

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

**LONDON, JANUARY 5, 2024:** IHS Markit Benchmark Administration Limited ("IMBA UK") has conducted 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 methodology changes will be implemented.

## **SUMMARY:**

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## A. Granular Bank Classification

IMBA UK is updating the bank classification granularity to provide greater clarity and precision in assessing the performance of banks in the index. The update 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.
- **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.<sup>1</sup>
- **Other Non-Systemically Important Banks** – Small to midsized banks that are not considered systemically important by regulators are defined as non-systemic banks.

Under this change, 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

### The index families impacted:

- All iBoxx index families

## IMPLEMENTATION TIMING

IMBA UK will implement the bank classification granularity methodology changes in conjunction with the April 2024 rebalancing, which takes effect prior to the market open on **Wednesday, May 1, 2024**.

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<sup>1</sup> Where information on D-SIBs' status is not publicly available, classification is provided on a best efforts basis.

## INDEX ANNOUNCEMENT

## B. Update to Agencies' Classification Definition

IMBA UK is refining the existing 'Agencies' definition in the index methodology to enhance precision regarding the financial activities in which these entities are engaged. The table below details the definition change.

Change	Methodology	
	Previous	Updated
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. <b>These entities are financial in nature and carry out government policies through special development programs.</b> Often, such business scope is defined by a specific law, or the issuer is explicitly backed by the government.
Sub-Sovereign Sectors:  Other Sub-Sovereigns: Non-Financials	An issuer from a non-financial sector with explicit or strong implicit debt guarantee from the state, whose credit rating is closely correlated with the sovereign rating and expresses a strong credit uplift based on a high level of support from the government. iBoxx by S&P DJI would expect the issuer credit rating reflected as no worse than on par or two notches below the sovereign rating. A 'strong implicit guarantee' is defined as an issuer being 100% owned by the state or public-sector, and their debt being consolidated into state public debt, or the issuer has preexisting access to government financing, or funding derived from tax revenues. The local regulatory and political framework will be considered when assessing the classification of state-owned companies.	An issuer from a non-financial sector with explicit or strong implicit debt guarantee from the state, whose credit rating is closely correlated with the sovereign rating and expresses a strong credit uplift based on a high level of support from the government. iBoxx by S&P DJI would expect the issuer credit rating reflected as no worse than on par or two notches below the sovereign rating. A 'strong implicit guarantee' is defined as an issuer being 100% owned by the state or public-sector, and their debt being consolidated into state public debt, or the issuer has preexisting access to government financing, or funding derived from tax revenues. <b>State-owned issuers that provide competitive services, are profit oriented, and operate under a regulatory framework are considered as Corporates.</b>

## IMPACT

The below table summarizes the impact of the 'Agencies' definition refinement.

Ticker	Issuer Name	Previous Classification	Updated 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

## IMPLEMENTATION TIMING

IMBA UK will implement the 'Agencies' classification definition methodology change in conjunction with the April 2024 rebalancing, which takes effect prior to the market open on **Wednesday, May 1, 2024.**

## INDEX ANNOUNCEMENT

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

IMBA UK will include information regarding collateral status, specifically distinguishing between 'Secured' and 'Unsecured' senior non-financial bonds.

#### **IMPACT**

##### **The index families impacted:**

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

#### **IMPLEMENTATION TIMING**

IMBA UK will implement the iBoxx High Yield index Secured/Unsecured bond attribute methodology change in conjunction with the February 2024 rebalancing, which takes effect prior to the market open on **Friday, March 1, 2024**.

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

IMBA UK will make PIK bonds eligible in the iBoxx Liquid High Yield indices.

### **IMPACT**

For a list of indices impacted by this change, please refer to the file [here](#). In addition to the indices included in the consultation published on November 22, 2023, the Markit iBoxx Global Developed Markets High Yield Index and Markit iBoxx Global Developed Markets Liquid High Yield Capped Index will also be impacted by this change.

### **IMPLEMENTATION TIMING**

IMBA UK will implement the iBoxx Liquid High Yield indices PIK bond inclusion methodology change in conjunction with the February 2024 rebalancing, which takes effect prior to the market open on **Friday, March 1, 2024**.

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

In response to the impact of TLAC/MREL regulations on the issuance structure of senior bank bonds, IMBA UK will include senior bank debt with a fixed-to-float structure, specifically up to the first call date, in iBoxx EUR Liquid High Yield indices.

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

### **IMPACT**

For a list of indices impacted by this change, please refer to the 'EUR LQ HY' tab on the file [here](#). In addition to the indices included in the consultation published on November 22, 2023, the Markit iBoxx Global Developed Markets High Yield Index and Markit iBoxx Global Developed Markets Liquid High Yield Capped Index will also be impacted by this change.

### **IMPLEMENTATION TIMING**

IMBA UK will implement the iBoxx EUR Liquid High Yield indices senior bank fixed-to-float bond inclusion methodology change in conjunction with the February 2024 rebalancing, which takes effect prior to the market open on **Friday, March 1, 2024**.

## F. iBoxx USD Emerging Markets – Standardization of Index Rules

IMBA UK will harmonize the index methodology of the two semi-independent index families, the iBoxx USD Emerging Markets Sovereigns and iBoxx USD Emerging Markets Corporates (Non-Sovereigns). This rule revision will extend to align with the rules applied in the iBoxx USD APAC indices where it is relevant and appropriate.

The below table summarizes the changes.

Index Rule	Previous iBoxx USD Emerging Markets Sovereigns	Previous iBoxx USD Emerging Markets Non-Sovereigns	Updated Rules
Emerging Market definition	<ul style="list-style-type: none"> <li>EM as per the iBoxx Global Economic Development Classification</li> <li>Issuers subject to sanctions are ineligible</li> <li>Issuers from territories in default/restructuring are ineligible</li> </ul>		
Credit rating	<ul style="list-style-type: none"> <li>Bonds need to be rated</li> <li>Average of Fitch, Moody's and S&amp;P</li> <li>Minimum average rating of CCC</li> <li>Bonds in default/restructuring are ineligible</li> </ul>	<ul style="list-style-type: none"> <li>Bonds need to be rated</li> <li>Average of Fitch, Moody's and S&amp;P</li> <li>No minimum rating</li> <li>Bonds in default/restructuring are ineligible</li> </ul>	<ul style="list-style-type: none"> <li>Bonds <b>or issuers</b> need to be rated</li> <li>Average of Fitch, Moody's and S&amp;P</li> <li><b>No minimum rating</b></li> <li>Bonds in default/restructuring are ineligible</li> </ul>
Minimum time to maturity	<ul style="list-style-type: none"> <li>At issuance: 18 months</li> <li>At rebalancing: 1 year</li> </ul>	<ul style="list-style-type: none"> <li>At issuance: 18 months</li> <li>At rebalancing: 0 (no minimum)</li> </ul>	<ul style="list-style-type: none"> <li>At issuance: 18 months</li> <li><b>At rebalancing: 0 (no minimum)</b></li> </ul>
Amount outstanding	<ul style="list-style-type: none"> <li>USD 500m</li> </ul>	<ul style="list-style-type: none"> <li>USD 250m</li> </ul>	<ul style="list-style-type: none"> <li><b>USD 250m</b></li> </ul>
International tradability	<ul style="list-style-type: none"> <li>Defined via the ISIN</li> <li>Only ISINs originating from Japan, the US or Western Europe are eligible for the indices</li> </ul>		<ul style="list-style-type: none"> <li><b>Bonds to be internationally clearable</b></li> </ul>
Eligible bond types	<ul style="list-style-type: none"> <li>Fixed and zero coupon bonds</li> <li>Multi coupon bonds</li> <li>Amortizing bonds and sinking funds</li> <li>Callables</li> </ul>	<ul style="list-style-type: none"> <li>Fixed and zero coupon bonds</li> <li>Multi-coupon and event-driven bonds</li> <li>Amortizing bonds and sinking funds</li> <li>Callables &amp; putables</li> <li>Hybrid bank &amp; insurance dated and undated fixed-to-floater bonds and perpetuals</li> </ul>	<ul style="list-style-type: none"> <li>Fixed and zero coupon bonds</li> <li>Multi-coupon and event-driven bonds</li> <li>Amortizing bonds and sinking funds</li> <li>Callables &amp; putables</li> <li><b>Covered bonds</b></li> <li><b>Perpetuals and fixed-to-float bonds with a reset date at or after the first call date</b></li> <li><b>Contingent convertible and other Basel III compliant AT1 and T2 capital with mandatory conversion / write down with pre-specified objective trigger</b></li> <li><b>Payment-in-kind (PIKs)</b></li> <li><b>Preference share-style AT1s</b></li> </ul>
Ineligible bond types	<ul style="list-style-type: none"> <li><b>Putables</b></li> <li><b>Covered bonds</b></li> <li><b>Perpetuals &amp; Fixed-to-floater bonds</b></li> <li>All bond types on the proposed exclusion list excluded</li> </ul>	<ul style="list-style-type: none"> <li><b>Covered bonds</b></li> <li><b>Non-financial perpetual and fixed-to-float bonds</b></li> <li><b>Contingent convertible and other Basel III compliant AT1 and T2 capital with mandatory conversion / write down with pre-specified objective trigger</b></li> <li><b>Preference share-style AT1s</b></li> </ul>	<ul style="list-style-type: none"> <li>Floating Rate Notes</li> <li>144As, private placements and retail bonds</li> <li>Inflation and other index-linked bonds</li> <li>Structured notes and other collateralized bonds</li> <li>Catastrophe bonds</li> <li>Optional and mandatory convertible bonds</li> <li>Perpetuals and fixed-to-float bonds with a reset date prior to the first call date</li> </ul>

**INDEX ANNOUNCEMENT**

Index Rule	Previous iBxx USD Emerging Markets Sovereigns	Previous iBxx USD Emerging Markets Non-Sovereigns	Updated Rules
		<ul style="list-style-type: none"> <li>All bond types on the proposed exclusion list excluded</li> </ul>	<ul style="list-style-type: none"> <li>Subordinated bank/insurance debt with non-regulatory conv. option before the first call date</li> <li>Bonds cum- or ex-warrant</li> <li>New bonds entering the index that have already been called prior to rebalancing</li> </ul>

## IMPACT

The below table summarizes the impact of the methodology update.

Index Rule	iBxx USD Emerging Markets Sovereigns	iBxx USD Emerging Markets Non-Sovereigns
Removal of minimum issuer rating for Sovereigns	<ul style="list-style-type: none"> <li>Argentina becomes eligible</li> <li>7 bonds with USD 63.2 bn Notional</li> </ul>	--
Issuer rating	<ul style="list-style-type: none"> <li>13 bonds with USD 13.4 bn Notional</li> </ul>	<ul style="list-style-type: none"> <li>36 bonds with USD 16.1 bn Notional</li> </ul>
No minimum time to maturity for Sovereigns	<ul style="list-style-type: none"> <li>36 bonds with USD 40.8 bn Notional</li> </ul>	--
Sovereign amount outstanding threshold reduced to USD 250m	<ul style="list-style-type: none"> <li>19 bonds with USD 6.1 bn Notional</li> </ul>	--
Inclusion of non-financial sub debt and broader CoCo inclusion	--	<ul style="list-style-type: none"> <li>42 bonds with USD 28.6 bn Notional</li> </ul>
Other	<ul style="list-style-type: none"> <li>7 bonds with USD 6.3 bn Notional</li> </ul>	<ul style="list-style-type: none"> <li>92 bonds with USD 54.7 bn Notional</li> </ul>
Aggregate	<ul style="list-style-type: none"> <li>80 bonds</li> <li>USD 129.7 bn Notional (12% of current index weight)</li> </ul>	<ul style="list-style-type: none"> <li>168 bonds</li> <li>USD 100 bn Notional (6% of current index weight)</li> </ul>

### The index families impacted:

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

## IMPLEMENTATION TIMING

IMBA UK will implement the iBxx USD Emerging Markets methodology changes in conjunction with the April 2024 rebalancing, which takes effect prior to the market open on **Wednesday, May 1, 2024**.

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## INDEX ANNOUNCEMENT

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