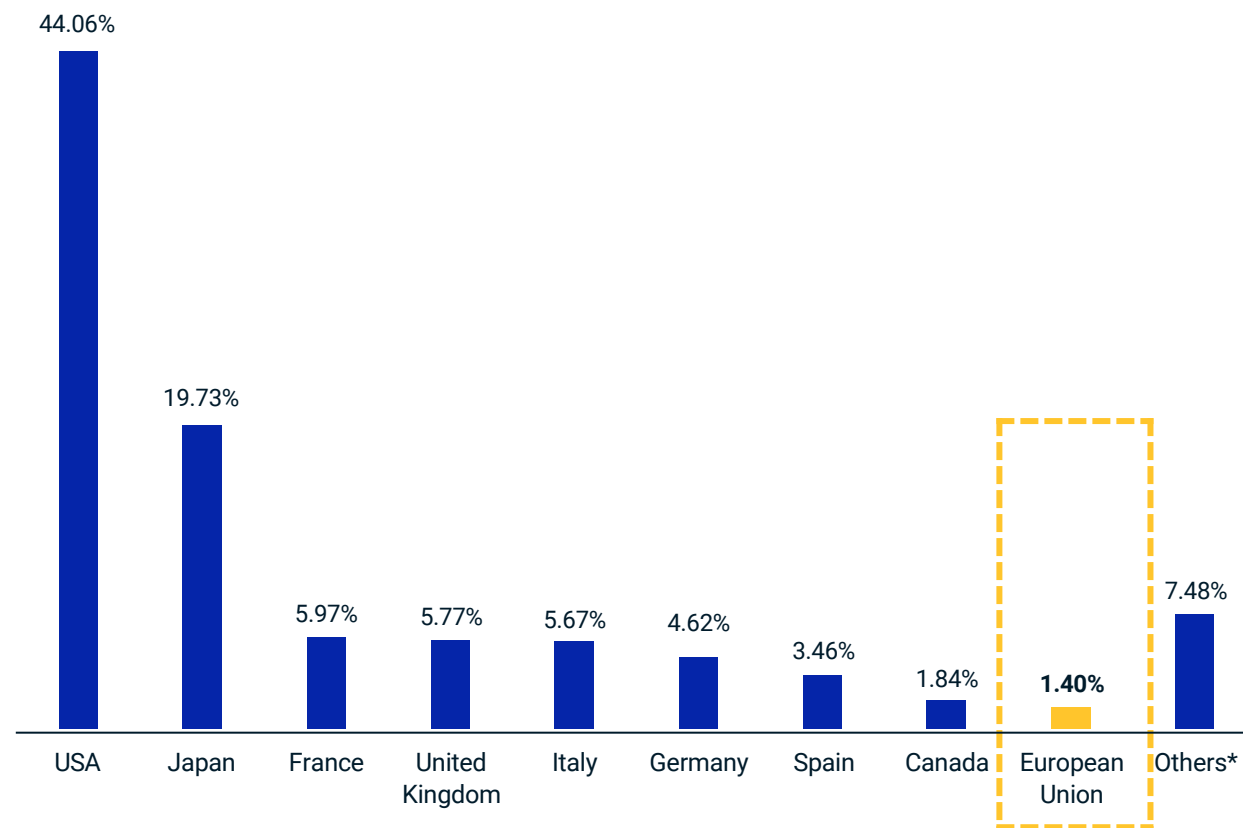
Simulated based on data on April 3<sup>rd</sup>, 2024, for the May 2024 Fixed Income Index Rebalance.

# If included, EU Bonds would represent approximately 1.5% in MSCI's Developed Market Government Bond Index (MGBI-DM)

- The European Union is currently classified as a Supranational entity.
- If EU bonds issuers are included in the MSCI Government Bond Index-Developed Markets Government Bond Index, then we note that **50** new bonds would enter with a weight of **~1.5%**.
- These 50 fix-coupon paying bonds represent a debt stock of **~EUR 467 billion** and the issuer is domiciled in Belgium.
- These bonds have an average yield of 3.04% and an average duration of 9.47.

	MGBI-DM	MGBI-DM (incl. EU bonds)
Duration	7.31	7.34
Yield	3.37	3.36
Time To Maturity	9.75	9.85
Coupon	2.12	2.11
# of Bonds	1192	1242
Total Debt Outstanding	EUR 31.3 trillion	EUR 31.8 trillion
Weight of EU Bonds Added	-	1.40%
# of EU Bonds Added	-	50

**% Market Value Weight in the Index by Country**



\*Australia, Austria, Belgium, Denmark, Finland, Ireland, Israel, Netherlands, Norway, Portugal, Singapore, Slovakia, Sweden, Switzerland



Simulated based on data on April 3<sup>rd</sup>, 2024, for the May 2024 Fixed Income Index Rebalance.

# Requesting Feedback:

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# EU Bond Eligibility Questions

- **Should EU Bonds be eligible for inclusion in the MSCI Government Bond Indexes?**
- If yes, when should the bonds be eligible for inclusion within the indexes
  - September, October or November month-end rebalancing
- **If eligible, should the bonds get included in a phased approach?**
  - A. No need to phase in the bonds and the preference would be to include all at once.
  - B. Ideally, the bonds would be included over two months.
  - C. Due to the eligible debt stock of approximately EUR 467 billion, the preference would be to include over a 3-month period.
- **Presently EU Bonds are classified as Supra-National**
  - A. Should the EU bonds continue to be classified as Supra-National?
  - B. The EU Commission is domiciled in Belgium. Should the country of risk for the EU bonds transition to Belgium?

**MSCI welcomes feedback from market participants until 24<sup>th</sup> May 2024 and will announce the results of the consultation by end of May 2024.**

**Question: Are there any reservations in shifting the primary pricing provider of MSCI's Fixed Income suite of Indexes?**

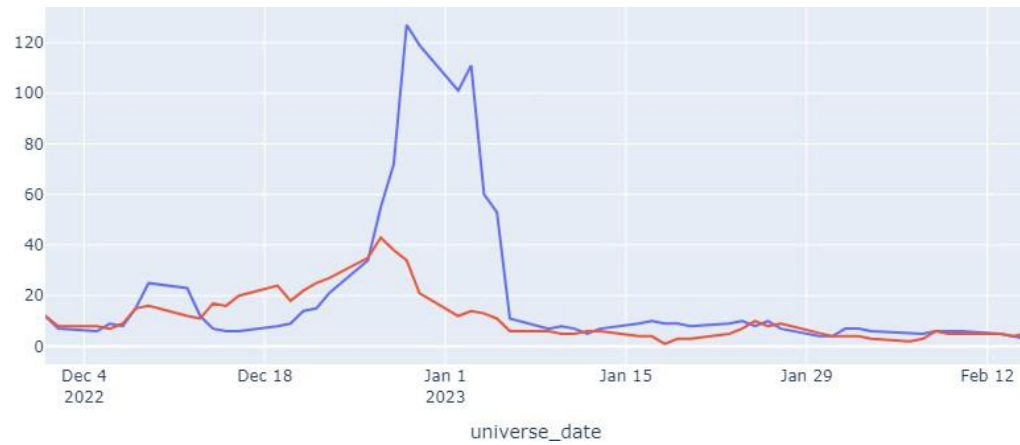
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# Vendor 1 is the primary pricing provider for MSCI's suite of indexes. The coverage universe is similar across both vendors

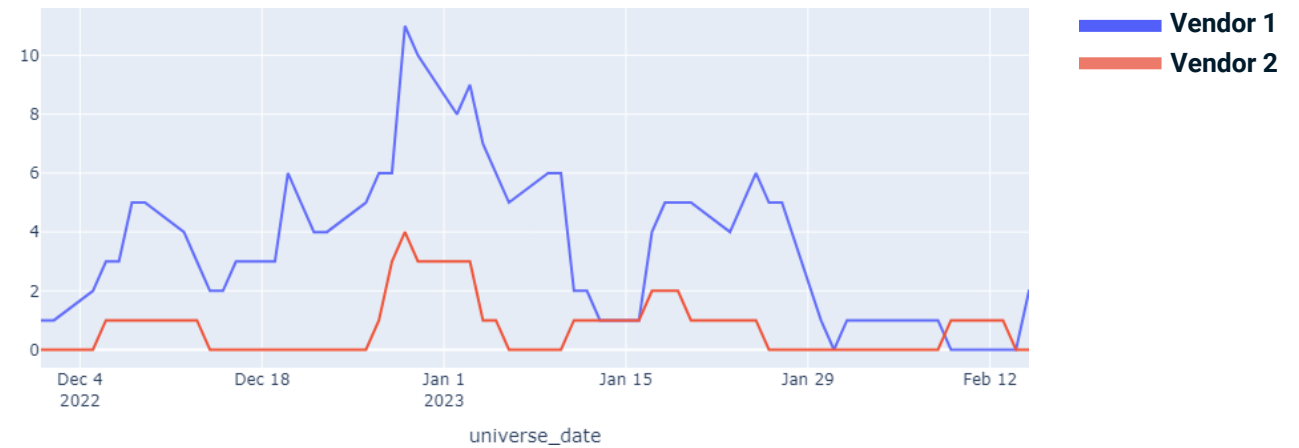
Index name	Number of constituents	Vendor 1's coverage (Primary) (By Number of Constituents)	Vendor 2's coverage (Secondary) (By Number of Constituents)
USD IG Corporate	7625	7624 [99.99%]	7625 [100.00%]
USD HY Corporate	2064	2062 [99.90%]	2064 [100.00%]
EUR IG Corporate	3448	3448 [100.00%]	3435 [99.62%]
EUR HY Corporate	587	587 [100.00%]	587 [100.00%]
GBP IG Corporate	824	823 [99.88%]	822 [99.76%]
Emerging Market Sovereigns (MESBI)	824	824 [100.00%]	824 [100.00%]
Government Bonds – Developed Markets (MGBI-DM)	1197	1180 [98.58%]	1192 [99.58%]

# However, we observe fewer stale bond valuations utilizing Vendor 2 pricing

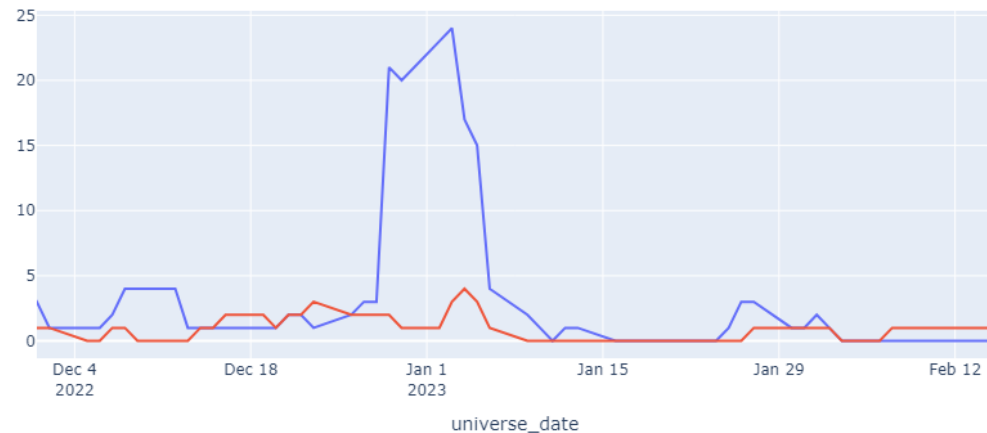
## USD HY constituents, stale bonds count



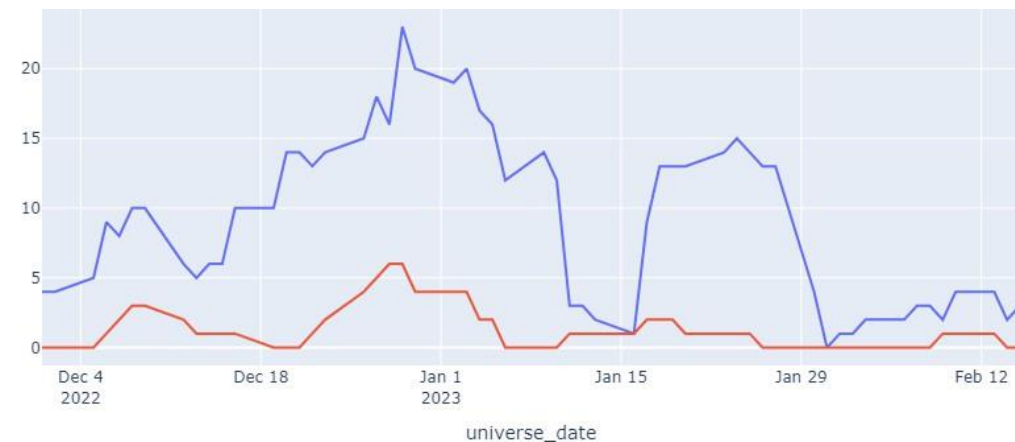
## USD Core IG constituents, stale bonds count



## USD HY SRI constituents, stale bonds count



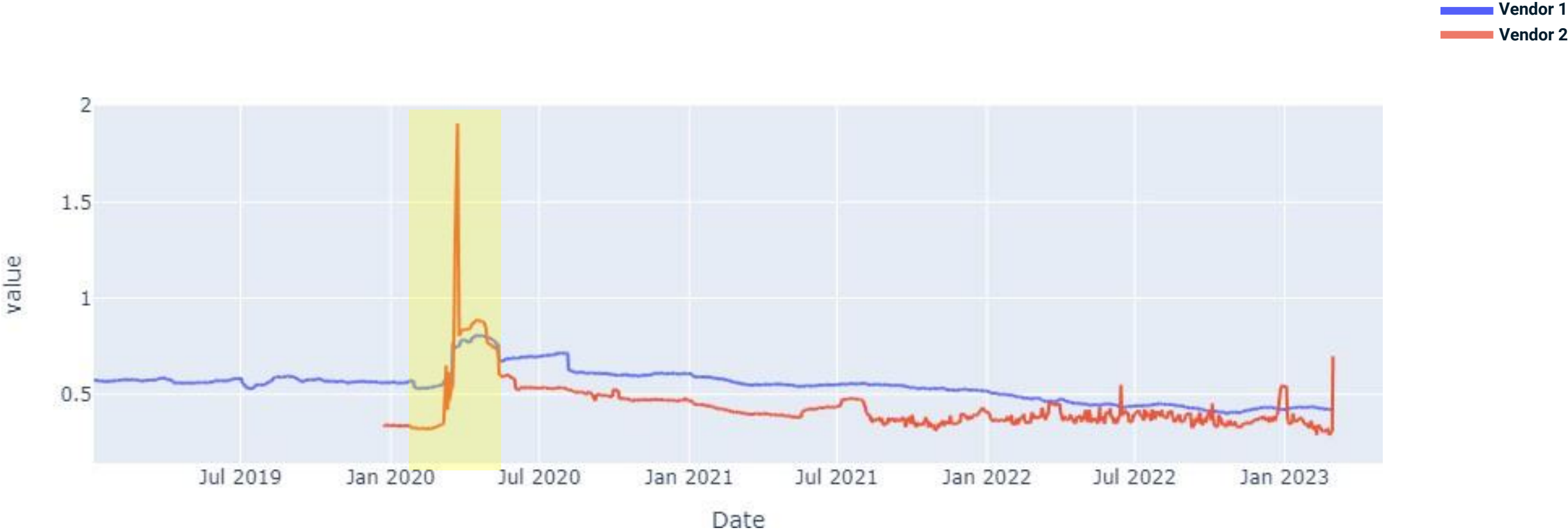
## USD IG constituents, stale bonds count



\*Based on respective index constituent data in the period between December 2022 to February 2023

# Daily prices from Vendor 2 are closer aligned to the overall market

Investment Grade Bonds: mean bid-ask spreads





# Requesting Feedback:

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# Pricing Provider Questions

MSCI Fixed Income Indexes are currently utilizing Vendor 1 as the primary source whereas Vendor 2 is used as the secondary source.

- **Proposal is to switch the primary pricing source to Vendor 2** and transition Vendor 1 as the secondary pricing source.
  - Would you agree or disagree with the decision?
- All bonds will be impacted from this proposal except CAD denominated bonds where Vendor 1 will continue to be the primary pricing provider.
- **In addition to the shift of our primary pricing provider, we propose to shift the capture time to 4:00 PM EST from 3:00 PM EST for USD and CAD denominated bonds. This move would bring the price captures in line with our snap times for our EMEA and APAC indices.**

MSCI welcomes feedback from market participants until 24<sup>th</sup> May 2024 and will announce the results of the consultation by end of May 2024.

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