iBoxx AUD Investment Grade Subordinated Debt Index Guide

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1 iBoxx AUD Investment Grade Subordinated Debt Index

The iBoxx AUD Investment Grade Subordinated Debt Index is designed to reflect the performance of investment grade subordinated debt denominated in Australian Dollar (AUD). The index is an integral part of the global iBoxx index families, which provide the marketplace with accurate and objective indices by which to assess the performance of bond markets and investments.

The inception date for the index is 30 June 2016 with a base level of 100.

This document covers the index family structure, rules and calculation methodology.

1.1 Index governance

In order to ensure the independence and the objectivity of the iBoxx AUD Investment Grade Subordinated Debt Index, the index rules and their enforcement will be governed by an Index Oversight Committee, in line with the governance structure for the main iBoxx index families.

1.2 Oversight committee

The Oversight Committee is comprised of representatives from a broad range of asset managers, consultants and industry bodies. The purpose of this committee is to review the recommendations made by IHS Markit and also to provide consultation on any market developments which may warrant rule changes.

1.3 Publication of the index

The index is calculated as end-of-day and distributed once daily. The index is calculated every day of the week except on common Australian bank holidays. On Australian holidays the index is being calculated with prices from the previous business day. In addition, the index is calculated with the previous trading day's close on the last calendar day of each month if that day is not a trading day. Index data and bond price information is also available from main information vendors.

Bond and index analytical values are calculated each trading day using the daily closing prices. Closing index values and key statistics are published at the end of each business day in the indices section on *www.ihsmarkit.com* for registered users.

2 Bond selection rules

The following selection criteria are applied to determine the constituents for the iBoxx AUD Investment Grade Subordinated Debt Index:

- Bond type
- Credit rating
- Time to maturity
- Amount outstanding
- Market of issue
- Issuer type

2.1 Bond type

The index includes Australian Dollar (AUD) denominated, investment grade rated Tier 2 Capital subordinated bonds which comply with Australian Prudential Regulation Authority's (APRA) *APS111* or *GPS112* or equivalent foreign regulatory rules ('APRA Rules'). For details see Issuer type section below. The only bond type eligible for the index is floating rate notes. These notes may include a callable feature.

In instances where a new bond type is not specifically excluded or included according to the published index rules, IHS Markit will analyse the features of such securities in line with the principles set out in 2.1 of this guide. IHS Markit may consult the specific Index Advisory Committees. Any decision as to the eligibility or ineligibility of a new bond type will be published and the index rules will be updated accordingly.

2.2 Credit rating

All bonds in the iBoxx AUD Investment Grade Subordinated Debt Index must have an iBoxx Rating of investment grade. Ratings from the following three credit rating agencies are considered for the calculation of the iBoxx Rating:

- Fitch Ratings
- Moody's Investor Service
- S&P Global Ratings

Investment grade is defined as BBB- or higher from Fitch Ratings and S&P Global Ratings and Baa3 or higher from Moody's Investor Service.

If a bond is rated by more than one of the above agencies, then the iBoxx rating is the average of the provided ratings. The rating is consolidated to the nearest rating grade. Rating notches are not used. For more information on how the average rating is determined, please refer to the *iBoxx Rating Methodology* document. The methodology can be found on *www.ihsmarkit.com* under *Methodology*.

2.3 Time to maturity

At the rebalancing date, all bonds must have a minimum expected remaining life of at least one month. The expected remaining life is calculated as follows:

- For plain vanilla bonds without call features and for callable bonds where a full call has not been announced – the expected remain life is the time from the rebalancing date to the final maturity date of the bond
- For bonds where a full call has been announced – the expected remaining life is the time from the rebalancing date to the respective call date

Newly issued bonds must meet the initial time to maturity rule of at least two years, as measured from the first settlement date to the maturity date of the bond by using the day count convention of the bond.

2.4 Amount outstanding

The minimum amount for inclusion into the index is AUD 500 million.

2.5 Market of issue

Only bonds issued in the Australian domestic market and clearable through Austraclear Ltd. are eligible for the index.

2.6 Issuer type

Tier 2 Capital subordinated debt issued in compliance with the APRA Rules by issuers are eligible for the Index. Only bonds issued by the following types of entities can be included:

- An entity which is admitted to listing on or which has a class of its securities (as defined in Section 92 of the Corporations Act) quoted on an exchange which is a member of the World Federation of Exchanges or Federation of European Securities Exchanges
- A semi-government entity
- An entity which is prudentially regulated by the Australian Prudential Regulation Authority (APRA), or for a foreign entity, by the equivalent regulator in its home jurisdiction

3 Bond classification

All bonds are classified based on the principal activities of the issuer and the main sources of the cash flows used to pay coupons and redemptions. In addition, a bond's specific collateral type or legal provisions are evaluated. Hence, it is possible that bonds issued from different subsidiaries of the same issuer carry different classifications.

The issuer classification is reviewed regularly based on updated information received by IHS Markit, and status changes are included in the index at the next rebalancing if necessary.

Where the sector classification of a specific entity is not very clear due to the diversified business of the entity, decision will be made at IHS Markit's discretion. IHS Markit will assign the IHS Markit classification according to its evaluation of the business risk presented in the security prospectus and annual reports, if available. IHS Markit will also compare the classification to peers in the potential sectors and may consult with the Index Advisory Committees. Membership lists including classification are published on the FTP server and in the *Indices* section on *www.ihsmarkit.com* for registered users.

4 Index calculation

4.1 Static data

Information used in the index calculation is sourced from offering circulars and checked against standard data providers.

4.2 Bond prices

For more details please refer to the *Markit iBoxx Pricing Rules* document, available in the *Methodology* section of the iBoxx Documentation page on *www.ihsmarkit.com*.

4.3 Rebalancing process

The iBoxx AUD Investment Grade Subordinated Debt Index is rebalanced monthly on the last business day of the month after the close of business. 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 their rating has become known at least three trading days before the end of the month.

Starting from the 12th calendar day of the month (or the next index publication day if the 12th calendar day falls on a non-business day) every day a preliminary membership list is published.

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, IHS Markit publishes the final membership with closing prices for the bonds, and various bonds analytics based on the index prices of the bonds.

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4.4 Index data

The calculation of the index is based on bid prices. New securities are included in the index at their respective ask prices when they enter the index family. In the event that no price can be established for a particular security, the index continues to be calculated based on the last available price. This might be the case in periods of market stress, or disruption as well as in illiquid or fragmented markets. If the required inputs become impossible to obtain, IHS Markit may consult the specific Index Advisory Committees at the following rebalancing date. Decisions are made publicly available on a timely basis and IHS Markit may refer back to previous cases.

On the last trading day of a rebalancing month, the rebalancing takes place after close of market.

4.5 Index calculus

For specific index formulas please refer to the *Markit iBoxx Bond Index Calculus* document, available in the *Methodology* section of the iBoxx Documentation page on *www.ihsmarkit.com*.

4.6 Treatment of the special intra-month events

Data for the application of corporate actions in the index may not be fully or timely available at all times, e.g. the final call prices for make-whole calls or the actual pay-in-kind percentage for PIK-payment options. In such cases, IHS Markit will estimate the approximate value based on the available data at the time of calculation.

4.6.1 Index and analytics weights

The iBoxx AUD Investment Grade Subordinated Debt Index is market value-weighted. The amount outstanding of a bond is only adjusted at the monthly rebalancing process at the end of each month. However, scheduled redemptions, principal writedowns or conversions are taken into account from the date they occur, as they have a significant influence on index return and analytical values. In addition, bonds that are fully redeemed intra-month are also taken into account intra-month.

The weight of each issuer is capped at 25%. Any excess weights will be allocated to the remaining bonds from other issuers in proportion to their existing weights.

4.6.2 Full redemptions: exercised calls, puts and buybacks

If a bond is fully redeemed intra-month, the bond effectively ceases to exist. In all calculations, the redeemed bond is treated as cash based on the last price, the call price or repurchase price, as applicable. The redemption factor, redemption and the redemption price are used to treat these events in the index and analytics calculation. In addition, the clean price of the bond is set to the redemption price, and the interest accrued until the redemption date is treated as an irregular coupon payment.

4.6.3 Conversion

If a bond is converted to shares, it effectively ceases to exist in the market.

On the conversion date, the bond's market value in the Index will drop to zero and will remain in the Index until the next rebalancing date. The associated cash component of the bond will be increased by an amount equal to the product of the conversion factor and the respective closing share price of the equity. If either the conversion price or factor is not available on the conversion date, IHS Markit will use the available data to calculate a price to be updated once the final price or conversion value is available.

4.7 Index history

The Index history starts on 30 June 2016. The index var_have_has a base value of 100 on that date.

4.8 Settlement conventions

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

4.9 Calendar

IHS Markit publishes an index calculation calendar in the *iBoxx Calendars* section of the iBoxx Documentation page on *www.ihsmarkit.com*. This calendar provides an overview of the index calculation holidays of the iBoxx bond index families in a given year.

4.10 Data publication and access

The table below summarises the publication of iBoxx AUD Investment Grade Subordinated Debt Index in the Indices section of the IHS Markit website *www.ihsmarkit.com* for registered users and on the FTP server.

Table 1: File types, frequency and access

Frequency	File Type	Access
Daily	Underlying file – Bond level	FTP Server/ Bloomberg
	Indices file – Index level	FTP Server / Bloomberg
Daily from the 12th calendar day of the month (or the next index publication day if the 12th calendar day falls on a non-business day)	Forwards	FTP Server / Bloomberg
Monthly	End of Month Components	FTP Server / Bloomberg

4.11 Index restatement

Index restatement follows the policy described in the *iBoxx Index Restatement Policy* document, available in the *Methodology* section of the iBoxx Documentation page on *www.ihsmarkit.com*.

4.12 Index review

The rules for the index are reviewed once per year during the annual index review process to ensure that the index provides a balanced representation of the local currency debt markets of the economies covered by the indices. Decisions made following the Annual Index Review will be published on *www.ihsmarkit.com* under *Indices News* shortly committee has been held. The publication will contain a detailed overview and timelines for implementation of the rules changes.

5 Changes to the iBoxx AUD Investment Grade Subordinated Debt Index

Table 1: Index changes

July 2020	Update to data publication - forwards
October 2019	Launch of the iBoxx Investment Grade Subordinated Debt Index

6 Further information

Glossary of key terms

The Markit iBoxx Glossary document of key terms is available in the *Methodology* section of the iBoxx *Documentation* page on *www.ihsmarkit.com*.

Contractual and content issues

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Formal complaints

Formal complaints can be sent electronically to our dedicated e-mail address *complaints_indices@ihsmarkit.com*.

For any general index enquiries, please contact iBoxx indices support group at *indices@ihsmarkit.com*.

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