



IHS Markit™

IHS Markit Consultation on the capping change for the iBoxx Contingent Convertible Liquid Developed Europe AT1 Index

29 July 2020

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA**) is the Index Administrator of the iBoxx Contingent Convertible Liquid Developed Europe AT1 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

IMBA has received user feedback proposing a change to the capping rules of the iBoxx Contingent Convertible Liquid Developed Europe AT1 Index in order to better align the index with regulation surrounding fund allocation to Contingent Convertible bonds (CoCos) and the UCITS "5/10/40" rule.

The "5/10/40" rule dictates that no more than 5% of the index weight can be allocated to a single issuer, although this limit can be extended to 10% per issuer provided that the total value of all issuer holdings in excess of 5% does not exceed 40% of the index.

3. Proposal

The current index methodology only applies a 7.5% issuer cap. On that basis, the total weight of issuers with a 5% weight could exceed 40%.

IMBA proposes amending the capping rule such that the individual index weight of the top 5 issuers would be capped at 7.5% of the index, whilst the remaining issuers will be capped at 4.5%. On that basis, the total percentage allocation to issuers with a weighting above 5% could never exceed 37.5% of the index.

4. Analysis

The change in capping rules would result in a change in issuer weighting in the index.

The change was simulated for the May 2020 month-end rebalancing to illustrate the impact on the indices from the proposed change.

	Actual Weight Capping	Actual Weight	Proposed Weight Capping	Proposed Weight	Impact (Proposed - Actual)
CS	7.50%	7.50%	7.50%	7.50%	-
BACR	7.50%	7.50%	7.50%	7.50%	-
HSBC	7.50%	7.50%	7.50%	7.50%	-
UBS	7.50%	7.50%	7.50%	7.50%	-
BNP	7.50%	6.32%	7.50%	6.82%	+0.50%
SOCGEN	7.50%	6.10%	4.50%	4.50%	-1.60%
SANTAN	7.50%	5.68%	4.50%	4.50%	-1.18%
UCGIM	7.50%	5.06%	4.50%	4.50%	-0.56%
LLOYDS	7.50%	4.55%	4.50%	4.50%	-0.05%
RBS	7.50%	4.43%	4.50%	4.50%	+0.07%
ACAFP	7.50%	4.28%	4.50%	4.50%	+0.22%
INTNED	7.50%	4.21%	4.50%	4.50%	+0.29%
RABOBK	7.50%	4.15%	4.50%	4.48%	+0.33%
BBVASM	7.50%	3.81%	4.50%	4.11%	+0.30%
ISPIM	7.50%	3.70%	4.50%	3.99%	+0.29%
DB	7.50%	3.50%	4.50%	3.78%	+0.28%
STANLN	7.50%	2.29%	4.50%	2.47%	+0.18%
CABKSM	7.50%	1.70%	4.50%	1.83%	+0.13%
ABNANV	7.50%	1.59%	4.50%	1.72%	+0.13%
DNBNO	7.50%	1.19%	4.50%	1.28%	+0.09%
DANBNK	7.50%	1.12%	4.50%	1.20%	+0.09%
NDASS	7.50%	0.99%	4.50%	1.07%	+0.08%
SHBASS	7.50%	0.89%	4.50%	0.96%	+0.07%
KBCBB	7.50%	0.78%	4.50%	0.85%	+0.06%
CMZB	7.50%	0.70%	4.50%	0.76%	+0.06%
SANUK	7.50%	0.67%	4.50%	0.72%	+0.05%
SEB	7.50%	0.64%	4.50%	0.69%	+0.05%
BKIR	7.50%	0.63%	4.50%	0.68%	+0.05%
BKIASM	7.50%	0.55%	4.50%	0.59%	+0.04%
SABSM	7.50%	0.46%	4.50%	0.49%	+0.04%

5. Consultation timetable

The timetable IMBA is suggesting is as follows:

- 30 July 2020 Consultation opens
- 13 August 2020 Consultation closes
- 14 August 2020 IMBA reviews stakeholder feedback and a final decision is communicated
- 31 August 2020 Implementation of updated family configuration (changes will be reflected in the forward files accordingly)

The consultation period has been shortened to two weeks as the proposed capping rule creates only minor changes in the composition and the fact the assets under management tracking this index are below USD 100 million

6. 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.

7. Key questions

Do you have any concerns regarding IMBA's proposal to update the index capping rules of the iBoxx Contingent Convertible Liquid Developed Europe AT1 Index?