

FTSE ESG Democracy Emerging Markets Government Bond Index Series

v1.0



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Section 1

Introduction

1. Introduction

- 1.1 FTSE ESG Democracy Emerging Markets Government Bond Index Series
- 1.1.1 The FTSE ESG Democracy Emerging Markets Government Bond Index Series is designed to quantitatively capture Environmental, Social and Governance (ESG) factors in emerging market government bonds by reweighting security market values based on the Beyond Ratings Sustainable Sovereign Risk Methodology (2SRM)¹. The index is built upon the same ESG framework established for the FTSE ESG Government Bond Index Series but with exclusions for countries based on advanced governance criteria explained in these rules.
- 1.1.2 The index series applies ESG criteria by tilting country exposures relative to the Base Index, overweighting countries with higher ESG scores, and underweighting countries with lower ESG scores.
- 1.1.3 The Base indices are custom versions of the FTSE Emerging Markets Government Bond Index – Capped and the FTSE ESG Emerging Markets US Dollar Government Bond Index. Exclusions are also made according to various criteria as described in these rules.
- 1.1.4 The FTSE ESG Democracy Emerging Markets Government Bond Index Series comprises:
- FTSE ESG Democracy Emerging Markets Local Currency Government Bond Index
 - FTSE ESG Democracy Emerging Markets Investment-Grade US Dollar Government Bond Index
- 1.1.5 The FTSE ESG Democracy Emerging Markets Government Bond Index Series takes account of ESG factors.
- 1.1.6 If a tilting approach is used for an SI data input, the objective is for the index methodology to overweight and/or underweight constituents according to specific SI criteria. This approach will not remove all companies with exposure to a specific SI activity or sector.
- 1.2 FTSE Russell
- 1.3 FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and), FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.
- 1.4 FTSE Russell hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

¹ For more details, please see the Beyond Ratings Sustainable Sovereign Risk [Methodology](#), February 2023.

- 1.5 Index users who choose to follow this index series or to buy products that claim to follow this index series should assess the merits of the index series rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules, and/or
 - any inaccuracies in these Ground Rules, and/or
 - any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
 - any inaccuracies in the compilation of the index series or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE Fixed Income LLC (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series.²

2.1.2 FTSE is responsible for the daily calculation, production and operation of the Index Series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out periodic index reviews of the Index Series and apply the changes resulting from the reviews as required by the Ground Rules;
- disseminate the indices.

2.2 Amendments to these Ground Rules

2.2.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

2.2.2 Where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Ground Rules should subsequently be updated to provide greater clarity.

² The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (the UK Benchmark Regulation). FTSE Fixed Income LLC administers the Index Series in line with the third country transitional provisions contained within Article 51(5) of the European Benchmark Regulation and the third country transitional provisions as amended by Article 42(5) of the UK Benchmark Regulation.

Section 3

FTSE Russell index policies

3. FTSE Russell index policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

3.1 Statement of Principles for FTSE Fixed Income Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles for FTSE Fixed Income Indices which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Index Governance Board.

The Statement of Principles for Fixed Income Indices can be accessed using the following link:
[Statement of Principles Fixed Income Indices.pdf](#)

3.2 Queries and Complaints

FTSE Russell's complaints procedure can be accessed using the following link:
[FTSE Russell Benchmark Determination Complaints Handling Policy.pdf](#)

3.3 Index Policy in the Event Clients are Unable to Trade a Market or a Security

3.3.1 Details of FTSE Russell's treatment can be accessed using the following link:
[Index Policy in the Event Clients are Unable to Trade a Market or a Security.pdf](#)

3.4 Policy for Benchmark Methodology Changes

Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:
[Policy for Benchmark Methodology Changes.pdf](#)

3.5 FTSE Russell Governance Framework

3.5.1 To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks³, the European benchmark regulation⁴ and the UK benchmark regulation⁵. The FTSE Russell Governance Framework can be accessed using the following link:
[FTSE Russell Governance Framework.pdf](#)

³ IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013

⁴ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds

⁵ The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019

Section 4

Base universe: index design and eligibility criteria

4. Base universe for the FTSE ESG Democracy Emerging Markets Government Bond Index Series

4.1 FTSE ESG Democracy Emerging Markets Local Currency Government Bond Index

4.1.1 The base universe for the FTSE ESG Democracy Emerging Markets Local Currency Government Bond Index is the FTSE Emerging Markets Government Bond Index – Capped.

The FTSE Emerging Markets Government Bond Index – Capped measures the performance of local currency government bonds for eligible emerging markets. The index imposes a maximum weight of 10% to limit individual market exposure.

4.1.2 For full details on the design criteria and calculation assumptions for the FTSE EMGBI-Capped, please refer to the [FTSE Fixed Income Index Guide](#) which can be accessed using the following link: [FTSE Fixed Income Index Guide](#)

4.2 FTSE ESG Democracy Emerging Markets Investment-Grade US Dollar Government Bond Index

4.2.1 The base universe for the FTSE ESG Democracy Emerging Markets Investment-Grade US Dollar Government Bond Index is a customised version of the FTSE Emerging Markets US Dollar Broad Bond Index. The customised version of the index has a minimum index rating of BBB- by S&P or Baa3 by Moody's, and only includes bonds under the following Global Industry Classification (GLIC) codes:

- SVGN (Sovereign)
- SGTG (Sovereign Guaranteed)
- SGSP (Sovereign Government Sponsored)
- RGOV (Regional Government)
- RTGD (Regional Government Guaranteed)
- RGSP (Regional Government Sponsored)

4.2.2 For full details on the design criteria and calculation assumptions for the FTSE EMUSDBBI, please refer to the [FTSE Fixed Income Index Guide](#) which can be accessed using the following link: [FTSE Fixed Income Index Guide](#)

Section 6

FTSE ESG Democracy Emerging Markets Government Bond Index Series: design and eligibility criteria

5. Index methodology

5.1 ESG Weighting

- 5.1.1 The FTSE ESG Democracy Emerging Markets Government Bond Index Series applies the same methodology as the FTSE ESG Government Bond Index Series in its calculation of country-level ESG tilts. The ESG index weights are a function of the market value weights and country ESG tilt scores. The ESG tilt scores are calculated based on the country composition of the base index before exclusions are applied.
- 5.1.2 The FTSE ESG Democracy Emerging Markets Government Bond Index Series follows the monthly rebalancing mechanics of the underlying FTSE Emerging Markets Government Bond Index – Capped and the custom version of the FTSE Emerging Markets US Dollar Broad Bond Index outlined in 4.2.1. with respect to country inclusion. The market value weight for each security is tilted by its respective country's ESG score. The ESG scores assess a country's exposure to and management of ESG risk factors and are sourced from the Beyond Ratings Sustainable Sovereign Risk Methodology (2SRM).
- 5.1.3 ESG risk scores for each country are derived by evaluating each country's risk across three pillars (each with multiple sub-pillars and related indicators):
- **Environmental risk:** considers the risks associated with Energy, Climate, and Natural Capital
 - **Social risk:** considers the risks associated with Inequality, Employment, Human Capital & Innovation, Health, and Societal Wellbeing
 - **Governance risk:** considers the risks associated with Control of Corruption, Government Effectiveness, Political Stability & Absence of Violence, Regulatory Quality, Rule of Law, and Voice & Accountability
- 5.1.4 A risk score for each country is assigned across each of the pillars on a quarterly basis.⁶ At each month-end, pillar risk scores are compared on a relative basis against the cohort of countries that will be eligible for the Base index for the following month. Relative pillar scores are combined to derive a single combined ESG risk score for each country for the following month. Country combined ESG risk scores are used to reweight each country's index exposure to provide a larger exposure to countries that have a higher ESG risk score (lower ESG risk), and smaller exposures to countries that have a lower ESG risk score (higher ESG risk).

⁶ E, S and G pillar scores are published in January, April, July and October, and are applied to the February, May, August and November profiles respectively. For example, scores published in January relate to the previous year's final quarter, and remain static as E, S and G pillar inputs for February, March and April profiles.

- 5.1.5 If a new country becomes eligible for the base universe index, it will be included in the cohort of countries for relative pillar risk scoring as of the month-end prior to it entering the index, using E, S and G pillar risk scores from the most recent quarter. For example, a country entering the base universe index for the March profile will use the E, S and G pillar risk scores available as of January. At February month-end, the new country will be included in the cohort of countries used to calculate relative E, S and G pillar risk scores. These pillar risk scores are combined to assign country ESG risk scores, which are used to reweight countries for the following month's March profile.
- 5.1.6 For full details on the ESG Pillars, Underlying Indicators and ESG Tilting methodology, please refer to the [FTSE ESG Government Index Series Ground Rules](#).
- 5.1.7 After relative pillar scoring for the base universe cohort of countries is complete, countries are excluded according to the 'Exclusions' criteria.
- 5.1.8 After exclusions are complete, the remaining countries' index weights are re-weighted according to the ESG scores calculated according to the methodology outlined in 5.1.4.
- 5.1.9 Following ESG re-weighting, country weights are capped at 10%. Within country weights, individual issuers retain their proportional weighting.
- 5.1.10 For the FTSE ESG Democracy Emerging Markets Local Currency Government Bond Index, the tilt parameters and alternative weighting is designed to overweight and underweight based on the relative ESG score in the cohort outlined below:

[FTSE ESG Democracy Emerging Markets Local Currency Government Bond Index design criteria & methodology](#)

Weighting	Alternatively weighted
Country ESG Scores	Updated quarterly and applied with a one-month lag for the following three months
Country ESG Score Assessment Cohort	Countries included in the FTSE Emerging Markets Government Bond Index – Capped in any given month.
ESG Pillars and tilt calibration	Geometric tilt <ul style="list-style-type: none"> • Environmental Performance: 0.1 • Social Performance: 0.1 • Governance Performance: 0.1
Exclusions	<ol style="list-style-type: none"> 1. Exclude countries designated as "Not Free" by the Freedom House. The Freedom House classifies countries as such as part of its 'Freedom in the World' report⁷. 2. Exclude countries with a Liberal Democracy Index score below 0.2, as assigned by the V-Dem Institute⁸.
Capping	After exclusions and tilting is applied, each final country weight is capped at 10%. Capped weights are re-distributed pro-rata across other countries.
Pricing	Refinitiv, with the exception of some local markets. For details, please see the FTSE Fixed Income Index Guide .
Rebalancing	Once a month at the end of the month
Calculation frequency	Daily
Fixing date	Each month, the upcoming month's index constituents are "fixed" on the profile fixing date. Each year's scheduled fixing dates are published on the website.
Base date	31 December, 2017

⁷ Freedom House, [Freedom in the World Report](#). Freedom House designations are updated on an annual basis in April. Any changes to country designations are applied for June index profiles.

⁸ V-Dem Dataset v13, March 2023, <https://doi.org/10.23696/vdemds23>. V-Dem Dataset is updated on an annual basis in March. Any changes to country designations are applied for June index profiles.

5.1.11 For the FTSE ESG Democracy Emerging Markets Investment-Grade US Dollar Government Bond Index, the tilt parameters and alternative weighting is designed to overweight and underweight based on the relative ESG score in the cohort outlined below:

[FTSE ESG Democracy Emerging Markets Investment-Grade US Dollar Government Bond Index design criteria & methodology](#)

Weighting	Alternatively weighted
Country ESG Scores	Updated quarterly and applied with a one-month lag for the following three months
Country ESG Score Assessment Cohort	Countries included in the FTSE Emerging Markets US Dollar Broad Bond Index in any given month. Issuers must fall under the following GLIC designations: <ul style="list-style-type: none"> • SVGN (Sovereign) • SGTD (Sovereign Guaranteed) • SGSP (Sovereign Government Sponsored) • RGOV (Regional Government) • RGTD (Regional Government Guaranteed) • RGSP (Regional Government Sponsored) For the purposes of re-weighting, 'country weight' includes all issuers that fall under that respective country designation.
Minimum credit quality	BBB- by S&P or Baa3 by Moody's
ESG Pillars and tilt calibration	Geometric tilt <ul style="list-style-type: none"> • Environmental Performance: 0.1 • Social Performance: 0.1 • Governance Performance: 0.1
Exclusions	<ol style="list-style-type: none"> 1. Exclude countries designated as "Not Free" by the Freedom House. The Freedom House classifies countries as such as part of its 'Freedom in the World' report⁹. 2. Exclude countries with a Liberal Democracy Index score below 0.2, as assigned by the V-Dem Institute¹⁰.
Capping	After exclusions and tilting is applied, each final country weight is capped at 10%. Capped weights are re-distributed pro-rata across other countries.
Pricing	Refinitiv. For details, please see the FTSE Fixed Income Index Guide .
Rebalancing	Once a month at the end of the month
Calculation frequency	Daily
Fixing date	Each month, the upcoming month's index constituents are "fixed" on the profile fixing date. Each year's scheduled fixing dates are published on the website.
Base date	31 December, 2017

5.1.12 Each month, the cohort of countries that relative scores are assigned for may change if the universe of countries with index-eligible bonds for the underlying Index changes. In the event that a new country becomes eligible for the Base index and does not have quarterly E, S and G pillar scores available at the time of inclusion or at subsequent monthly index rebalances, the country will not be included in the relative country cohort scoring. The country will be assigned a neutral E, S and G score relative to the other countries, such that it is neither under- nor over-weighted versus its market capitalization index weight in the base index. This neutral scoring will be applied until the month-end of the next quarterly publishing of E, S

⁹ Freedom House, [Freedom in the World Report](#). Freedom House designations are updated on an annual basis in April. Any changes to country designations are applied for June index profiles.

¹⁰ V-Dem Dataset v13, March 2023, <https://doi.org/10.23696/vdemds23>. V-Dem Dataset is updated on an annual basis in March. Any changes to country designations are applied for June index profiles.

and G pillar scores, at which point the country will be included in the relative country cohort scoring as normal.

- 5.1.13 The longest period for which a country will be excluded due to no E, S and G pillar scores being available will be four months, which occurs when a country without scores enters the underlying index the month before a quarterly score is published. For example, a country entering the index for April profiles as of March month-end will have E, S and G scores published in July, and will be included in the index effective for August profiles as of July month-end. However, if the country without scores enters the index in February or March, the scores will be published in April, and reflected in the index calculation for May index profiles.

5.2 Chronological summary of events

[FTSE ESG Democracy Emerging Markets Government Bond Index Series Event Summary](#)

Year	Highlights
2023	<p>September: FTSE ESG Democracy Emerging Markets Government Bond Index Series is launched.</p> <p>Beyond Ratings Sustainable Sovereign Risk Methodology (2SRM), an enhanced version of the previous Beyond Ratings Sovereign Risk Monitor (SRM), is used to calculate countries' ESG index weights from September profiles onwards.</p>

[Tickers for the FTSE ESG Democracy Emerging Markets Government Bond Index Series](#)

Ticker	Index
CFIIEDGZ	FTSE ESG Democracy Emerging Markets Local Currency Government Bond Index, in CHF terms
CFIIEDUZ	FTSE ESG Democracy Emerging Markets Investment-Grade US Dollar Government Bond Index, in CHF terms

Section 6

Sustainable investment data inputs

6. Sustainable investment data inputs

6.1.1 The following Sustainable Investment datasets are used in the construction of the indices.

SI data inputs	Details	Used for selection, weighting or exclusion ¹¹
Beyond Ratings Sustainable Sovereign Risk Monitor (2SRM)	The Sustainable Sovereign Risk Monitor (2SRM) is designed to measure the material financial risk from ESG factors for sovereign issuers. More information can be found: https://research.ftserussell.com/products/downloads/FTSE_Sustainable_Sovereign_Risk_Assessment_Methodology_2023.pdf	Weighting
Freedom House Data	Freedom House measures the level of democratic governance in countries through its annual Nations in Transit report. More information can be found: https://freedomhouse.org/countries/nations-transit/scores?sort=asc&order=Total%20Score%20and%20Status	Exclusion
V-DEM Institute	V-Dem (Varieties of Democracy) Institute provides a data set that measures five high-level principles of democracy: electoral, liberal, participatory, deliberative and egalitarian. The Institute is based at the Department of Political Science, University of Gothenburg, Sweden. More information can be found: https://v-dem.net/data/the-v-dem-dataset/	Exclusion

¹¹ Definitions

Selection- SI data is used to select or rank constituents, or calculate minimum scores or thresholds

Weighting- SI data is used to calculate the weight of a constituent in an index

Exclusion- SI data is used to exclude securities from the index

Appendix A

Further information

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at fi.index@lseg.com.

Website: www.lseg.com/en/ftse-russell/

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