iTraxx Asia ex-Japan – Index Rule Changes Proposal

Overview

Ahead of the September 2020 index roll, IHS Markit is considering making amendments to the iTraxx Asia ex-Japan index rules to better capture the intended selection criteria.

The intent of the iTraxx Asia ex-Japan index selection criteria still remains that its Market-Sector profile should be closely aligned with that of the Asia ex-Japan bond market. The reasons for proposing amendments to the index rules are two-fold:

i.   to reduce the number of changes per roll;
ii.   to avoid removing liquid CDS names from the index when there is no significant improvement in the Market-Sector alignment of the index with the corresponding bond benchmark.

The current Market-Sector profile of the *iBoxx Asia ex-Japan USD Investment Grade Index* stands as below:

Market share	Financials	Non-Financials	Real Estate	Sov/ Sub-sov	Total Market Weight
CHINA	12.68%	24.81%	6.38%	4.33%	**48.19%**
HONG KONG	2.29%	3.36%	2.86%	0.49%	**8.99%**
INDIA	1.18%	3.36%	0.00%	1.24%	**5.79%**
INDONESIA	0.29%	3.81%	0.00%	8.63%	**12.73%**
MACAO	0.06%	0.64%	0.00%	0.00%	**0.70%**
MALAYSIA	0.21%	2.20%	0.00%	0.70%	**3.11%**
PHILIPPINES	0.55%	0.50%	0.11%	3.93%	**5.08%**
SINGAPORE	1.06%	0.60%	0.08%	1.11%	**2.86%**
SOUTH KOREA	2.26%	3.71%	0.00%	4.67%	**10.64%**
TAIWAN	0.06%	0.35%	0.00%	0.00%	**0.41%**
THAILAND	0.80%	0.70%	0.00%	0.00%	**1.51%**

The current Market-Sector profile of the *iTraxx Asia ex-Japan Series 33 Index* stands as below:

Market share	Financials	Non-Financials	Real Estate	Sov/ Sub-sov	Total Market Weight
CHINA	12.5%	22.5%	5.0%	5.0%	**45.0%**
HONG KONG	0.0%	5.0%	5.0%	0.0%	**10.0%**
INDIA	2.5%	2.5%	0.0%	0.0%	**5.0%**
INDONESIA	0.0%	5.0%	0.0%	2.5%	**7.5%**
MACAO	0.0%	0.0%	0.0%	0.0%	**0.0%**
MALAYSIA	0.0%	2.5%	0.0%	2.5%	**5.0%**
PHILIPPINES	0.0%	0.0%	0.0%	2.5%	**2.5%**
SINGAPORE	2.5%	2.5%	2.5%	0.0%	**7.5%**
SOUTH KOREA	5.0%	5.0%	0.0%	5.0%	**15.0%**
TAIWAN	0.0%	0.0%	0.0%	0.0%	**0.0%**
THAILAND	0.0%	0.0%	0.0%	2.5%	**2.5%**

In the following table, the cells represent the current differences in the Market-Sector profile of the iTraxx Asia ex-Japan Series 33 index vs. iBoxx Asia ex-Japan USD Investment Grade index. The negative cells represent underweighting in the iTraxx Asia ex-Japan index whereas the positive cells represent overweighting.

Overweight / underweight	Financials	Non-Financials	Real Estate	Sovereigns/ Sub-sovereigns	Total Market Weighting Difference
CHINA	-0.18%	-2.31%	-1.38%	0.67%	-3.19%
HONG KONG	-2.29%	1.64%	2.14%	-0.49%	1.01%
INDIA	1.32%	-0.86%	0.00%	-1.24%	-0.79%
INDONESIA	-0.29%	1.19%	0.00%	-6.13%	-5.23%
MACAO	-0.06%	-0.64%	0.00%	0.00%	-0.70%
MALAYSIA	-0.21%	0.30%	0.00%	1.80%	1.89%
PHILIPPINES	-0.55%	-0.50%	-0.11%	-1.43%	-2.58%
SINGAPORE	1.44%	1.90%	2.42%	-1.11%	4.64%
SOUTH KOREA	2.74%	1.29%	0.00%	0.33%	4.36%
TAIWAN	-0.06%	-0.35%	0.00%	0.00%	-0.41%
THAILAND	-0.80%	-0.70%	0.00%	2.50%	0.99%

IHS Markit is proposing introducing a *Market Weighting Tolerance Level* to allow each Market weight to deviate by the specified tolerance level. This reduces the churn in the index constituents from one series to another without having a significant impact on the Market-Sector alignment of the index.

The Market Weighting Tolerance Level will be set at 3.75%. As per the illustration in the table above, changes to the index composition will only be made to Indonesia, Singapore and South Korea Markets as they deviate from the said target weights by more than 3.75%. Each addition or deletion of a name from the iTraxx Asia ex-Japan index alters the respective Market weighting by 2.5%.

Please note that the above target weights are as per the June 2020 composition of the iBoxx USD Asia ex-Japan Investment Grade Index. They are subject to change at the time of iTraxx Asia ex-Japan Series 34 index selection in September 2020.

Proposed rule changes:

1. When a Market is identified as overweight by more than the Market Weighting Tolerance Level:

   - an entity from the most overweight Market-Sector within that Market will be excluded from the index

   - an entity from the most underweight Market, and the most underweight Market-Sector within that Market will be selected for index inclusion. In case there are no entities available from the required Market-Sector, an entity is selected from any of the sectors within the most underweight Market.

Following the above adjustment, if there are any Markets that are identified as underweight beyond the Market Weighting Tolerance Level:

- an entity will be added to the most underweight Market-Sector within the most underweight Market, subject to not creating any further overweight Markets.

- An entity will be removed from the most overweight Market-Sector within the most overweight Market, subject to not creating any further underweight Markets.

The process is repeated until none of the Markets are overweight or underweight beyond the Market Weighting Tolerance Level. All entity selections will be based on the ranking of the Liquidity List, Large Debt Issuer List, and the Significant Debt Issuer List in that order of preference.

2. Currently the index rules allow for 7 changes per roll as part of the Market-Sector alignment process. IHS Markit proposes to reduce the number of changes per roll to 4 changes as 7 changes per roll may potentially be harmful for index liquidity.

3. For markets with only one entity represented in iTraxx Asia ex-Japan, the most liquid CDS entity will be retained regardless of Sector.

4. The current Debt Issuer List consists of the following entities from the iBoxx Asia ex-Japan USD Investment Grade Index ranked based on issuance size and number of bonds outstanding:

- Entities with debt outstanding greater than or equal to USD 2 billion

- Entities with debt outstanding greater than or equal to USD 1 billion but less than USD 2 billion that have issued debt in the last 24 months.

This list will be split into two lists as follows to give preference to entities with higher debt outstanding from a different sector within the required Market over entities from the required Market-Sector with lower debt outstanding.

Large Debt Issuer List

Entities with debt outstanding greater than or equal to USD 2 billion

Significant Debt Issuer List

Entities with debt outstanding greater than or equal to USD 1 billion but less than USD 2 billion that have issued debt in the last 24 months.