

IHS Markit Benchmark Administration Limited Consultation on the Treatment of Securitized Bonds with an Underlying Term Loan in iBoxx Indices

LONDON, SEPTEMBER 23, 2022: IHS Markit Benchmark Administration Limited (“IMBA UK”) is conducting a consultation with market participants on potential changes to the treatment of securitized bonds with an underlying term loan.

BACKGROUND

For securitized bonds with a term loan as underlying in iBoxx indices, the expected maturity date is set close to the loan final repayment date, while the final maturity is set further into the future. These bonds do not have a usual par call option on the expected maturity date. The redemption options are usually one of the following:

- Redemption on Final Maturity date
- Mandatory redemption in case of loan prepayment
- Make whole call, call option for tax reasons

According to the current iBoxx methodology the final maturity is taken as the workout date. Market expectations are that such bonds will be redeemed at their expected maturity date and are priced accordingly.

PROPOSAL

IMBA UK proposes to update the treatment of securitized bonds with a term loan as underlying in iBoxx indices to apply the expected maturity date as the workout date. This would further align the treatment of such securities with market expectations and pricing.

IMPACT ANALYSIS

IMBA UK analyzed the impact of the proposed change using the August 2022 month end rebalancing and found no material impact. Only the below securitized bond with a term loan as underlying has the final maturity date set as workout date.

ISIN	Description	Expected Maturity	Final Maturity	Workout Date	Coupon
XS1801843092	LANDLN 2 3/8 03/29/27	29/03/2027	29/03/2029	29/03/2029	2.375

The time to maturity for the bond, as calculated based on the workout date, drops from 6.5 years to 4.5 years. As a result, the bond’s eligibility for certain maturity-restricted indices

changes. Please find the full list of affected indices and the bond's respective index weight below:

Index Name	ISIN Tri	Bond Weight	Membership
iBoxx £ Collateralized AA 5-7	DE0005992234	18.25%	Existing
iBoxx £ MBS 5-7	DE0006007982	11.76%	Existing
iBoxx £ Collateralized AA 5-10	DE0005992291	8.74%	Existing
iBoxx £ MBS 5-10	DE0006008253	7.89%	Existing
iBoxx £ MBS 5-15	DE0007682031	6.52%	Existing
iBoxx £ Collateralized AA 5-15	DE0007681595	5.93%	Existing
iBoxx £ Non-Gilts AA 5-7	DE0007932733	4.37%	Existing
iBoxx £ Collateralized 5-7	DE0005991830	3.42%	Existing
iBoxx £ Collateralized 5-10	DE0005991897	2.38%	Existing
iBoxx £ Non-Gilts AA 5-10	DE0007932790	2.25%	Existing
iBoxx £ Non-Gilts AA 5-15	DE0007682130	1.52%	Existing
iBoxx £ Collateralized 5-15	DE0007681553	1.29%	Existing
iBoxx £ Collateralized 5+	DE000A0AETF9	0.67%	Existing
iBoxx £ Non-Gilts ex-BBB 5-7	DE0007682494	0.62%	Existing
Non Gilt, Non Sovereign, Non Sub-Sovereign 5-10 year AAA/AA/A	GB00B5VJ1L87	0.62%	Existing
iBoxx £ Non-Gilts ex-Subordinated 5-7	DE000A0Z3ZQ2	0.41%	Existing
iBoxx £ Non-Gilts ex-BBB 5-10	DE0007682577	0.38%	Existing
Markit iBoxx GBP Non-Gilts 5-7 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3MZPM05	0.38%	Existing
iBoxx £ Non-Gilts 5-7	DE0007932337	0.38%	Existing
Markit iBoxx GBP Non-Gilts ex-T1 5-7	DE000A0Z3Z38	0.38%	Existing
iBoxx GBP Non-Gilts ex-Financials 5-10	DE000A26RXH1	0.32%	Existing
iBoxx £ Non-Gilts ex-BBB 5-15	DE0001458875	0.29%	Existing
Markit iBoxx GBP Non-Gilts AAA-A 5-15	GB00BY9BSQ39	0.29%	Existing
Markit iBoxx GBP Collateralized & Corporates ex-BBB 5+	GB00BYZRZ640	0.27%	Existing
iBoxx £ Non-Gilts ex-Subordinated 5-10	DE000A0Z3ZW0	0.24%	Existing
iBoxx £ Overall AA 5-7	DE000A1EW640	0.23%	Existing
Markit iBoxx GBP Non-Gilts 5-10 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3P08B23	0.22%	Existing
Markit iBoxx GBP Non-Gilts ex-T1 5-10	DE000A0Z3Z95	0.22%	Existing
iBoxx £ Non-Gilts 5-10	DE0007932394	0.22%	Existing
iBoxx £ Collateralized & Corporates 5+ capped	GB00B5824R73	0.21%	Existing
iBoxx £ Non-Gilts ex-Subordinated 5-15	DE000A0Z3ZZ3	0.17%	Existing
Markit iBoxx GBP Non-Gilts 5-15 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3LPWD18	0.16%	Existing
Markit iBoxx GBP Non-Gilts ex-Sovereigns 5-15	GB00BWD5W26	0.16%	Existing
Markit iBoxx GBP Non-Gilts ex-T1 5-15	DE000A0Z30C0	0.16%	Existing
iBoxx £ Non-Gilts 5-15	DE0002270667	0.16%	Existing
iBoxx £ Overall ex-Subordinated 5-7	DE000A0Z3Y05	0.15%	Existing
Markit iBoxx GBP Overall 5-7 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3NY7G48	0.15%	Existing
iBoxx £ Overall 5-7	DE0007932139	0.15%	Existing
Markit iBoxx GBP Overall ex-T1 5-7	DE000A0Z3ZC2	0.15%	Existing
Markit iBoxx GBP Collateralized & Corporate Senior 5+	GB00BDGTFY03	0.14%	Existing
Markit iBoxx GBP Collateralized & Corporates 5+	GB00BF83DP13	0.13%	Existing
Markit iBoxx GBP Non-Gilts ex-Sovereigns ex-Supranationals 5+	GB00BD72ZD73	0.12%	Existing

Index Name	ISIN Tri	Bond Weight	Membership
iBoxx £ Non-Gilts ex-Subordinated 5+	DE000A0Z3ZT6	0.11%	Existing
Markit iBoxx GBP Non-Gilts 5+ ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3MZN57	0.11%	Existing
Markit iBoxx GBP Non-Gilts ex-T1 5+	DE000A0Z3Z61	0.11%	Existing
iBoxx £ Non-Gilts 5+	DE000A0AETL7	0.11%	Existing
iBoxx £ Overall AA 5-10	DE000A1EW624	0.09%	Existing
iBoxx £ Overall AA 5-15	DE000A1EW632	0.07%	Existing
iBoxx £ Overall ex-Subordinated 5-10	DE000A0Z3Y62	0.07%	Existing
Markit iBoxx GBP Overall 5-10 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3NZVP45	0.07%	Existing
Markit iBoxx GBP Overall ex-T1 5-10	DE000A0Z3ZJ7	0.07%	Existing
iBoxx £ Overall 5-10	DE0007932196	0.07%	Existing
iBoxx £ Overall ex-Subordinated 5-15	DE000A0Z3Y96	0.05%	Existing
Markit iBoxx GBP Overall 5-15 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3NZW068	0.05%	Existing
Markit iBoxx GBP Overall ex-T1 5-15	DE000A0Z3ZM1	0.05%	Existing
iBoxx £ Overall 5-15	DE0007682072	0.05%	Existing
iBoxx £ Overall AA 5+	DE000A1EW616	0.03%	Existing
iBoxx £ Overall ex-Subordinated 5+	DE000A0Z3Y39	0.02%	Existing
Markit iBoxx GBP Overall 5+ ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3MZQH27	0.02%	Existing
Markit iBoxx GBP Overall ex-T1 5+	DE000A0Z3ZF5	0.02%	Existing
iBoxx £ Overall 5+	DE000A0AES81	0.02%	Existing
iBoxx £ Collateralized AA 3-5	DE0005992218	10.53%	New
iBoxx £ MBS 3-5	DE0006007966	10.05%	New
iBoxx £ Collateralized AA 1-5	DE0005992275	9.37%	New
iBoxx £ MBS 1-5	DE0006008238	8.11%	New
iBoxx £ Collateralized 3-5	DE0005991814	2.95%	New
iBoxx £ Collateralized 1-5	DE0005991871	1.86%	New
iBoxx £ Non-Gilts AA 3-5	DE0007932717	1.55%	New
iBoxx £ Non-Gilts AA 1-5	DE0007932774	0.82%	New
iBoxx £ Non-Gilts ex-BBB 3-5	DE0007682478	0.37%	New
iBoxx £ Non-Gilts ex-Subordinated 3-5	DE000A0Z3ZP4	0.28%	New
Markit iBoxx GBP Non-Gilts 3-5 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3NZTW73	0.26%	New
Markit iBoxx GBP Non-Gilts ex-T1 3-5	DE000A0Z3Z20	0.25%	New
iBoxx £ Non-Gilts 3-5	DE0007932311	0.25%	New
iBoxx £ Non-Gilts ex-BBB 1-5	DE0007682551	0.19%	New
iBoxx £ Overall AA 3-5	DE000A1EW608	0.17%	New
iBoxx £ Non-Gilts ex-Subordinated 1-5	DE000A0Z3ZV2	0.14%	New
Markit iBoxx GBP Non-Gilts 1-5 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3MBY323	0.13%	New
Markit iBoxx GBP Non-Gilts ex-T1 1-5	DE000A0Z3Z87	0.13%	New
iBoxx £ Non-Gilts 1-5	DE0007932378	0.13%	New
iBoxx £ Overall ex-Subordinated 3-5	DE000A0Z3YZ6	0.11%	New
Markit iBoxx GBP Overall 3-5 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3LL8869	0.11%	New
Markit iBoxx GBP Overall ex-T1 3-5	DE000A0Z3ZB4	0.11%	New
iBoxx £ Overall 3-5	DE0007932113	0.11%	New
iBoxx £ Overall AA 1-5	DE000A1EW6Y9	0.07%	New
iBoxx £ Overall ex-Subordinated 1-5	DE000A0Z3Y54	0.05%	New
Markit iBoxx GBP Overall 1-5 ex-T1 & ex-UT2 & ex-T2 Perpetual	GB00B3NZSJ71	0.05%	New
Markit iBoxx GBP Overall ex-T1 1-5	DE000A0Z3ZH1	0.05%	New
iBoxx £ Overall 1-5	DE0007932170	0.05%	New

IMPLEMENTATION TIMING

IMBA UK is proposing to implement the previously described methodology change, if adopted, following the October 2022 month-end rebalancing, which takes effect prior to the market open on Tuesday, November 1, 2022.

QUESTIONS

Please answer the following questions and provide IMBA UK with the reasoning behind your answers:

- 1. Do you agree with the proposal to update the treatment of securitized bonds with a term loan as underlying in iBoxx indices and analytics to apply the expected maturity date as the workout date?**
- 2. Should the proposed methodology change be adopted, do you agree with the proposed implementation date?**
- 3. Do you have any other comments or feedback regarding the proposed change outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences on the proposal herein and the suggested timetable for its implementation. Please respond to this survey by **October 21, 2022**. After this date, IMBA UK will no longer accept survey responses. Prior to the Index Committee's final review, IMBA UK may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

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.

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. If IMBA decides to change the index methodology, an announcement will be posted on our website. IMBA UK reserves the right to make a final decision on the proposal.

Thank you for taking the time to complete this survey.

For further information about this consultation, please contact IMBA at SPDJI_Index_Governance@spglobal.com.

FOR MORE INFORMATION:
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CONSULTATION