



IHS Markit™

# IHSMBAL Consultation

Methodology change for the HSBC FX G10

Momentum Volatility Control Index

(HSFADMVU)

3 June 2019

## 1. IHS Markit's Administration

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IHS Markit Benchmark Administration Limited ("IHSMBAL") is the sole Administrator (as defined by EU Benchmark Regulation ("BMR") and the International Organisation of Securities Commissions Principles for Financial Benchmarks (the "IOSCO Principles")) of a number of HSBC indices. The list of HSBC indices currently administered by IHSMBAL can be found [here](#).

IHSMBAL administers these indices in accordance with the BMR and the IOSCO Principles.

## 2. Consultation and Proposal

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IHSMBAL is conducting a consultation with interested parties on its intention to amend the Vol Control methodology of the HSBC FX G10 Momentum Volatility Control Index (the "Index").

The consultation will close on 24 June 2019.

The Vol Control feature in the Index is used to determine leverage on the Index such that the volatility is capped at 10%. The current methodology of calculating realised volatility (R\_Vol) is based on returns of the Index over a period of 125 days (~6 months). However, this is an ex-post measure of volatility, as the volatility is based on returns from positions taken in the past

The proposal is to change the methodology for the calculation of realised volatility (R\_Vol) that is used to determine the Vol Scale. The proposed new methodology for calculating realised volatility is based on current position in currencies and covariance matrix of nine currencies. This volatility calculation is similar to portfolio VaR approach, and an ex-ante measure of volatility.

IHSMBAL also believes that this volatility is more active measure of the existing portfolio risk, and responds more quickly to any change in underlying positioning (i.e. invested currencies and amount of exposure in them).

The Index back history will be updated and published to reflect the proposed methodology.

The rest of the methodology of Vol Control (i.e. calculation of Vol Scale and Index Leverage) remains unchanged.

## 3. Consultation timetable

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The timetable IHSMBAL is suggesting is as follows:

- 3 June 2019 – Consultation opens
- 24 June 2019 – Consultation closes
- 25 June 2019 – The Index Administration Committee reviews stakeholders' feedback and a decision is communicated to market

- 3 July 2019 – The proposed methodology changes are implemented, back history is updated/published and index level for calculation date 3 July 2019 is determined based on the new methodology

## 4. Consultation process

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

To participate in this consultation please respond to IHSMBAL at [MK-IndexAdminConsultation@markit.com](mailto:MK-IndexAdminConsultation@markit.com).

All comments will be reviewed and considered before a final decision is made; however, IHSMBAL 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. IHSMBAL reserves the right to make a final decision on the proposal, and this will be ratified by the Index Administration Committee and, if appropriate, IHSMBAL's Benchmark Oversight Committee.

## 5. Key question(s)

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**Do you agree with the proposal to change the methodology of the Index?**

**Do you agree to the proposed timetable for the methodology change to be implemented?**