

Consultation on MSCI MarketAxess USD HY Tradable Corporate Bond Index

INDEX METHODOLOGY CHANGE PROPOSAL

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.

September 2023

Executive Summary

- The MSCI MarketAxess USD HY Tradable Corporate Bond Index is a market value-weighted Index designed to represent the performance of a selection of relatively liquid fixed income securities from the universe of bonds defined by the MSCI USD HY Corporate Bond Index.
- The index methodology uses the MarketAxess' Relative Liquidity Scores ("RLS") to identify and select liquid fixed income securities. In addition, the index methodology incorporates appropriate buffers in index construction and rebalancing to limit monthly turnover.
- MSCI proposes the following updates to the existing methodology to further improve the overall liquidity and tracking of the index vs. MSCI USD HY Corporate Bond Index:
 - *Reduction in monthly average RLS criteria*
 - *Introducing a current relative liquidity score cutoff*
 - *Reducing the bond size cutoff from \$500m to \$300m*
 - *Removing minimum time-to-maturity at rebalancing*
 - *Reducing time to maturity at issuance from 5 years to 3 years*
 - *Modification in the priority order of the bond selection algorithm*
 - *Increasing the lock-in period from 6 months to 12 months*
 - *Introducing capping on active sector and credit rating bucket weights*
- MSCI welcomes feedback from market participants until **September 19, 2023** and will announce the results of the consultation by **end of September 2023**.

Proposed changes to the MSCI MarketAxess USD HY Tradable Corporate Bond Index methodology

	Current Methodology	Proposed Methodology Changes
Parent index	<ul style="list-style-type: none"> MSCI USD HY Corporate Bond Index 	<ul style="list-style-type: none"> MSCI USD HY Corporate Bond Index
Liquidity screen	<ul style="list-style-type: none"> <u>MarketAxess relative liquidity score (RLS)</u> <ul style="list-style-type: none"> Monthly average RLS ≥ 6 for new additions Monthly average RLS ≥ 5 for current constituents 	<ul style="list-style-type: none"> <u>MarketAxess relative liquidity score (RLS)</u> <ul style="list-style-type: none"> Monthly average RLS ≥ 5.5 for new additions Monthly average RLS ≥ 4.5 for current constituents Current RLS ≥ 3 for all constituents
Size screen	<ul style="list-style-type: none"> Issuer size \geq USD 2b Bond size \geq USD 500m 	<ul style="list-style-type: none"> Issuer size \geq USD 2b Bond size \geq USD 300m
Maturity screen	<ul style="list-style-type: none"> Time-to-maturity at rebalancing $\geq 3Y$ and Time-to-maturity at issuance $\geq 5Y$ 	<ul style="list-style-type: none"> Time-to-maturity at issuance $\geq 3Y$. Discontinue time to maturity at rebalancing screen.
Security selection	<ul style="list-style-type: none"> Rank and select top 2 largest bonds within each issuer based on the following criteria (Notional -> Maturity -> Coupon -> Liquidity): <ul style="list-style-type: none"> Rank each security within the issuer based on notional amount outstanding For securities with same notional, the one with longer remaining time-to-maturity is ranked higher For securities with same time-to-maturity, the one with higher coupon is ranked higher For securities with same maturity, the one with higher monthly average liquidity is ranked higher Current constituents preferred over new additions 	<ul style="list-style-type: none"> Same bond selection criteria of top 2 largest bonds with modification in the order of tie breaker <ul style="list-style-type: none"> Notional -> Liquidity -> Maturity -> Coupon
Turnover consideration	<ul style="list-style-type: none"> <u>6 months lock-in period</u>: once added, a bond will remain in the index for a minimum run of 6 months, subject to meeting the inclusion criteria of size, maturity and current RLS mentioned above <u>12 months lock-out period</u>: once deleted a bond cannot re-enter the index for 12 months 	<ul style="list-style-type: none"> 12 months lock-in period 12 months lock-out period
Security weighting	<ul style="list-style-type: none"> Market value weighted 	<ul style="list-style-type: none"> Market value weighted
Issuer cap	<ul style="list-style-type: none"> 3% 	<ul style="list-style-type: none"> 3%
Sector cap	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> $\pm 5\%$ w.r.t. parent index
Credit Rating cap	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> $\pm 5\%$ w.r.t. parent index
Rebalancing	<ul style="list-style-type: none"> Monthly 	<ul style="list-style-type: none"> Monthly
Pricing	<ul style="list-style-type: none"> Refinitiv 	<ul style="list-style-type: none"> Switch to MarketAxess CP+ pricing when the proposed changes would be implemented (subject to consultation decisions)
Index start date	<ul style="list-style-type: none"> December 30th, 2016 	<ul style="list-style-type: none"> December 30th, 2016

The proposed changes help bring down the MSCI MarketAxess USD HY Tradable Corporate Bond index's duration, more in-line with that of the parent index and at the same time reduces the sector bias

	USD HY Tradable Corporate Bond Index					USD HY Parent	USD HY Tradable Corporate Bond Index				
	Current	Diff (Current vs. Parent)	Proposed	Diff (Proposed vs. Parent)	Current		Diff (Current vs. Parent)	Proposed	Diff (Proposed vs. Parent)		
Number of Securities	1,809	275	15.20%*	334	18.46%*	Index Weights in % (GICS Sector)					
Number of Issuers	839	171	20.38%*	191	22.77%*	Communication Services	13.62	17.87	4.25	15.60	1.98
Duration-to-Worst	3.94	4.54	0.60	4.03	0.09	Consumer Discretionary	19.15	15.31	-3.84	16.30	-2.85
Yield-to-Worst	8.72	8.46	-0.26	8.42	-0.30	Consumer Staples	3.44	3.39	-0.05	3.01	-0.43
Coupon	5.75	5.48	-0.27	5.58	-0.17	Energy	12.01	8.69	-3.32	9.84	-2.17
OAS (bps)	438	423	-14	413	-24	Financials	8.16	7.43	-0.73	8.82	0.66
Time-to-Maturity (years)	5.47	6.36	0.89	5.57	0.10	Health Care	8.50	13.35	4.85	11.32	2.82
Average Liquidity Score	6.13	8.22	2.09	8.06	1.93	Industrials	14.29	12.97	-1.32	14.05	-0.24
Minimum Liquidity Score	1	2	1	3	2.00	Information Technology	5.26	6.38	1.12	6.56	1.30
Bid-Ask-Spread (bps)	29	23	-6	22	-7	Materials	7.94	5.05	-2.89	5.47	-2.47
						Real Estate	4.49	4.85	0.36	5.04	0.55
						Utilities	3.15	4.72	1.57	3.99	0.84
						Index Weights in % (Credit Rating[#])					
						BB	42.55	45.30	2.75	45.36	2.81
						B	45.55	44.63	-0.92	45.67	0.12
						CCC	11.35	10.08	-1.27	8.96	-2.39
						C	0.51	-	-0.51	-	-0.51



Simulated Impact As of 01 June 2023.

* For Number of Securities and Number of Issuers, the Diff column shows the percentage of the parent index covered by the tradable index.

Credit Rating is defined as the lower rating from S&P and Moody's.

Information Classification: GENERAL

Consultation Questions

- Do you agree with the addition of absolute liquidity score cutoffs along with average liquidity score cutoffs?
- Do you agree with the relaxation in size & maturity thresholds to increase representation in the MSCI MarketAxess USD HY Tradable Corporate Bond Index vs. the MSCI USD HY Corporate Bond Index?
- Do you agree with the increase in lock-in period to reduce index turnover?
- Do you agree with the introduction of active weight capping on sector and credit rating buckets?
- Do you agree with the overall methodology change proposal? In your view, what could be the benefits or drawbacks of the proposed changes?

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