



IHS Markit™

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

15 May 2020

## 1. IHS Markit's Administration

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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 as a benchmark in accordance with the EU Benchmark Regulation (**BMR**).

## 2. Background

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The methodology of the Markit iBoxx EUR FRN Investment Grade 3-7 Index contains an issuer cap based on ticker that limits the size of each issuer to 8% of the index.

As notified on 1 May 2020, for the 30 April 2020 rebalancing, the application of the index rules resulted in only 12 issuers being eligible for the index.

The market conditions hence rendered the implementing of the capping mathematically unachievable, as the total weight of the index constituents would have been below 100% ( $8\% \times 12 = 96\%$ ).

In response, IHS Markit decided to temporarily relax the capping rules, increasing the capping from 8% to 10% per issuer.

To adjust to market circumstances that do not generate a sufficient number of bonds for inclusion in the index based on the current methodology, IHS Markit is proposing to change the index methodology.

## 3. Proposal

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Based on an analysis of the underlying market and index constituents, to allow a larger number of bonds to qualify for inclusion in the index, IMBA proposes that the minimum amount outstanding is to be reduced to EUR 500 million (from EUR 750 million) as of the bond selection cut-off date.

At the same time, we propose to replace the current capping rules within the methodology with a UCITS-type "5/10/40" rule in order to improve robustness of the index. The "5/10/40" rule requires that no more than 5% of the index weight be allocated to a single issuer. However, the limit for an issue can be up to 10% per

issue provided that the total value of all issuer holdings in excess of 5% do not exceed 40% of the index.

## 4. Analysis

IMBA has reviewed the impact of proposed reduction in minimum amount outstanding value on the constituents of the Markit iBoxx EUR FRN Investment Grade 3-7 Index.

The below provides an outline of the bonds that would be due to enter the index on 31 May 2020 if the minimum amount outstanding is to be reduced to EUR 500 million:

ISIN	Issuer	Final Maturity	Coupon	Amount Outstanding
XS1306411726	Deutsche Bahn Finance GmbH	13/10/2023	0.176	600,000,000
FR0013182243	BPCE SA	10/06/2023	0.187	500,000,000
XS1615065320	Santander UK Group Holdings Plc	18/05/2023	0.367	500,000,000
XS1623794457	Intesa Sanpaolo SpA	30/05/2024	0.677	500,000,000
FR0013292687	RCI Banque	04/11/2024	0.309	500,000,000
FR0013322146	RCI Banque	12/03/2025	0.098	550,000,000

The analysis is based on available information as of 11 May 2020.

IMBA has simulated the composition and weights for the index based on the 5/10/40 capping and the reduced amount outstanding criterion with prices and data as of 30 April 2020:

ISIN	Ticker	Issuer	Simulated Index Weight based on 5/10/40 Capping
R0013182243	BPCEGP	BPCE SA	5.00%
DE000A2GSCY9	DAIGR	Daimler AG	5.00%
XS1907118464	T	AT&T Inc	5.00%
XS1681855539	HSBC	HSBC Holdings Plc	10.00%
XS1811433983	BAC	Bank of America Corporation	5.68%
XS1823532996	BNP	BNP Paribas SA	4.73%
XS1633845158	LLOYDS	Lloyds Banking Group Plc	5.00%
FR0013292687	RENAUL	RCI Banque	2.40%
BE6301509012	ABIBB	Anheuser-Busch InBev SA/NV	5.00%
XS1799039976	SANUK	Santander UK Group Holdings Plc	2.99%
XS1882544205	INTNED	ING Groep NV	5.00%
XS1306411726	DBHNGR	Deutsche Bahn Finance GmbH	5.00%
XS1615065320	SANUK	Santander UK Group Holdings Plc	2.01%

XS1910947941	VW	Volkswagen International Finance NV	5.00%
XS1616341829	SOCGEN	Societe Generale SA	5.00%
XS1623794457	ISPIM	Intesa Sanpaolo SpA	5.00%
XS1626933102	BNP	BNP Paribas SA	5.27%
XS1691349523	GS	The Goldman Sachs Group Inc	10.00%
FR0013322146	RENAUL	RCI Banque	2.60%
XS1602557495	BAC	Bank of America Corporation	4.32%

## 5. Consultation timetable

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The timetable IMBA is suggesting is as follows:

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

## 6. Consultation process

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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](mailto: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

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