

# **iBoxx EUR Covered Interest Rate Hedged Index Methodology**

April 2026

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# Introduction

The iBoxx EUR Covered Interest Rate Hedged Index is designed to provide a duration hedge to the iBoxx Liquid Covered Index (“Underlying Index”), which reflects the performance of the investment grade market for Euro-denominated covered bonds. The index aims to achieve a duration of 1 by taking a long position in the Underlying Index and short positions in German government bond futures contracts. The Underlying Index consists of investment-grade Euro-denominated covered bonds that have been rated by at least one of the following three rating agencies: Fitch Ratings, Moody’s Investors Service or S&P Global Ratings. The eligible contracts for the short position include 2-year, 5-year, and 10-year German government bond futures.

The iBoxx EUR Covered Interest Rate Hedged Index is rebalanced on the last business day of each month (“the Rebalancing Date”).

# Selection Criteria

The index has long positions in the iBoxx Liquid Covered Index and short positions in German government bond front-month quarterly futures contracts.

## **Long Position**

The Underlying Index in the long position consists of investment-grade Euro-denominated covered bonds and rated by at least one of the following three rating services: Fitch Ratings, Moody's Investors Service, or S&P Global Ratings.

*For more information on the iBoxx Liquid Covered Index, please refer to [www.spglobal.com/spdji](http://www.spglobal.com/spdji).*

## **Short Position**

The eligible front-month contracts for the short position include the 2-year, 5-year, and 10-year German government bond futures. The contracts follow a March quarterly cycle and expire in March, June, September, and December. The "cheapest-to-deliver" bonds (CTDs) for each futures contract are determined at every rebalancing.

# Index Calculation

## Bond and Future Pricing

The Eurex closing prices from 5:15 p.m., CET are used for the futures.

*For more details on the bond prices, please refer to the iBoxx Pricing Methodology, available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji).*

## Rebalancings

The iBoxx EUR Covered Interest Rate Hedged Index rebalances monthly, effective after the close on the last business day of the month. Changes to outstanding amounts are only taken into account if they are publicly known three business days before the end of the month. Changes in ratings are only taken into account if they are publicly known two business days before the end of the month. New bonds issued are taken into account if they are publicly known to settle until the last calendar day of the month, inclusive, and if the bonds' ratings are known at least three trading days before the end of the month.

A preliminary membership list is published on the sixth calendar day of the month (next business day if holiday/weekend).

Three business days before the end of each month, a membership list with final amount outstanding for each bond is published.

Two business days before the end of each month, the rating information for the constituents is updated and the list is adjusted for all rating changes which are known to have taken place two trading days before the end of the month. Bonds which are known to have been upgraded to investment grade two trading days before the end of the month are not included in the membership, but bonds which are known to have been downgraded to sub-investment grade two trading days before the end of the month do get excluded from the membership. However, if any bonds which are part of the broader EUR universe become eligible two business days prior to rebalancing because of rating or amount changes, they will be included in the Index.

On the last business day of each month, S&P DJI publishes the final membership with closing prices for the bonds, and various bonds analytics based on the index prices of the bonds.

## Rebalancing Procedure

On each rebalancing day each long position of the underlying index is paired to a certain number of specific futures contracts in a short position. These long/short pairs are then aggregated into the index. The rebalancing process follows five steps as follows:

- Determining the Cheapest-To-Deliver bond ("CTD") of each futures contract
- Determine the duration for each j-years futures contract
- Each bond is assigned to the two neighboring futures contracts
- The delta distribution ratio is determined for each bond/future pair, with the distribution weight between 0 and 1. The delta distribution ratio calculates as  $\delta_{i,j,t-s}$ .
- Calculate the index

## CTD Determination

The CTD is the least expensive bond that can be delivered upon expiry to satisfy the requirements of a futures contract. The CTD is used as the proxy of a futures contract in determining the number of contracts required to fully hedge the index.

## Futures Contract Duration Determination

The duration of the futures contract is determined as follows:

$$MD_{j,t-s}^F = MD_{j,t-s}^{CTD}$$

## Distribution Weight Determination

The “delta distribution ratio” is determined for each bond and futures combination:

1. For all bonds with a duration less than the duration of the 2-year futures contract or a duration greater than the duration of the 10-Year futures contract, the “delta distribution ratio” is 1
2. For all bonds where the duration is in between the duration of two neighboring futures contracts the “delta distribution ratio” is calculated as

$$\delta_{i,j,t-s} = 1 - \frac{\text{abs}(MD_{i,t-s} - MD_{j,t-s}^F)}{MD_{j+1,t-s}^F - MD_{j,t-s}^F}$$

and

$$\delta_{i,j+1,t-s} = 1 - \delta_{i,j,t-s}$$

Where

$$MD_{j,t-s}^F \leq MD_{i,t-s} \leq MD_{j+1,t-s}^F$$

## Index Calculation

### Step 1: Calculate the number of futures contracts used

Each future's contract notional is determined as:

$$N_{j,t-s}^F = \frac{CF_{j,t-s}^{CTD} \times \sum_{i=1}^n (\delta_{i,j,t-s} \times BMV_{i,t-s} \times MD_{i,t-s})}{P_{j,t-s}^{CTD} \times MD_{j,t-s}^{CTD}}$$

### Step 2: Calculate the number of futures contracts

The number of futures contracts is determined as:

$$\#contracts_{j,t-s} = \text{round}\left(\frac{N_{j,t-s}^F}{FCS_{j,t-s}}, 0\right)$$

and the notional based on this number is calculated as:

$$N_{j,t-s}^{F,rounded} = \#contracts_{j,t-s} \times FCS_{j,t-s}$$

### Step 3: Calculate the ratio of each futures contract

$$w_{j,t-s}^S = \frac{N_{j,t-s}^{F, rounded}}{\sum_{i=1}^n BMV_{i,t-s}}$$

### Step 4: Calculate the index level

$$IL_t = IL_{t-s} \times \left( 1 + \frac{IL_t^{long}}{IL_{t-s}^{long}} - \sum_{j \in \mathcal{S}_F} w_{j,t-s}^S (P_{j,t}^F - P_{j,t-s}^F) \right)$$

For specific index formulae please refer to the iBoxx Bond Calculus, available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji).

### Contract Roll

On the rebalancing day prior to the delivery month, the futures contract is rolled into the new front-month quarterly futures contract.

### Monthly Re-investment

Cash from the long position and net profits from the short futures positions are reinvested in the Underlying Index.

Net losses from the short futures positions are deducted from the long position.

### Index History

The Index history starts on 31 December 2016. The index has a base value of 100 on that date.

### Settlement Conventions

All iBoxx indices calculate using the assumption of T+0 settlement days.

### Calendar

S&P DJI publishes an index calculation calendar, *iBoxx Indices Calendars*, which provides an overview of the index calculation holidays of the iBoxx bond index families each year, available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji).

### Index Publication

The iBoxx EUR Covered Interest Rate Hedged Index is calculated as end-of-day index and distributed once daily after market close.

Bond and index analytical values are calculated end of day Monday to Friday using that day's closing prices. In addition, bond and index analytical values are calculated using the previous trading day's closing prices on the last calendar day of each month if that day is not a regular trading day as well as on common bank holidays as published in the iBoxx index calculation calendar. Closing index values and key statistics are published at the end of each calculation day in the *Indices* section of the website for registered users.

### Data Publication and Access

The table below summarizes the publication of the index at [www.spglobal.com/spdji](http://www.spglobal.com/spdji) for registered users and on the FTP server.

In addition to the indices detailed in this methodology, other indices covered by this document may be available. For a list of available indices, please refer [here](#).

### Frequency, File type and Access

Frequency	File Type	Access
Daily	Underlying file – Bond level	FTP Server
	Indices file – Index level	FTP Server / website / BBG for index levels only
Daily from the sixth calendar day of the month (or the next index publication day if the sixth calendar day falls on a non-business day)	Forwards	FTP Server
Monthly	End of Month Components	FTP Server / website

Below is a summary of the IDs for each publication channel:

Index Name	Return Type	SEDOL	ISIN	Ticker	RIC
iBoxx EUR Covered Interest Rate Hedged Index	TRI	BF9Q2T6	GB00BF9Q2T67	—	—

### Annual Index Review

In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

# Index Governance

## Index Committee

An Index Committee maintains the indices. All committee members are full-time professionals at S&P Dow Jones Indices. Meetings are held regularly. The Index Committee oversees the management of the indices, including determinations of intra-rebalancing changes, maintenance and inclusion policies, and other matters affecting the maintenance and calculation of the indices.

In fulfilling its responsibilities, the Index Committee has full and complete discretion to (i) amend, apply, or exempt the application of index rules and policies as circumstances may require and (ii) add, remove, or by-pass any bond in determining the composition of an index.

The Index Committee may rely on any information or documentation submitted to it or gathered by it that the Index Committee believes to be accurate. The Index Committee reserves the right to reinterpret publicly available information and to make changes to the indices based on a new interpretation of that information at its sole discretion. All Index Committee discussions are confidential.

The Index Committee is separate from and independent of other analytical groups at S&P Global. In particular, the Index Committee has no access to or influence on decisions by S&P Global Ratings analysts.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

*For more information on index governance policies, please refer [here](#).*

# Further Information

## **Client Support**

For client support please contact [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

## **Formal Complaints**

Formal complaints should be emailed to [spdji\\_compliance@spglobal.com](mailto:spdji_compliance@spglobal.com).

Please note: [spdji\\_compliance@spglobal.com](mailto:spdji_compliance@spglobal.com) should only be used to log formal complaints.

## **General Index Inquiries**

For general index inquiries, please contact [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

# Appendix

## Annotations

$A_{j,t-s}^{CTD}$	denotes the accrued of the CTD of the $j$ -years futures contract at the rebalancing day $t-s$
$BMV_{i,t-s}$	denotes the base market value of the $i$ -th bond constituent at the rebalancing day $t-s$
$Cash_{i,t-s,t}$	denotes the cash accumulated of the $i$ -th constituent in the period that starts from the rebalancing day $t-s$ and ends on (including) day $t$
$CF_{j,t-s}^{CTD}$	denotes the conversion factor of the CTD bond for the $j$ -years futures contract
$\delta_{i,j,t-s}$	denotes the “delta distribution ratio” for bond $i$ and $j$ -years futures contract at the rebalancing day $t-s$
$FCS_{j,t-s}$	denotes the contract size (\$ face value) of the $j$ -years futures contract
$IL_t$	denotes the index level on day $t$
$IL_t^{long}$	denotes the index level of the long index on day $t$
$MD_{i,t-s}$	denotes the annual modified duration of the $i$ -th bond constituent at the rebalancing day $t-s$
$MD_{j,t-s}^{CTD}$	denotes the annual modified duration of the CTD bond associated to the $j$ -years futures contract at the rebalancing day $t-s$
$MV_{i,t}$	denotes the market value of the $i$ -th bond constituent at day $t$
$N_{j,t-s}^F$	denotes notional of the $j$ -years futures contract at the rebalancing day $t-s$
$P_{j,t-s}^{CTD}$	denotes the price of the CTD of the $j$ -th futures contract at the rebalancing day $t-s$
$P_{j,t-s}^F$	denotes the price of the $j$ -th futures contract at the rebalancing day $t-s$
$S_F$	denotes the set of eligible futures contracts (2-Year, 5-Year, 10-Year German government bond futures)
$W_{j,t-s}^S$	denotes the ratio of the $j$ -years futures contract in the short position on the rebalancing day $t-s$

# Methodology Changes

<b>DATE</b>	<b>CHANGE</b>
<b>June 30, 2022</b>	<ul style="list-style-type: none"><li>• Monthly forward start date updated from 10th calendar day to 6th calendar day</li></ul>
<b>Sep. 1, 2021</b>	<ul style="list-style-type: none"><li>• Monthly forward start date updated from 12th calendar day to 10th calendar day</li></ul>
<b>March 31, 2021</b>	<ul style="list-style-type: none"><li>• Governance and Regulatory Compliance section added</li></ul>
<b>Dec. 31, 2016</b>	<ul style="list-style-type: none"><li>• Launch of the index</li></ul>

# ESG Disclosures

EXPLANATION OF HOW ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) FACTORS ARE REFLECTED IN THE KEY ELEMENTS OF THE BENCHMARK METHODOLOGY <sup>1</sup>		
1	<b>Name of the benchmark administrator.</b>	S&P Dow Jones Indices Limited
2	<b>Underlying asset class of the ESG benchmark.<sup>2</sup></b>	N/A
3	<b>Name of the S&amp;P Dow Jones Indices benchmark or family of benchmarks.</b>	<a href="#">iBoxx Benchmark Statement</a>
4	<b>Do any of the indices maintained by this methodology take into account ESG factors?</b>	No
Appendix latest update:		May 2023
Appendix first publication:		May 2023

1. The information contained in this Appendix is intended to meet the requirements of the European Union Commission Delegated Regulation (EU) 2020/1817 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation of how environmental, social and governance factors are reflected in the benchmark methodology and the retained EU law in the UK (The Benchmarks (amendment and Transitional Provision) (EU Exit) Regulations 2019).

2. The 'underlying assets' are defined in European Union Commission Delegated Regulation (EU) 2020/1816 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published.

# Disclaimer

## Performance Disclosure/Back-Tested Data

Where applicable, S&P Dow Jones Indices and its index-related affiliates (“S&P DJI”) defines various dates to assist our clients by providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index’s Launch Date are considered back-tested. S&P DJI defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company’s public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed “Date of introduction”) is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index’s public release date.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Information presented prior to an index’s launch date is hypothetical back-tested performance, not actual performance, and is based on the index methodology in effect on the launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Also, the treatment of corporate actions in back-tested performance may differ from treatment for live indices due to limitations in replicating index management decisions. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate certain ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using “Backward Data Assumption” (or pulling back) of ESG data for the calculation of back-tested historical performance. “Backward Data Assumption” is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as “product involvement”) were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on “Backward Data Assumption” please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used. Index returns shown do not

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