

MARKET CONSULTATION SOLACTIVE EMERGING MARKETS BOND INDEX SERIES

23 June 2021



Content of the Market Consultation

Solactive AG has decided to conduct a Market Consultation with regard to changing the Index Methodology of the following Indices (the 'Indices'):

NAME	RIC	ISIN
Solactive USD EM Government & Govt Related TR Index	.SOLEBUB	DE000SLA8P99
Solactive EUR EM Government & Govt Related TR Index	.SOLEBEB	DE000SLA8QE4
Solactive LCY EM Government TR Index	.SOLEBLB	DE000SLA8QF1
Solactive EM USD Govt & Govt Related Bond Select CAD NTR Index	.SOLEHUC	DE000SLA8T46
Solactive EM USD Govt & Govt Related Bond Select CAD Hedged NTR Index	.SOLEHUS	DE000SLA8QG9
Solactive EM Local Currency Government Bond Select NTR Index	.SOLEBLS	DE000SLA8QH7

Rationale for Market Consultation

The Indices are a set of benchmarks which measure the performance of emerging market government bonds issues in local and hard currency (EUR / USD). At the time the Indices were launched in 2019, they were designed to provide a broad coverage of the investible universe of emerging markets bonds. Given that the pace of change in emerging markets is high, Solactive AG has performed a review of the methodology and proposes a number of improvements to the Indices, clarifications to the Guidelines and to provide more consistency with the Bond Market Classification Framework.

Proposed Changes to the Index Guideline

The following Methodology changes are proposed and are intended to be implemented in advance of the ordinary rebalance with Rebalance Day effective on the last Business Day of July 2021.

1. Removal of the minimum country weight capping of 1% for the Solactive EM USD Govt & Govt Related Bond Select CAD NTR Index (SOLEHUC) and Solactive EM USD Govt & Govt Related Bond Select CAD Hedged NTR Index (SOLEHUS). Removal of the minimum country weight capping of 2% for the Solactive EM Local Currency Government Bond Select NTR Index (SOLEBLS).

The application of the minimum country weight cap no longer allows for an effective replication of the Indices:



- A number of sovereigns have been undergoing restructuring or are in default and bond prices have been falling rapidly and demonstrating high volatility
- The minimum cap ensures that at rebalance, successive additions of these bonds are being made to bring the country weights up to the minimum cap
- When the bonds rally, the bonds are then deleted from the index
- These bonds are traded as distressed issues and very expensive to trade.

Removal of the minimum country weight cap will therefore enable a more cost-efficient replication of the Indices.

2. Removal of the review of eligible emerging markets once a year for the June selection in May, and replacement with the annual Bond Market Classification Framework review. This will be performed in September each year and applicable to the rebalance effective from May the following year.
3. Removal of the selection rules that the country must be able to settle on Euroclear, Clearstream or DTCC as these are integral criteria of the annual Bond Market Classification Framework review and therefore superfluous for monthly selection criteria.
4. Addition of China as an eligible country to the Solactive EM Local Currency Government Bond Select NTR Index (SOLEBLS) with a minimum CNY 5 billion bond amount outstanding. This reflects the government's ongoing market reforms to make its market accessible to global investors, and provides better alignment to the Bond Market Classification Framework.
5. Clarification that Chinese government bonds are not considered for inclusion in the Solactive LCY EM Government TR Index (SOLBLB). This is an 'uncapped' index and inclusion of Chinese government bonds would cause significant concentration of Chinese LCY bonds in this existing index.
6. Creation of a new index version – the Solactive LCY EM (incl China) Government TR Index. This is identical in all respects to the Solactive LCY EM Government TR Index (SOLBLB), but includes Chinese government local currency bonds. This extends the index range to offer comprehensive coverage – local currency EM versions both excluding and including China issuers, and a capped (Select) version also including China issuers.
7. Update of the table of countries and respective minimum bond sizes to include all markets having been added to the Bond Market Classification Framework since the launch of the index and considered for inclusion in the local currency index versions.
8. Change of the index calculation from Direct Reinvestment approach to the Periodic Reinvestment approach for the following Indices:
 - Solactive EM USD Govt & Govt Related Bond Select CAD NTR Index (.SOLEHUC)
 - Solactive EM USD Govt & Govt Related Bond Select CAD Hedged NTR Index (.SOLEHUS)
 - Solactive EM Local Currency Government Bond Select NTR Index (.SOLEBLS)



For Emerging Markets, which are typically more expensive to trade, it become impractical to fully replicate the direct investment. This change will also bring the above mentioned Indices in line with the other indices in this series, which all follow the Periodic Reinvestment approach.

The Methodology changes described above are proposed in the following points of the Index Guideline (ordered in accordance with the numbering of the affected sections):

Section 1.1 Scope of the Index

From (old version):

[...]

- The Index Series is rebalanced monthly, and the list of eligible emerging of emerging markets is reviewed annually.

[...]

To (new version):

[...]

- The Index Series is rebalanced monthly, and the list of eligible emerging of emerging markets is reviewed annually in line with the Bond Market Classification Framework.

[...]

Section 1.2 Identifiers and Publication

The following new version of index will be added to the existing table:

Name	ISIN	Currency	Type	RIC	BBG ticker
Solactive LCY EM (incl China) Government TR Index	DE000SLOBSP2	USD	TR	.SOLEBIC	n/a

Section 2.1 Selection of the Index Components

From (old version):

Hard Currency (EUR & USD) Series

[...]



- > Global Depository Notes ('GDN') are not eligible to be part of the selection.
- > The country must be able to settle on Euroclear, Clearstream or DTCC.
- > Instruments must be issued prior to Rebalance Day.

[...]

To (new version):

[...]

- > Global Depository Notes ('GDN') are not eligible to be part of the selection.
- > Instruments must be issued prior to Rebalance Day.

[...]

Local Currency Series

From (old version):

[...]

- > Fixed Coupon Bonds or Zero Coupon Bonds are eligible.
- > The country must be able to settle on Euroclear or Clearstream.
- > Instruments must be issued prior to Rebalance Day.

[...]

To (new version):

[...]

- > Fixed Coupon Bonds or Zero-Coupon Bonds are eligible.
- > Instruments must be issued prior to Rebalance Day.

[...]

The existing table of minimum outstanding amount table will be replaced by the following:

New version:

Country	Ccy	Min. Bond Size	Country	Ccy	Min. Bond Size
Argentina	ARS	57,500,000,000	Mexico	MXN	30,000,000,000
Brazil	BRL	12,000,000,000	Peru	PEN	1,500,000,000
Chile	CLP	300,000,000,000	Philippines	PHP	30,000,000,000
China	CNY	5,000,000,000	Poland	PLN	5,000,000,000



Colombia	COP	4,500,000,000,000	Romania	RON	4,000,000,000
Costa Rica	CRC	300,000,000,000	Russia	RUB	100,000,000,000
Czech Republic	CZK	30,000,000,000	South Africa	ZAR	20,000,000,000
Dominican Republic	DOP	25,000,000,000	South Korea	KRW	5,000,000,000,000
Hungary	HUF	275,000,000,000	Thailand	THB	30,000,000,000
Iceland	ISK	72,500,000	Turkey	TRY	6,000,000,000
Indonesia	IDR	15,000,000,000,000	Ukraine	UAH	13,500,000
Kazakhstan	KZT	250,000,000,000	Uruguay	UYU	30,000,000,000
Malaysia	MYR	3,000,000,000	Vietnam	VND	12,000,000,000,000

Sub-indices table

The existing table of sub-indices will be replaced by the following:

New version:

Name	Currency Type	Additional Market	Additional Requirements	Capping
Solactive USD EM Government & Govt Related TR Index	Hard: USD	N/A	N/A	N/A
Solactive EUR EM Government & Govt Related TR Index	Hard: EUR	N/A	N/A	N/A
Solactive LCY EM Government TR Index	Local	N/A	China Issuers are explicitly excluded from the index.	N/A
Solactive LCY EM (incl China) Government TR Index	Local	China	China issuers are included in the index	N/A
Solactive EM USD Govt & Govt Related Bond Select CAD NTR Index	Hard: USD	N/A	Russia and Ukraine non- sovereign issuers are excluded. Countries whose total weight is less than 0.3% of all eligible countries on each annual review of the Bond Market Classification Framework (performed in September and application the following May each year) will be excluded.	Country Weight: Max:7,5%
Solactive EM USD Govt & Govt Related Bond Select CAD Hedged NTR Index	Hard: USD	N/A	Russia and Ukraine non- sovereign issuers are excluded. Countries whose total weight is less than 0.3% of all eligible countries on each annual review of the Bond Market Classification Framework (performed in September and application the following May each year) will be excluded.	Country Weight: Max:7,5%
Solactive EM Local Currency Government Bond Select NTR Index	Local	China with minimum CNY 5 billion bond amount outstanding	Countries whose total weight is less than 0.5% of all eligible countries on each annual review of the Bond Market Classification Framework (performed in September and application the following May each year) will be excluded.	Country Weight: Max:10%

Section 2.1.1 Eligible Countries

From (old version):

The list of eligible emerging markets is reviewed once a year for the June selection in May and takes into account the following factors:



- > The classification under the Solactive Bond Market Country Classification Framework. Countries which are classified as Developed will not normally be classified as an Emerging Market.
- > The trading in the bonds of a country or a specific issuer within that country must not be subject to UN, US or EU sanctions.
- > Accessibility for foreign investors, including the presence of capital controls, currency convertibility, availability and transparency of market data, registration restrictions, limits on foreign ownership and taxation policies.

To (new version):

The list of eligible emerging markets is reviewed once a year under the Bond Market Classification Framework. This review is performed in September each year and the results are applicable to the Selection made in April and effective from the first business day in May the following year.

Section 4.1 Index Formula

To (new version):

[...]

The Solactive Emerging Markets Index Series are Total Return (TR) indices or Net Total Return (NTR) indices and follow the Periodic Reinvestment approach. A total return index seeks to replicate the overall return from holding an index portfolio, thus considering both coupon payments and Corporate Action proceeds in addition to the price changes adjusted for any accrued interest. Cash payments will be accumulated and reinvested with each rebalancing. A net total return index seeks to replicate the overall after-tax return from holding an index portfolio, thus considering both coupon payments and Corporate Action proceeds in addition to the price changes adjusted for any accrued interest and for taxes. The tax rates to be used are the rates corresponding to the country of issuance of the securities.

[...]

Section 6. Definitions

“Fixing Time”

New version includes the following additional row:

Name	Fixing Time
Solactive LCY EM (incl China) Government TR Index	16:00 London

“Live Date and Start Date”

New version includes the following additional row:



Name	Start Date	Live date
Solactive LCY EM (incl China) Government TR Index	Jun 30, 2013	Jun 5, 2019



Feedback on the proposed changes

If you would like to share your thoughts with Solactive, please use this consultation form and provide us with your personal details and those of your organization.

Name	
Function	
Organization	
Email	
Phone	
Confidentiality (Y/N)	

Solactive is inviting all stakeholders and interested third parties to evaluate the proposed changes to the Methodology for the Solactive Emerging Markets Bond Index Series and welcomes any feedback on how this may affect and/or improve their use of Solactive indices.



Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until 14 July 2021 (cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on 21 July 2021.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation Solactive Emerging Markets Bond Index Series " as the subject of the email, or

via postal mail to: Solactive AG
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60327 Frankfurt am Main
Germany

Should you have any additional questions regarding the consultative question in particular, please do not hesitate to contact us via above email address.

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