



IHS Markit™

IHS Markit Consultation – iBoxx Annual Index Review 2021 for Europe and North America

1. IHS Markit’s Administration

IHS Markit Benchmark Administration Limited (**IMBA UK**) is the Index Administrator of the iBoxx indices. IMBA UK administers the indices in accordance with the International Organisation of Securities Commissions Principles for Financial Benchmarks (the IOSCO Principles) and the UK Benchmarks Regulation (UK BMR).

2. Background

As part of the Annual Index Reviews, IMBA UK considers potential updates to the rules of the iBoxx indices. As part of the 2021 iBoxx European and North American Annual Index Review, several potential index methodology changes were discussed with the relevant iBoxx General Advisory Committee (GAC) and Technical Advisory Committee (TAC), together the External Advisory Committees (EACs). Following the discussions, IMBA UK proposes to make changes to the index methodologies of the following iBoxx index families, as outlined below.

3. Proposal & Impact

3.1. Hybrid debt coupon deferral – across all iBoxx index families

Proposal

Currently, hybrid debt can be issued with a coupon deferral option. As such, coupon deferrals (postponement of payment due date) are treated equivalently to missed coupon payments (failure to meet legal obligation due date). This means coupon deferrals cause hybrid debt to be flagged as ‘trading flat’, rendering them ineligible for inclusion. IMBA UK proposes to distinguish between these two scenarios such that the rules and treatment for coupon deferrals (of corporate hybrid debt) are relaxed during the deferral period only (in line with the bond terms and missed payments) and such debt would remain eligible despite ‘trading flat’.

Example:

Trading Flat Date	ISIN	Ticker	Issuer	Index	Seniority
21-May-2021	XS1271836600	LHAGR	Deutsche Lufthansa AG	EHYUCC	Subordinated

Impact

The change would allow for future hybrid debt with coupon deferrals to remain eligible for index inclusion, provided that all other criteria are satisfied.

3.2. iBoxx EUR High Yield 'iBoxx Rating' methodology alignment

Proposal

Currently, the iBoxx rating methodology for eligible bonds is based on the 'iBoxx Average' rating. The exception is the iBoxx EUR High Yield indices, where the 'iBoxx Average' is considered for crossover bonds, and 'iBoxx Best' for the other (pure) high yield rated bonds. This causes the perceived 'iBoxx Rating' to be, in the aggregate, higher for constituents of the iBoxx EUR HY. IMBA UK proposes that the 'iBoxx Average' rating is applied to all bonds.

Impact

The impact will be limited to rating band indices within high yield (as per below table) where a certain number of bonds will migrate from currently BB to B and to a lesser extent from currently B to CCC. Rating band indices for CC and C are not affected. iBoxx EUR HY custom indices are not affected as they already use the 'iBoxx Average' rating across bonds.

Rating	iBoxx Best	iBoxx Average	Growth/Contraction in bucket
BB	355.48 Bn	334.60 Bn	-5.88%
B	119.40 Bn	131.54 Bn	10.17%
CCC	21.55 Bn	30.30 Bn	40.63%
CC	-	-	-
C	-	-	-

3.3. iBoxx Global Government Bonds Index eligibility review

Proposal

Current iBoxx Global Government Index Family country selection requirements are as follows:

- Rating: Investment-grade rating for local currency government bonds
- Bond Market Size Minimum: USD 50 billion
- Capital Controls: GEMLOC Securities Market Access and Capital Control Score >50

- Sanctions: Countries must not be on the US and/or EU sanctions list

The annual review of countries that are currently not included showed that Hungary, New Zealand, Saudi Arabia, and Slovakia satisfy the eligibility criteria. As a result, IMBA UK proposes that these countries should be included in the iBoxx Global Government Bonds Index.

Impact

Details related to the selection requirements for the iBoxx Global Government Bonds Index for the 4 mentioned countries are shown in below table, as well as impact (% index weight) in the iBoxx Global Government Bonds index:

	Hungary	New Zealand	Saudi Arabia	Slovakia
Access to securities market score	100	*	75	75
Capital control score	100	*	75	75
# of Bonds	17	12	27	19
Market value (\$Bn)	54.78	84.48	74.53	60.71
Index weight	0.14%	0.21%	0.19%	0.15%
Inflation	4.9%	3.3%	0.3%	3.8%
Debt to GDP (est.)	66.3%	27.0%	22.8%	48.0%
Rating	BBB	AA	A	A
Eligible debt (% iBoxx coverage)	90.9%	100.0%	75.2%	96.9%

*'Access to securities market score' and 'capital control score' not available due to country being classified as developed market

3.4. Creation of 'Education' supersector

Proposal

Currently there are 91 bonds issued by 46 unique educational establishments across iBoxx AUD/USD/GBP/SGD families, classified as 'Retail' under Consumer Services. IMBA UK proposes that the classification schema is expanded to create a new dedicated 'Education' Supersector (under Consumer Services) with further granular sub-classifications to combine relevant educational support services, as illustrated below.

	Industry	Supersector	Sector	Subsector
Current	Consumer Services	Retail	General Retailers	Specialized Consumer Services
Proposed	Consumer Services	Education	Academic & Educational Services	Universities, Institutes & Colleges
	Consumer Services	Education	Academic & Educational Services	Other Educational Services

Impact

The following indices will be impacted by this change:

Index name	Number of bonds	Weight impact (% Base Market Value)
iBoxx £ Retail	9	39.80%
iBoxx \$ Retail	19	3.90%
iBoxx £ Consumer Services	9	17.00%
iBoxx \$ Consumer Services	19	1.92%
Markit iBoxx SGD Consumer Services	3	14.70%
iBoxx AUD Consumer Services Large Cap	8	21.20%

3.5. Russia's Federal Inflation-Linked Bonds

Proposal

Russian linkers are currently not included in the iBoxx GEMX family, whilst their nominal counterparts are. On review, the linkers and the market satisfy the inclusion requirements. IMBA UK proposes that Russian linkers become eligible for the iBoxx GEMX family, based on the fact that the index design is meant to capture both fixed coupon bonds and inflation-linked bonds.

Impact

The proposal would result in the inclusion of three new Russian Federal Inflation-Linked bonds into the index.

The table below shows weight impact of Russian linkers:

Index name	Currency	Number of bonds	Weight impact
iBoxx GEMX USD Aggregate	USD	3	1.91%
iBoxx GEMX USD Inflation-Linked	USD	3	12.70%
iBoxx GEMX Russia	RUB	3	12.54%

4. Clarification - iBoxx USD benchmark taxable revenue bond

Taxable revenue bonds are currently included in the USD benchmark if they meet all other eligibility criteria. The index documentation does not specifically mention taxable revenue bonds as eligible bonds. IMBA UK is clarifying that such revenue bonds are deemed eligible for the USD benchmark (assuming all other criteria are met). For transparency, below is the current list of revenue bonds by issuer (market value):

Ticker	Issuer	Benchmark weight (%)
MSKCC	Memorial Sloan-Kettering Cancer Center	0.0031%
MASSIN	Massachusetts Institute of Technology	0.0119%
CATMED	Catholic Health Initiatives	0.0184%
PSJHOG	Providence St Joseph Health Obligated Group	0.0030%
NWUNI	Northwestern University	0.0031%
TOLHOS	Toledo Hospital/The	0.0027%
SSMHLT	SSM Health Care Corp	0.0025%
BROWNU	Brown University Rhode Island	0.0026%
NSHRLI	Northwell Healthcare Inc	0.0069%
DUKHEA	Duke University Health System Inc	0.0031%
USCTRJ	University of Southern California	0.0034%
JHHSYS	Johns Hopkins Health System Corp/The	0.0026%
NYPRES	New York and Presbyterian Hospital/The	0.0066%
ASCHEA	Ascension Health Alliance	0.0063%
GRWASH	George Washington University/The	0.0042%
HARVRD	President and Fellows of Harvard College	0.0084%
NYUHOS	NYU Langone Hospitals	0.0028%
STNFRD	The Board of Trustees of the Leland Stanford Junior University	0.0040%
PRNCTN	Princeton University	0.0032%
STNFHC	Stanford Health Care	0.0026%
MSINAI	Mount Sinai Hospitals Group Inc	0.0024%
Total		0.10%

Impact

This clarification will not lead to the inclusion of additional bonds, as all eligible bonds are already part of the index.

5. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 19 November 2021 Consultation opens
- 17 December 2021 Consultation closes
- 21 December 2021 IMBA UK reviews stakeholder feedback and a final decision is communicated with implementation timelines

6. Consultation process

The participation of stakeholders in this consultation is important as IMBA UK seeks to gather views on the proposals herein. IMBA UK may publish summaries of stakeholders' comments along with IMBA UK's responses to those comments unless the stakeholder in question expressly requests confidentiality.

To participate in this consultation please respond to IMBA UK Administration Services at MK-IndexAdminConsultation@ihsmarkit.com.

Please be advised that all comments will be reviewed and considered before a final decision is made; however, IMBA UK makes no guarantee and is under no obligation to comply with any of the responses. The consultation may result in no changes or outcome of any kind. An announcement will be posted on our website accordingly. IMBA UK reserves the right to make a final decision on the proposal.

Key question

Do you have any concerns regarding IMBA UK's proposal to update the methodology of the described indices?