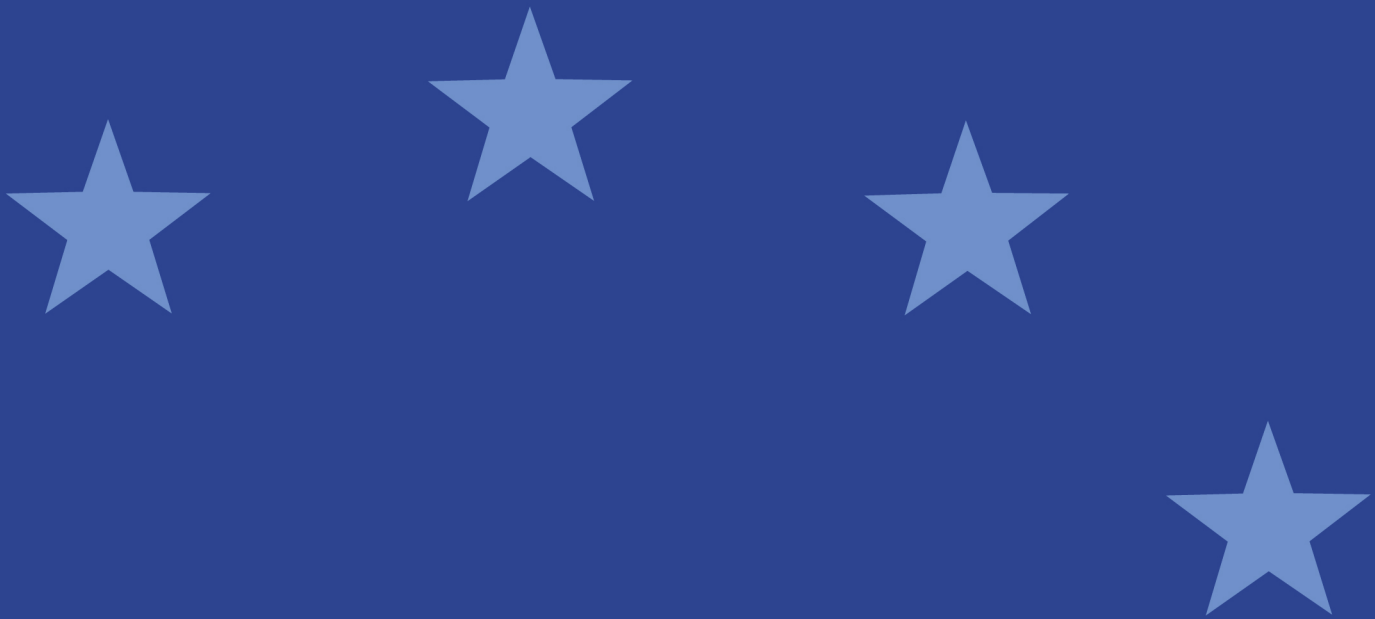




European Securities and  
Markets Authority

# Response Form to the Consultation Paper

**Guidelines on methodology to be used in exceptional circumstances and amendment to the guidelines on non-significant benchmarks**



## Responding to this paper

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by **30 April 2021**.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading 'Your input - Consultations'.

### Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

1. Insert your responses to the questions in the Consultation Paper in the present response form.
2. Please do not remove tags of the type <ESMA\_QUESTION\_CP\_GMEC\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
3. If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.
4. When you have drafted your response, name your response form according to the following convention: ESMA\_GMEC\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_GMEC\_ABCD\_RESPONSEFORM.
5. Upload the form containing your responses, in Word format, to ESMA's website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading "Your input – Open Consultations" →

“Guidelines on methodology to be used in exceptional circumstances and amendment to the guidelines on non-significant benchmarks”).

### **Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

### **Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading [Legal Notice](#).

### **Who should read this paper**

This paper may be specifically of interest to administrators of benchmarks, contributors to benchmarks and to any investor dealing with financial instruments and financial contracts whose value is determined by a benchmark or with investment funds whose performances are measured by means of a benchmark.

## General information about respondent

Name of the company / organisation	MSCI Limited
Activity	Other Financial service providers
Are you representing an association?	<input type="checkbox"/>
Country/Region	UK

## Introduction

*Please make your introductory comments below, if any*

<ESMA\_COMMENT\_CP\_GMEC\_1>

MSCI appreciates the opportunity to comment on this consultation.

MSCI is a leading provider of investment decision support tools to institutional investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes, ESG research and tools, and portfolio risk and performance analytics. MSCI is headquartered in New York, with research and commercial offices around the world.

MSCI's flagship equity indexes include the MSCI Global Equity Indexes and MSCI has been calculating indexes for more than 45 years. MSCI Global Equity Index categories include country and regional indexes, size indexes (large cap, small cap, and micro-cap), sector indexes, style (value/growth) indexes, strategy indexes, thematic indexes and ESG indexes. MSCI also calculates custom indexes at the request of clients, by applying client screens and constraints to MSCI Global Equity Indexes.

MSCI Global Equity Indexes are used worldwide by:

- assets owners to help them with their mandate decisions and with reviewing their managers' performance;
- active asset managers so that they can actively manage their funds against an index and report performance;
- passive fund managers to issue passive funds and ETFs based on the indexes;
- broker dealers for providing trading execution services, creating OTC and non-OTC derivative financial products and writing research more generally;
- stock exchanges to create equity index linked futures and options contracts; and
- CCPs to calculate the risks of its positions for index linked futures and options contracts.



During 2013 and 2014, MSCI implemented the IOSCO Principles for Financial Benchmarks, was externally audited during each of 2014, 2015 and 2016 for the MSCI equity indexes and select MSCI private real estate indexes, and posted the adherence statements and audit reports on the Index Regulation page of [www.msci.com](http://www.msci.com). During 2017, 2018 and 2019, MSCI devoted those resources to implementing the BMR across its benchmark families, and continued to post IOSCO adherence statements on the Index Regulation page of [www.msci.com](http://www.msci.com).

On 5 March 2018, MSCI Limited, which is a UK subsidiary of MSCI Inc., was granted authorization by the UK FCA as a UK administrator under the BMR for the MSCI equity and blended indexes. MSCI was the first major global equity index provider to become authorized under the BMR. On 13 June 2019, MSCI notified the FCA in relation to specific UK MSCI Private Real Estate Indexes used as regulated benchmarks under the BMR. On 16 December 2019, MSCI notified the FCA in relation to the MSCI fixed income indexes.

<ESMA\_COMMENT\_CP\_GMEC\_1>

**Q1** : Do you have any views on the content of the draft guidelines on the details of any methodology to be used to determine a critical or significant benchmark in exceptional circumstances? Would you suggest including any additional elements or to delete one or more of the elements proposed? Please explain.

<ESMA\_QUESTION\_CP\_GMEC\_1>

We believe that the guidelines are not required as they are already sufficiently covered in the EU Benchmarks Regulation (“BMR”). Further, adding separate standards for “alternative methodologies” may provide inconsistencies with “main” methodologies and can cause confusion for investors. For example, Article 12(1)(d) of the BMR already requires the administrator to use a methodology for determining a benchmark that is resilient and ensure benchmarks can be calculated in the widest possible circumstances. This means that methodologies should already explain how the benchmark is calculated during periods of stress. Further, Article 12(3) of the BMR already requires benchmark administrators to set out arrangements that identify the circumstances in which the input data may fall below standards, which may also be due to periods of stress. Finally, the most recent draft RTS supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards for the methodology, including Article 5, set out provisions around resiliency of methodologies in periods of stress. What is proposed now, is yet another set of guidelines which are duplicative and not required. In our view, these additional guidelines would cause potential confusion amongst the users of the benchmarks.

<ESMA\_QUESTION\_CP\_GMEC\_1>

**Q2** : Would you suggest including any additional elements to be taken into account for identifying the overarching principles of the exceptional circumstances? Please explain.

<ESMA\_QUESTION\_CP\_GMEC\_2>

No. Please refer to our response to Question 1.

<ESMA\_QUESTION\_CP\_GMEC\_2>

**Q3** : Do you have any views on the content of the draft guidelines on the material changes to the methodology used to determine a critical or significant benchmark? Would you suggest including any additional elements or to delete one or more of the elements proposed? Please explain.

<ESMA\_QUESTION\_CP\_GMEC\_3>

We believe that the guidelines are not required since Article 13(1)(c) of the BMR (Transparency of Methodology) already requires administrators to provide the procedures for consulting any material changes in the methodology and the rationale for such changes. Article 4 of the Methodology Delegated Regulation, 2018/1641 dated 13 July 2018 also provides for information to be provided by the benchmark administrator in circumstances in which a consultation may take place within a shorter time frame and a description of the procedures to be followed when undertaking a consultation within a shorter time frame. Calling out separate standards for periods of

stress\* seems inconsistent with the existing BMR, as these considerations already apply to all decisions for material changes, which includes times of stress.

<ESMA\_QUESTION\_CP\_GMEC\_3>

**Q4** : Do you have any views on the content of the draft guidelines on the oversight function for critical and significant benchmarks? Would you suggest to include any additional elements or to delete one of the elements proposed? Please explain.

<ESMA\_QUESTION\_CP\_GMEC\_4>

Article 5 of the BMR clearly provides for the oversight of methodologies where the benchmark is based on input data from contributors, monitoring of input data and contributors and the actions of the administrator in challenging or validating contributions of input data and Article 3 of the RTS on oversight function also provides for setting procedures governing the oversight function on an array of matters. This is not unique to periods of stress. Therefore, we believe the guidelines may not be required and the existing BMR provides for the same.

<ESMA\_QUESTION\_CP\_GMEC\_4>

**Q5** : Do you have any views on the content of the draft guidelines on the record keeping requirements? Would you suggest to include any additional elements or to delete one or more of the elements proposed? Please explain.

<ESMA\_QUESTION\_CP\_GMEC\_5>

Article 8 of the BMR and Article 5 of the draft RTS for the methodology already provide for record keeping of the calculation of the benchmark including assessment of the resilience of the methodology and the back testing results. These obligations are not unique to periods of stress. Therefore, we believe that the guidelines are not be required.

<ESMA\_QUESTION\_CP\_GMEC\_5>

**Q6** : Would you suggest to further specify any additional elements of the regulatory framework with regard to the use of an alternative methodology in exceptional circumstances? Please explain.

<ESMA\_QUESTION\_CP\_GMEC\_6>

No. Please refer to our response to Question 5.

<ESMA\_QUESTION\_CP\_GMEC\_6>

**Q7** : Do you have any views on the content of the draft guidelines amending the guidelines on non-significant benchmarks in respect of any methodology to be used in exceptional circumstances and the oversight function? Would you suggest to include any additional elements or to delete one of the elements proposed? Please explain.

<ESMA\_QUESTION\_CP\_GMEC\_7>

We believe that the guidelines are unnecessary. These obligations are not unique to periods of stress and a separate set of standards are duplicative and potentially confusing.

<ESMA\_QUESTION\_CP\_GMEC\_7>