

*Following the European and North American iBoxx Annual Index Review 2019, IHS Markit is pleased to announce the following changes and clarifications of its index rules for **Asian Indices**. Amendments have been discussed with both the European iBoxx Advisory Committees and the North American Technical committee prior to IHS Markit's decision on the implementation. Key aspects of the changes had also been discussed as part of the Asian iBoxx Annual Index Review 2019.*

1. Classification Schema

iBoxx is making changes to its global proprietary classification schema to provide greater granularity and to adapt to the changing market environment (which has undergone sector amalgamations and seen business models change over time). iBoxx Indices' proprietary schema is being enhanced to reflect the evolution of the global economy.

As part of the changes, iBoxx is promoting Real Estate and Financial Services from the Supersector (Level 4) to the Industry level (Level 3), renaming Financials to Core Financials (which will consist of banks and insurance only).

The changes will result in:

- > the addition of 14 new Sub-sectors across 9 Industries
- > an update of classification definitions affecting 10 existing Sub-sectors
- > a renaming of 4 existing Sub-sectors

The change in the global, unified corporate bond classification schema will be effective as of 30 April 2020 and will be displayed in the previews during the month of April.

The file formats on the FTP will not be impacted, only new values will be introduced in the current classification fields.

<AN OVERVIEW OF THE CHANGES IS AVAILABLE IN THE 'IBOXX GLOBAL CLASSIFICATION SCHEMA' SUPPLEMENT DOCUMENT>

2. Bank Tier 2 classification

iBoxx will align subordinated bank debt classification with Basel III definitions. The Basel III framework makes the legacy 'Upper Tier 2' (UT2) and 'Lower Tier 2' (LT2) classifications obsolete, classifying all Basel III compliant issuances made from January 2013 onwards as 'Tier 2' (T2).

iBoxx will therefore shift the existing UT2 and LT2 seniority classification from Level 2 to the previously unused level 3 seniority classification fields, for pre-January 2013 bonds, and use a broader 'T2' classification in Level 2, to capture issuances made prior to and post January 2013.

	Existing			New		
	Seniority Level 1	Seniority Level 2	Seniority Level 3	Seniority Level 1	Seniority Level 2	Seniority Level 3
Pre Jan-13	SUB	UT2	*	SUB	T2	UT2
	SUB	LT2	*	SUB	T2	LT2 callable
	SUB	LT2	*	SUB	T2	LT2 non-callable
Post Jan-13	Seniority Level 1	Seniority Level 2	Seniority Level 3	Seniority Level 1	Seniority Level 2	Seniority Level 3
	SUB	UT2	*	SUB	T2	callable
	SUB	LT2	*	SUB	T2	non-callable

These changes will be effective as of 30 April 2020 rebalancing.

3. Classification of 'Other Sub-Sovereigns'

The current iBoxx definition for 'Other Sub-Sovereigns' is:

'a government backed issuer from a non-financial sector'

iBoxx is updating this definition as follows, to provide better clarity on broader types of issuance:

*'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 would expect the issuer credit rating reflected as **no worse than on par or 2 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 pre-existing 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.'

As a result of the change in definition, bonds listed in the 'Other Sub-Sovereigns' supplement (from issuers *La Poste*, *Deutsche Bahn*, *China State Construction*) would be reclassified from 'Other Sub-Sovereigns' to 'Corporate' classification and will be reviewed for inclusion in the iBoxx indices.

The sub-sovereign redefinition is not applied to the Asian local currency iBoxx indices, including iBoxx ABF, iBoxx ALBI and iBoxx Asia ex-Japan.

These changes will be effective as of 31 January 2020 rebalancing.

< OUTLINE OF AFFECTED SECURITIES AVAILABLE IN THE 'IBOXX OTHER SUB-SOVEREIGNS AFFECTED' SUPPLEMENT SPREADSHEET >

4. Hybrid Bonds

iBoxx will be redefining the 'Hybrid' bonds categorisation to align the treatment for financial and non-financial bonds with the market and the view of rating agencies.

Under the new definition, bonds will be required to fulfil the following criteria to be considered hybrids:

- > Subordinated
- > Deferrable coupons
- > First non-call period > 5 years
- > Either perpetual or 'long-dated'
 - o 'Long-dated' defined as > 25 years (original maturity)

The updated classification will provide greater granularity on subordinated debt to differentiate between 'Hybrid' and 'Non-Hybrid' bonds. The iBoxx Components/Underlyings files will reflect this information as new inner values in the existing fields Seniority Level 3.

Existing			New		
Seniority L1	Seniority L2	Seniority L3	Seniority L1	Seniority L2	Seniority L3
SUB	Other	*	SUB	Other	Hybrid
SUB	Other	*	SUB	Other	Non-Hybrid

Furthermore, iBoxx currently assumes the first call date as the expected workout date for dated and undated callable hybrid capital bonds. Instead, iBoxx will assume the first reset date to be the expected workout date.

The table below outlines the characteristics and treatment of such hybrid bonds:

Bond type	> Fix-to-variable bonds with reset to a commonly used reference rate
Early redemption feature	> Bonds must be callable at par on the reset date at the option of the issuer
	> Earlier call options will be considered in the calculation of the to-worst analytics
Maturity (assumed)	> First reset date
	> Extension to the next reset date if not redeemed

These changes will be effective as of 30 April 2020 rebalancing.