S&P Dow Jones Indices

A Division of S&P Global

CONSULTATION

IHS Markit Benchmark Administration Limited Consultation on the European, North American, and Global iBoxx Indices

LONDON, NOVEMBER 22, 2023: IHS Markit Benchmark Administration Limited ("IMBA UK") is conducting a consultation with market participants on potential changes to the European, North American, and Global iBoxx indices.

BACKGROUND

The iBoxx indices measure the performance of bond markets globally. As part of the Annual Index Review (AIR), IMBA UK considers potential updates to the iBoxx indices' rules. As a result of the 2023 AIR, six potential methodology changes are being considered. The proposals are detailed below.

PROPOSALS SUMMARY:

A. Granular Bank Classification

PROPOSAL

IMBA UK proposes an update to the bank classification granularity to provide greater clarity and precision in assessing the performance of banks in the index. The proposal includes the creation of a bank sub-sector definition as detailed below:

- **Global Systemically Important Banks (G-SIBs)** - Determined based on four main criteria: size, interconnectedness, complexity, and substitutability. They have stricter prudential regulation such as higher capital requirements and extra surcharges, and are subject to more stringent stress tests. The list of banks is maintained by the Financial Stability Board and updated annually.
  - Examples: JP Morgan, HSBC, Goldman Sachs, Barclays, BNP Paribas, Deutsche Bank

- **Domestic Systemically Important Banks (D-SIBs)** - Large, geographically diverse banks having been identified as systemically important by a national regulator or other centralized body. These banks are subject to specific laws, stress tests and stricter capital ratio requirements. Where information on D-SIBs' status is not publicly available, classification is provided on a best efforts basis.
  - Examples: ABN Amro, ANZ Bank, Macquarie Bank, Lloyds Bank

- **Other Non-Systemically Important Banks** – Small to midsized banks that are not considered systemically important by regulators are defined as non-systemic banks.
  - Examples: Comerica, Regions Financial Corp, Metro Bank plc, Volksbank Wien, Bank of Queensland Ltd

IMBA UK proposes a refinement in the index methodology with a focus on ensuring accurate classification of financial institutions and their subsidiaries. Under the proposed changes, stand-alone subsidiaries of Global Systemically Important Banks (G-SIBs) sharing the same issuer ticker will be collectively classified as G-SIBs, providing a comprehensive representation of their financial impact. However, IMBA UK will recognize the uniqueness of stand-alone subsidiaries that bear different issuer tickers from their parent companies, and these entities will be individually classified. Furthermore, bank branches will be classified in alignment with their respective parent issuer, streamlining the classification process and enhancing the accuracy and relevance of the indices.

IMPACT

No impact on index composition. Additional clarity on final level of bank classification.

The index families impacted:

- All iBoxx index families

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QUESTIONS

1) **Do you agree with the proposed sub-sector definition for banks to distinguish between Global Systemically Important Banks (‘G-SIBs’), Domestic Systemically Important Banks (‘D-SIBs’), and ‘Other Non-Systemically Important Banks’?**
2) **Do you agree that stand-alone subsidiaries of G-SIBs with the same issuer ticker should be treated as G-SIBs?**
3) **Do you agree that bank branches should be classified according to their parent?**

B. Update to Agencies' Classification Definition

PROPOSAL

IMBA UK proposes a refinement of the existing 'Agencies' definition in the index methodology to enhance precision regarding the financial activities in which these entities are engaged. The proposed adjustment to the index methodology is designed to eliminate ambiguity by ensuring that Sub-Sovereigns engaged in non-financial sectors are accurately classified under their dedicated category, specifically 'Sub-Sovereigns/Other Sub-Sovereigns/Non-Financials'. This proposed change seeks to bring greater clarity and accuracy to the classification of entities considering their specific financial or non-financial activities within the index framework. The table below details the proposed definition change.

Proposed Change	Methodology	
	Current	Proposed
Sub-Sovereign Sectors: Agencies	Bonds issued by entities whose major business is to fulfil a government-sponsored role to provide public, non-competitive services (e.g. Fannie Mae). Often, such business scope is defined by a specific law, or the issuer is explicitly backed by the government.	Bonds issued by entities whose major business is to fulfil a government-sponsored role to provide public, non-competitive services. **These entities are financial in nature and carry out government policies through special development programs.** Often, such business scope is defined by a specific law, or the issuer is explicitly backed by the government.

IMPACT

The below table summarizes the impact of the proposed refinement of the 'Agencies' definition:

Ticker	Issuer Name	Current Classification	Proposed Classification
KOMRMR	Korea Mine Rehabilitation & Mineral Resources Corp	Sub-Sovereigns/Agencies/Non-US Agencies	Sub-Sovereigns/Other Sub-Sovereigns/Non-Financials
KOMRMR	Minera y Metalurgica del Boleo SAPI de CV	Sub-Sovereigns/Agencies/Non-US Agencies	Sub-Sovereigns/Other Sub-Sovereigns/Non-Financials
KORAIR	Incheon International Airport Corp	Sub-Sovereigns/Agencies/Non-US Agencies	Sub-Sovereigns/Other Sub-Sovereigns/Non-Financials
SGCAZE	Southern Gas Corridor CJSC	Sub-Sovereigns/Agencies/Non-US Agencies	Sub-Sovereigns/Other Sub-Sovereigns/Non-Financials

The index families impacted by the financial/non-financial 'Agencies' classification update:

- All iBoxx index families

QUESTIONS

4) Do you agree with the proposed 'Agencies' classification update?

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C. Add and align Secured/Unsecured bond attribute across iBoxx High Yield index families

PROPOSAL

IMBA UK proposes the inclusion of information regarding collateral status, specifically distinguishing between 'Secured' and 'Unsecured' senior non-financial bonds. This addition will provide clients with a more comprehensive understanding of the risk profiles associated with these bonds, helping them make more informed investment decisions. By incorporating collateral status as a distinguishing factor, IMBA UK aims to offer a more nuanced and insightful perspective on the senior non-financial bond segment.

IMPACT

No impact on index composition.

The index families impacted:

- iBoxx USD High Yield Developed Markets
- iBoxx GBP High Yield

QUESTIONS

5) **Do you agree with the proposal to add information on collateral status (Secured or Unsecured) to senior non-financial bonds?**

D. Inclusion of payment-in-kind (PIK) bonds in Liquid High Yield indices

PROPOSAL

IMBA UK proposes a methodology update that reflects the evolving landscape of the high yield market. Payment-in-kind (PIK) bonds, although a relatively small segment, are steadily gaining prominence in this market. To ensure our indices remain comprehensive and responsive to market trends, IMBA UK proposes the inclusion of PIK bonds in the index methodology. This approach will provide a more accurate representation of the contemporary high yield market and align our indices with the growing importance of PIK bonds.

IMPACT

- PIK bonds represent 1.8% of the existing iBoxx EUR Liquid High Yield index weight
- PIK bonds represent 0.7% of the existing iBoxx USD Liquid High Yield index weight

The index families impacted:

- iBoxx EUR Liquid High Yield
- iBoxx USD Liquid High Yield

QUESTIONS

6) **Do you agree with the inclusion of payment-in-kind (PIK) bonds?**
7) **Should existing payment-in-kind (PIK) bonds be included or only new issuances from 2024 onwards?**

E. Inclusion of senior bank fixed-to-float bonds in iBoxx EUR Liquid High Yield Indices

PROPOSAL

In response to the impact of TLAC/MREL regulations on the issuance structure of senior bank bonds, IMBA UK proposes an adjustment to the index methodology. A substantial portion of senior bank bonds has transitioned to floating coupons within the past year, as they are no longer considered loss-absorbing under these regulations. The current index rules exclude fixed-to-floaters, which has led to an underrepresentation of the evolving bank debt landscape. To address this, IMBA UK proposes the inclusion of senior bank debt with a fixed-to-float structure, specifically up to the first call date. This change will ensure that the indices accurately reflect the prevailing market dynamics, aligning with the regulatory environment.

To strike a balance between embracing this asset class and maintaining the integrity of our historical data, IMBA UK proposes that bonds issued prior to 2024 are not included and only new issuances from 2024 onwards become eligible.

IMPACT

- Senior bank fixed-to-float bonds represent 6.9% of the existing iBoxx EUR Liquid High Yield index weight

The index families impacted:

- iBoxx EUR Liquid High Yield indices

QUESTIONS

8) **Do you agree with the proposed inclusion of senior bank fixed-to-float bonds in iBoxx EUR Liquid High Yield?**
9) **Should existing senior bank fixed-to-float bonds be included or only new issuances from 2024 onwards?**

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F. iBoxx USD Emerging Markets – Standardization of Index Rules

PROPOSAL

IMBA UK proposes an enhancement to the index methodology of the two semi-independent index families, the iBoxx USD Emerging Markets Sovereigns and iBoxx USD Emerging Markets Corporates (Non-Sovereigns). While these index families share broad similarities in their rules, there are notable differences in individual criteria, such as minimum size and ratings. IMBA UK is proposing a harmonization of these rules across both sets of iBoxx USD Emerging Markets index families. This alignment will greatly enhance the ease of combining and analyzing data across sovereigns and corporates, offering clients a more streamlined and coherent approach to index utilization. Furthermore, this rule revision will extend to align with the rules applied in our iBoxx USD APAC indices where it is relevant and appropriate. The aim is to provide a more consistent and efficient experience for our clients and ensure that our index methodology remains robust and adaptable to evolving market needs.

The below table summarizes the current and proposed index methodology:

<table>
<tr><th>Index Rule</th><th>Current iBoxx USD Emerging Markets Sovereigns</th><th>Current iBoxx USD Emerging Markets Non-Sovereigns</th><th>Proposed Rules</th></tr>
<tr><td>Emerging Market definition</td><td colspan="3">• EM as per the iBoxx Global Economic Development Classification
• Issuers subject to sanctions are ineligible
• Issuers from territories in default/restructuring are ineligible</td></tr>
<tr><td>Credit rating</td><td>• Bonds need to be rated
• Average of Fitch, Moody's and S&P
• Minimum average rating of CCC
• Bonds in default/restructuring are ineligible</td><td>• Bonds need to be rated
• Average of Fitch, Moody's and S&P
• No minimum rating
• Bonds in default/restructuring are ineligible</td><td>• Bonds or issuers need to be rated
• Average of Fitch, Moody's and S&P
• No minimum rating
• Bonds in default/restructuring are ineligible</td></tr>
<tr><td>Minimum time to maturity</td><td>• At issuance: 18 months
• At rebalancing: 1 year</td><td>• At issuance: 18 months
• At rebalancing: 0 (no minimum)</td><td>• At issuance: 18 months
• At rebalancing: 0 (no minimum)</td></tr>
<tr><td>Amount outstanding</td><td>• USD 500m</td><td>• USD 250m</td><td>• USD 250m</td></tr>
<tr><td>International tradability</td><td colspan="2">• Defined via the ISIN
• Only ISINs originating from Japan, the US or Western Europe are eligible for the indices</td><td>• Bonds to be internationally clearable</td></tr>
<tr><td>Eligible bond types</td><td>• Fixed and zero coupon bonds
• Multi coupon bonds
• Amortizing bonds and sinking funds
• Callables</td><td>• Fixed and zero coupon bonds
• Multi-coupon and event-driven bonds
• Amortizing bonds and sinking funds
• Callables & putables
• Hybrid bank & insurance dated and undated fixed-to-floater bonds and perpetuals</td><td>• Fixed and zero coupon bonds
• Multi-coupon and event-driven bonds
• Amortizing bonds and sinking funds
• Callables & putables
• Covered bonds
• Perpetuals and fixed-to-float bonds with a reset date at or after the first call date
• Contingent convertible and other Basel III compliant AT1 and T2 capital with mandatory conversion / write down with pre-specified objective trigger
• Payment-in-kind (PIKs)
• Preference share-style AT1s</td></tr>
<tr><td>Ineligible bond types</td><td>• Putables
• Covered bonds</td><td>• Covered bonds
• Non-financial perpetual and fixed-to-float bonds</td><td>• Floating Rate Notes
• 144As, private placements and retail bonds</td></tr>
</table>

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Index Rule	Current iBoxx USD Emerging Markets Sovereigns	Current iBoxx USD Emerging Markets Non-Sovereigns	Proposed Rules
	• **Perpetuals & Fixed-to-floater bonds** • All bond types on the proposed exclusion list excluded	• **Contingent convertible and other Basel III compliant AT1 and T2 capital with mandatory conversion / write down with pre-specified objective trigger** • **Preference share-style AT1s** • All bond types on the proposed exclusion list excluded	• Inflation and other index-linked bonds • Structured notes and other collateralized bonds • Catastrophe bonds • Optional and mandatory convertible bonds • Perpetuals and fixed-to-float bonds with a reset date prior to the first call date • Subordinated bank/insurance debt with non-regulatory conv. option before the first call date • Bonds cum- or ex-warrant • New bonds entering the index that have already been called prior to rebalancing

IMPACT

The below table summarizes the impact of the proposed methodology update

Index Rule	iBoxx USD Emerging Markets Sovereigns	iBoxx USD Emerging Markets Non-Sovereigns
Removal of minimum issuer rating for Sovereigns	• Argentina becomes eligible • 7 bonds with USD 63.2 bn Notional	--
Issuer rating	• 13 bonds with USD 13.4 bn Notional	• 36 bonds with USD 16.1 bn Notional
No minimum time to maturity for Sovereigns	• 36 bonds with USD 40.8 bn Notional	--
Sovereign amount outstanding threshold reduced to USD 250m	• 19 bonds with USD 6.1 bn Notional	--
Inclusion of non-financial sub debt and broader CoCo inclusion	--	• 42 bonds with USD 28.6 bn Notional
Other	• 7 bonds with USD 6.3 bn Notional	• 92 bonds with USD 54.7 bn Notional
Aggregate	• **80 bonds** • **USD 129.7 bn Notional (12% of current index weight)**	• **168 bonds** • **USD 100 bn Notional (6% of current index weight)**

The index families impacted:

- iBoxx USD Emerging Markets Sovereigns
- iBoxx USD Emerging Markets Corporates (Non-Sovereigns)

QUESTIONS

10) Do you agree with the proposed methodology updates to the iBoxx USD Emerging Markets Sovereigns and iBoxx USD Emerging Markets Corporates (Non-Sovereigns) index families?

IMPLEMENTATION TIMING

IMBA UK will publish the detailed implementation timing together with the results of the consultation.

QUESTIONS

11) **Do you have any comments to any of the above questions that you would like IMBA UK to consider?**

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 **December 15, 2023**. 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.

Please be advised that all comments will be reviewed and considered before a final decision is made; however, IMBA UK makes no guarantees 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 UK 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.

ABOUT S&P DOW JONES INDICES

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