



IHS Markit™

IHS Markit Consultation on the Methodology Update for iBoxx AUD Investment Grade Subordinated Debt Index

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA UK**) is the Index Administrator of the following indices:

- iBoxx AUD Investment Grade Subordinated Debt Index
- iBoxx AUD Investment Grade Subordinated Debt Mid Price Index

IMBA UK administers these 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

The iBoxx AUD Investment Grade Subordinated Debt Index is designed to reflect the performance of investment grade subordinated debt denominated in Australian Dollar.

Qualifying bonds in the index typically contain an optional call feature, which is a key component of the floating rate bonds issued by financial institutions that qualify as Tier 2 Capital under the Australian Prudential Regulation Authority's (APRA) rules.

The call notice period given by the issuer ranges from 10 to 30 days. Additionally, some call notices are not made available via public sources or data vendors until a later date, which might result in a called bond being in the index for a significant part of a month, thereby introducing cash drag in the index.

3. Proposal

Currently, if a bond is called intra-month, it is redeemed and converted to a cash position in the index until the next index rebalance.

The subordinated bonds in the index are typically redeemed on the first call date, and a call not being exercised is a rare occurrence. Therefore, IMBA UK proposes to change index rules to stipulate the removal of bonds from the index on the last rebalancing prior to the first call regardless of whether a call notice has already been given. This provides more clarity to investors on when bonds will be excluded from the index and avoids the index having large cash positions during the month.

4. Impact Analysis

This change does not impact the existing index constituents and thus does not have an impact on the index. This change serves to clarify the timing of the removal of these types of callable bonds from the index.

5. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 01 April 2021 Consultation opens
- 21 April 2021 Consultation closes
- 22 April 2021 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 30 April 2021 Implementation of rule the change in the indices

6. Consultation process

The participation of stakeholders in this consultation is important as IMBA UK seeks to gather views on the proposals herein and the suggested timetable for implementation of those proposals. 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.

7. Key question

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