

# Consultation on Potential Enhancements to the MSCI Global ex Controversial Weapons and MSCI Global ex Tobacco Involvement Indexes

**FEBRUARY 2024**

**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 final results of the consultation.**

# Summary

- Over the last 12 months, MSCI has updated several MSCI equity ESG and Climate indexes methodology books to clarify that companies that are not assessed by MSCI ESG Research on specific ESG and Climate data used in the index exclusion criteria are not eligible for the MSCI ESG and Climate indexes.
- MSCI plans to apply this treatment systematically and explicitly to all MSCI equity ESG and Climate indexes at a date to be further communicated, but not before the May 2024 Index Review.
- Exceptionally, for the MSCI Global ex Controversial Weapons Indexes and MSCI Global ex Tobacco Involvement Indexes, MSCI proposes to limit the exclusion of unassessed companies to relevant sectors.
- MSCI invites feedback from market participants on or before **February 29, 2024** and will announce the results of the consultation on or before **March 7, 2024**.

# Overview of Proposal

	MSCI Global ex Controversial Weapons Indexes	MSCI Global ex Tobacco Involvement Indexes
Current Treatment	Companies not assessed by MSCI ESG Research on MSCI ESG Business Involvement Screening Research (BISR) data are eligible for inclusion in the Indexes	
Proposal	Start excluding companies not assessed by MSCI ESG Research on BISR data <b>only if they are classified in relevant GICS®<sup>1</sup> sectors</b>	
List of relevant GICS sectors	<ul style="list-style-type: none"> <li>• Materials</li> <li>• Industrials</li> </ul>	<ul style="list-style-type: none"> <li>• Materials</li> <li>• Industrials</li> <li>• Consumer Staples</li> <li>• Consumer Discretionary</li> </ul>

# Relevant GICS Sectors

- Controversial Weapons (CW) screen\*
  - Historically, companies in Materials and Industrials sectors were screened due to direct involvement.
  - Companies in other sectors were also screened due to indirect involvement (i.e., through ownership of or by companies involved in CW).
- Tobacco screen\*
  - Historically, companies in Materials, Industrials, Consumer Staples and Consumer Discretionary sectors were screened.

MSCI ACWI IMI Index constituents meeting the CW or Tobacco screening criteria of MSCI Global ex Controversial Weapons and ex Tobacco Involvement Indexes in the past five years

	2023		2022		2021		2020		2019	
	# Sec	Sectors	# Sec	Sectors	# Sec	Sectors	# Sec	Sectors	# Sec	Sectors
CW Screen – direct involvement	11	Materials Industrials	13	Materials Industrials	11	Materials Industrials	10	Materials Industrials	10	Materials Industrials
CW Screen – via ownership	2	IT Financials	4	IT Financials Industrials	4	IT Financials Industrials	4	IT Financials Industrials	2	Industrials
Tobacco Screen	48	Materials Industrials Cons. Staples Cons. Disr.	48	Materials Industrials Cons. Staples Cons. Disr.	48	Materials Industrials Cons. Staples Cons. Disr.	47	Materials Industrials Cons. Staples Cons. Disr.	45	Materials Industrials Cons. Staples Cons. Disr.



\*Screening formulas of the exclusion criteria are available in Appendix

Information Classification: GENERAL

# Simulated Historical Impact (Overall)

- The table below shows securities in the MSCI ACWI Index not assessed for BISR data during the Index Reviews in the past two years :

Index Review	# Newly Ineligible		# Newly Ineligible		# Unassessed Sec. in all sectors	ACWI Weight
	# Unassessed Sec. in Relevant Sectors - ex CW	ACWI Weight	# Unassessed Sec. in Relevant Sectors - ex Tob. Involvement	ACWI Weight		
Nov-23	1	0.004%	1	0.004%	2	0.068%
Aug-23	-	-	1	0.055%	3	0.137%
May-23	-	-	1	0.004%	2	0.066%
Feb-23	1	0.004%	1	0.004%	2	0.075%
Nov-22	-	-	-	-	3	0.071%
Aug-22	-	-	1	0.026%	6	0.098%
May-22	2	0.033%	2	0.033%	4	0.094%
Feb-22	2	0.021%	2	0.021%	5	0.109%

- Under the proposal, unassessed securities (including recent IPOs) in relevant sectors\* are considered for inclusion in the Indexes only after they get assessed for BISR data.
- None of such securities failed the CW or Tobacco screens after subsequent assessment of BISR data.

# Simulated Historical Impact (Large IPOs)

- The table below shows IPOs in relevant sectors\* that were added to the MSCI ACWI ex Controversial Weapons and MSCI ACWI ex Tobacco Involvement Indexes prior to being assessed for BISR data during the Index Reviews in the past five years:

Security	IPO Date	Added to the Indexes	Sector	Relevant Sectors – ex Controversial Weapons	Relevant Sectors – ex Tobacco Involvement
LG ENERGY SOLUTION	Jan. 27, 2022	Feb. 2022	Industrials	X	X
RIVIAN AUTOMOTIVE A	Nov. 10, 2021	Nov. 2021	Consumer Discretionary	-	X
DIDI GLOBAL A ADR	Jun. 30, 2021	Aug. 2021	Industrials	X	X
PTT OIL AND RETAIL	Feb. 11, 2021	Feb. 2021	Consumer Discretionary	-	X
ALLEGRO.EU	Oct. 12, 2020	Nov. 2020	Consumer Discretionary	-	X
UBER TECHNOLOGIES	May. 10, 2019	May 2019	Industrials	X	X

- Under the proposal, there would have been delayed addition of 3 securities to the MSCI ACWI ex Controversial Weapons Index, and of 6 securities to the MSCI ACWI ex Tobacco Involvement Index.
  - The inclusion of such securities would have been delayed until the next quarterly index review, as BISR data became available.
- None of such securities failed the CW or Tobacco screens after subsequent assessment of BISR data.

# Comparison of Possible Approaches

- The proposal aims to reduce headline risk while limiting the impact in terms of tracking error and representativeness of the underlying investment opportunity set.

		PROS	CONS
<b>Current Treatment</b>	Unassessed companies are eligible	<ul style="list-style-type: none"> <li>Avoid exclusions</li> <li>Lower tracking error</li> </ul>	<ul style="list-style-type: none"> <li>Headline risk of including unassessed companies involved in tobacco / controversial weapons</li> </ul>
<b>Proposal</b>	Unassessed companies in relevant sectors are not eligible (others are eligible)	<ul style="list-style-type: none"> <li>Reduce headline risk of including unassessed companies that may be involved in tobacco / controversial weapons</li> <li>Avoid exclusions of unassessed companies in “non relevant” sectors</li> </ul>	<ul style="list-style-type: none"> <li>Headline risk is not fully eliminated</li> </ul>
<b>Alternative</b>	Unassessed companies in all sectors are not eligible	<ul style="list-style-type: none"> <li>Eliminate headline risk of including unassessed companies that may be involved in tobacco / controversial weapons</li> </ul>	<ul style="list-style-type: none"> <li>Unnecessary exclusion of unassessed companies</li> <li>Higher tracking error</li> </ul>

# Discussion Points

- MSCI Global ex Controversial Weapons Indexes

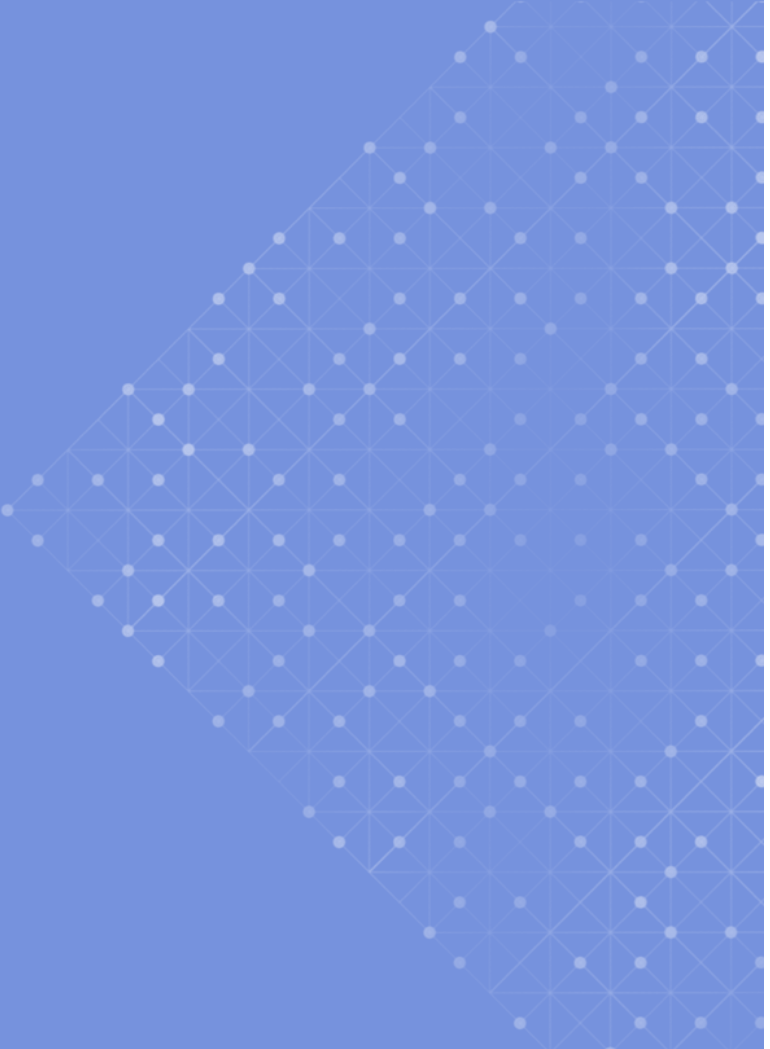
- Do you agree with the proposal of excluding companies in two GICS sectors (Materials, Industrials) if those are not assessed by MSCI ESG Research on MSCI ESG Business Involvement Screening Research data?
- Would it be appropriate to apply a more precise condition based on GICS industry groups as opposed to GICS sectors?

- MSCI Global ex Tobacco Involvement Indexes

- Do you agree with the proposal of excluding companies in four GICS sectors (Consumer Staples, Consumer Discretionary, Materials and Industrials) if those are not assessed by MSCI ESG Research on MSCI ESG Business Involvement Screening Research data?
- Would it be appropriate to apply a more precise condition based on GICS industry groups as opposed to GICS sectors?



# Appendix



# Current vs. Proposed Exclusion Criteria – ex Tobacco Involvement Indexes

Current Exclusion Criteria	Proposed Exclusion Criteria
<ul style="list-style-type: none"><li>• All companies classified as a tobacco “Producer”</li><li>• All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products</li></ul>	Same as the existing exclusion screens
	Exclude companies not assessed for BISR data if they are classified in any of the following GICS sectors: <ul style="list-style-type: none"><li>• Consumer Staples</li><li>• Consumer Discretionary</li><li>• Materials</li><li>• Industrials</li></ul>

# Current Exclusion Criteria – ex Tobacco Involvement Indexes

ESG Data Point Name	ESG Data Point	Operator	Criteria	And/Or
Tobacco Producer	TOB_PRODUCER	=	TRUE	OR
Tobacco Total - Maximum Percentage of Revenue	TOB_MAX_REV_PCT	>=	5	

# ESG Data Definitions– ex Tobacco Involvement Indexes

ESG Data Point Name	Description
Tobacco Producer	Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.
Tobacco Total - Maximum Percentage of Revenue	The recent-year percent of revenue, or maximum estimated percent, a company has derived from tobacco-related business activities.

# Current vs. Proposed Exclusion Criteria – ex Controversial Weapons Indexes

Current Exclusion Criteria	Proposed Exclusion Criteria
<p>Exclude companies involved in:</p> <ul style="list-style-type: none"><li>• Cluster Bombs</li><li>• Landmines</li><li>• Depleted Uranium Weapons</li><li>• Chemical and Biological Weapons</li><li>• Blinding Laser Weapons</li><li>• Non-Detectable Fragments</li><li>• Incendiary Weapons (White Phosphorus)</li></ul>	<p>Same as the existing exclusion screens</p>
	<p>Exclude companies not assessed for BISR data if they are classified in any of the following GICS sectors:</p> <ul style="list-style-type: none"><li>• Materials</li><li>• Industrials</li></ul>

# Current Exclusion Criteria – ex Controversial Weapons Indexes

ESG Data Point Name	ESG Data Point	Operator	Criteria	And/Or
Weapons - Bio/chem Systems	WEAP_BIO_CHEM_SYSTEM	==	TRUE	OR
Weapons - Bio/chem Components	WEAP_BIO_CHEM_COMPONENT	==	TRUE	OR
Weapons - Ownership by a Bio/Chem Weapons Company	WEAP_OWNBYBIOCHEM	==	TRUE	OR
Weapons - Ownership of a Bio/Chem Weapons Company	WEAP_OWNOFBIOCHEM	==	TRUE	OR
Weapons - Depleted Uranium Manufacturer	DU_WEAP	==	TRUE	OR
Weapons - Ownership by a Depleted Uranium Weapons Company	WEAP_OWNBYDU	==	TRUE	OR
Weapons - Ownership of a Depleted Uranium Weapons Company	WEAP_OWNOFDU	==	TRUE	OR
Cluster Munitions - Any Tie	CB_TIE*	==	TRUE	OR
Landmines - Any Tie	LM_TIE*	==	TRUE	OR
Weapons - Blinding Laser	WEAP_BLINDING_LASER	==	TRUE	OR
Weapons - Ownership by a Blinding Laser Weapons Company	WEAP_BLINDING_LASER_OWN_BY	==	TRUE	OR
Weapons - Ownership of a Blinding Laser Weapons Company	WEAP_BLINDING_LASER_OWN_OF	==	TRUE	OR
Weapons - Non-Detectable Fragments	WEAP_NONDETECTABLE_FRAGMENTS	==	TRUE	OR
Weapons - Ownership by a Non-detectable Fragments Company	WEAP_NDF_OWN_BY	==	TRUE	OR
Weapons - Ownership of a Non-Detectable Fragments Company	WEAP_NDF_OWN_OF	==	TRUE	OR
Weapons - Ownership by a Incendiary Weapons Company	WEAP_INCENDIARY_OWN_BY	==	TRUE	OR
Weapons - Ownership of a Incendiary Weapons Company	WEAP_INCENDIARY_OWN_OF	==	TRUE	OR
Weapons - White Phosphorous	WEAP_INCENDIARY_WP	==	TRUE	

# ESG Data Definitions– ex Controversial Weapons Indexes (1/2)

ESG Data Point Name	Description
Weapons - Bio/chem Systems	Companies that manufacture biological and chemical weapons, including weapons that use pathogens such as viruses, bacteria, and disease-causing biological agents, toxins, or chemical substances that have toxic properties to kill, injure, or incapacitate.
Weapons - Bio/chem Components	Companies that manufacture key biological and chemical weapons components.
Weapons - Ownership by a Bio/Chem Weapons Company	Companies that are 50 percent or more owned by a company with biological and chemical weapons involvement.
Weapons - Ownership of a Bio/Chem Weapons Company	Companies that own 20 to 49.99 percent of a company with involvement. When a company owns 50 percent or more of a subsidiary with involvement, MSCI treats it as a consolidated subsidiary.
Weapons - Depleted Uranium Manufacturer	Companies involved in the production of depleted uranium (DU) weapons, ammunition, and armor, including companies that manufacture armor piercing, fin stabilized, discarding sabot tracing rounds (APFSDS-T); Kinetic Energy Missiles made with DU penetrators; and DU-enhanced armor, including composite tank armor.
Weapons - Ownership by a Depleted Uranium Weapons Company	Companies that are 50 percent or more owned by a company with depleted uranium weapons involvement.
Weapons - Ownership of a Depleted Uranium Weapons Company	Companies that own 20 to 49.99 percent of a company with involvement. When a company owns 50 percent or more of a subsidiary with involvement, MSCI treats it as a consolidated subsidiary.
Cluster Munitions - Any Tie	Companies with any industry tie to cluster munitions.
Landmines - Any Tie	Companies that have any industry tie to the manufacture of landmines except for Safety, which is a positive indicator.

# ESG Data Definitions– ex Controversial Weapons Indexes (2/2)

ESG Data Point Name	Description
Weapons - Blinding Laser	Companies that manufacture weapons utilizing laser technology that causes permanent blindness to the target.
Weapons - Ownership by a Blinding Laser Weapons Company	Ownership by a Blinding Laser Manufacturer.
Weapons - Ownership of a Blinding Laser Weapons Company	Ownership of a Blinding Laser Manufacturer.
Weapons - Non-Detectable Fragments	Companies that manufacture weapons that use non-detectable fragments to inflict injury to targets.
Weapons - Ownership by a Non-detectable Fragments Company	Ownership by a Non-detectable Weapons Manufacturer.
Weapons - Ownership of a Non-Detectable Fragments Company	Ownership of a Non-detectable Weapons Manufacturer.
Weapons - Ownership by a Incendiary Weapons Company	Ownership By a Incendiary Weapons Manufacturer.
Weapons - Ownership of a Incendiary Weapons Company	Ownership Of a Incendiary Weapons Manufacturer.
Weapons - White Phosphorous	Companies that manufacture incendiary weapons using white phosphorus.



# About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit [www.msci.com](http://www.msci.com).

The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

# Notice and Disclaimer

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information may include "Signals," defined as quantitative attributes or the product of methods or formulas that describe or are derived from calculations using historical data. Neither these Signals nor any description of historical data are intended to provide investment advice or a recommendation to make (or refrain from making) any investment decision or asset allocation and should not be relied upon as such. Signals are inherently backward-looking because of their use of historical data, and they are not intended to predict the future. The relevance, correlations and accuracy of Signals frequently will change materially.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. The calculation of indexes and index returns may deviate from the stated methodology. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [msci.com](http://msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, provided that applicable products or services from MSCI ESG Research may constitute investment advice. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. MSCI ESG and climate ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc. MSCI ESG Indexes, Analytics and Real Estate are products of MSCI Inc. that utilize information from MSCI ESG Research LLC. MSCI Indexes are administered by MSCI Limited (UK).

Please note that the issuers mentioned in MSCI ESG Research materials sometimes have commercial relationships with MSCI ESG Research and/or MSCI Inc. (collectively, "MSCI") and that these relationships create potential conflicts of interest. In some cases, the issuers or their affiliates purchase research or other products or services from one or more MSCI affiliates. In other cases, MSCI ESG Research rates financial products such as mutual funds or ETFs that are managed by MSCI's clients or their affiliates, or are based on MSCI Inc. Indexes. In addition, constituents in MSCI Inc. equity indexes include companies that subscribe to MSCI products or services. In some cases, MSCI clients pay fees based in whole or part on the assets they manage. MSCI ESG Research has taken a number of steps to mitigate potential conflicts of interest and safeguard the integrity and independence of its research and ratings. More information about these conflict mitigation measures is available in our Form ADV, available at <https://adviserinfo.sec.gov/firm/summary/169222>.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, iPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Global Market Intelligence. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and S&P Global Market Intelligence.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.



# Contact Us

AMERICAS	EUROPE, MIDDLE EAST & AFRICA	ASIA PACIFIC
United States +1 888 588 4567 *	South Africa + 27 21 673 0103	China + 86 21 61326611
Canada + 1 416 687 6270	Germany + 49 69 133 859 00	Hong Kong + 852 2844 9333
Brazil + 55 11 4040 7830	Switzerland + 41 22 817 9777	India + 91 22 6784 9160
Mexico + 52 81 1253 4020	United Kingdom + 44 20 7618 2222	Malaysia 1800818185 *
	Italy + 39 02 5849 0415	South Korea +82 70 4769 4231
	France + 33 17 6769 810	Singapore +65 67011177
		Australia +612 9033 9333
		Taiwan 008 0112 7513*
		Thailand 0018 0015 6207 7181*
		Japan +81 3 4579 0333

\* = toll free

[msci.com/contact-us](https://www.msci.com/contact-us)