



IHS Markit™

IHS Markit Consultation on the update to the capping methodology for the Markit iBoxx EUR FRN Investment Grade 3-7 Index

8 October 2020

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA**) is the Index Administrator of the Markit iBoxx EUR FRN Investment Grade 3-7 Index ("the **Index**").

IMBA administers the index in accordance with the International Organisation of Securities Commissions Principles for Financial Benchmarks (the **IOSCO Principles**) and the EU Benchmark Regulation (**BMR**).

2. Background

Pursuant to the consultation announced on 15 May 2020 and successfully concluded on 28 May 2020, the Markit iBoxx EUR FRN Investment Grade 3-7 Index capping methodology was updated to introduce a UCITS-type "5/10/40" rule and issuer capping and minimum amount outstanding requirements were relaxed.

The consultation was initiated (and the changes implemented) as market conditions rendered the implementation of the 8% issuer capping mathematically unachievable. The total weight of the 12 index constituents would have been below 100% ($8\% \times 12 = 96\%$).

Since then, the issuer cap has been at 10% per issuer (from 8% previously). Subsequent to that methodology update, market conditions have rendered the 10% issuer cap mathematically unachievable, as there wasn't a sufficient number of bonds to fill the index with the existing capping rules as of 30th September 2020. Only 9 eligible floaters were available at that time.

Therefore, IMBA had to increase the capping of the Markit iBoxx EUR FRN Investment Grade 3-7 Index to 15% on an ad hoc, one off basis to ensure the index could be rebalanced without disruption, otherwise the weights would not have added up to 100%.

IMBA now consults on whether to make these changes a permanent feature of the methodology.

3. Proposal

Based on an analysis of the underlying market and index constituents, IMBA proposes that the UCITS-type “5/10/40” rule is to be removed and instead apply a 15% issuer cap only.

4. Consultation timetable

The timetable IMBA is suggesting is as follows:

- 8 October 2020 Consultation opens
- 16 October 2020 Consultation closes
- 17 October 2020 IMBA reviews stakeholder feedback and a final decision is communicated
- 31 October 2020 Implementation of updated capping methodology (changes will be reflected in the forward files accordingly)

5. Consultation process

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

To participate in this consultation please respond to IMBA 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 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 reserves the right to make a final decision on the proposal.

6. Key questions

Do you have any concerns regarding IMBA's proposal to update the Markit iBoxx EUR FRN Investment 3-7 Index capping methodology?