



IHS Markit™

IHS Markit Consultation on the Implementation of US Sanctions pursuant to Executive Order 13959 in the iBoxx Indices

24 June 2021

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA UK**) is the Index Administrator of the iBoxx indices. IMBA UK administers these 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

Pursuant to an Executive Order 13959 (hereafter EO or EO 13959) signed by the President of the United States of America on Thursday, 12 November 2020, U.S. Persons are prohibited from transacting in securities of certain Chinese companies as listed in the EO. The EO came into force on 11 January 2021, with initially 31 companies explicitly identified. EO 13959 has been subsequently amended by Executive Order 13974 on 13 January 2021 and additional guidance provided by The U.S. Department of the Treasury (DOT) and Office of Foreign Assets Control (OFAC). A total of 8 additional companies have been added to the original 31 companies on 3 December 2020 and 8 January 2021. Existing investors in these companies are granted a period of one year after a company has been added to the list to divest of the affected securities (the "divestment period").

On [22 January 2021](#) IMBA UK announced the exclusion of an issuer (Ticker: SMIZCH) of an entity on the sanctions list from certain iBoxx indices. Subsequently on [17 March 2021](#) IMBA UK announced its intention to hold a consultation on the final treatment of issuers impacted by the EO 13959 in the iBoxx indices once additional guidance had been provided by OFAC.

On 3 June 2021, OFAC published Executive Order 14032 ("EO 14032") that amended the sanctions language from EO 13959 and EO 13974 and updated the list of companies subject to the sanctions. The update both removed and added companies to the sanction list – the current list holds 59 companies. EO 14032 and the FAQ concurrently published by OFAC also clarified that subsidiaries of sanctioned companies are not themselves sanctioned unless they are explicitly on the sanctions list. The divestment period ends one year after a company has been added to the list.

Given the clarification provided in EO 14032 and related OFAC guidance, IMBA has conducted an analysis of the companies listed in the EO 14032 and its amendments

to understand which securities that are part of the iBoxx indices may be impacted by the sanctions. This analysis has likewise sought to identify the impact of the EO on international investors' ability to hold or invest in these securities.

3. Proposal

Following publication of EO 14032 and related guidance, IMBA UK is proposing to implement the EO sanctions to all the following indices, starting with the index rebalancing on 31 July 2021:

- Global iBoxx indices
- North American iBoxx indices
- European iBoxx indices
- iBoxx USD Liquid Asia ex-Japan Corporates Large Cap Investment Grade Index
- (Restricted) sub-indices of the iBoxx USD Asia ex-Japan and iBoxx ADBI index and any indices referencing these indices

The proposal is in line with the initial treatment announced on [30 December 2020](#).

Bonds from entities newly added to the sanctions list would be excluded from these indices and bonds from entities that are subsequently removed from the sanctions list would become eligible for these indices again at the next respective rebalancing insofar as those securities are eligible by all other index-inclusion criteria.

The timeline for in-/exclusion is as follows:

Sanctions list change	Inclusion	Exclusion
At least 10 business days before month-end	Next index rebalancing	At the end of the current month
Within last 10 business days of a month	Next index rebalancing falling after the 1 st day of the following month	At the end of the following month

There will be no change to other Asian iBoxx indices, also in line with the treatment announced on 30 December 2020.

4. Impact Analysis

In addition to the bond identified in the 22 January 2021 announcement, IMBA UK has identified four bonds that are newly included in the sanctions list pursuant to EO 14032 on 03 June 2021:

ISIN	Ticker	Issuer
XS1233275194	HUAWEI	Proven Honour Capital Ltd
XS1401816761	HUAWEI	Proven Honour Capital Limited
XS1567423501	HUAWEI	Proven Glory Capital Ltd
XS1567423766	HUAWEI	Proven Glory Capital Ltd

These bonds are currently part of the following indices and would be removed on 31 July 2021:

Index	Weight
iBoxx USD Asia ex-Japan (Restricted) Index	0.348%
iBoxx USD Asia ex-Japan (Restricted) Index (Far East)	0.348%
iBoxx USD Asia ex-Japan Investment Grade (Restricted) Index	0.455%
iBoxx USD Asia ex-Japan Investment Grade (Restricted) Index (Far East)	0.455%
iBoxx Asian USD Bond (Restricted) Index	0.404%
iBoxx Asian USD Bond (Restricted) Index (Far East)	0.404%
iBoxx ADBI High Grade (Restricted) Index	0.450%
iBoxx ADBI High Grade (Restricted) Index (Far East)	0.450%

5. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 24 June 2021 Consultation opens
- 22 July 2021 Consultation closes
- 23 July 2021 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 31 July 2021 Implementation of the changes

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.

7. Key question

Do you have any concerns regarding IMBA UK's proposal to reflect the EO in the iBoxx indices as described and the associated implementation timeline?