



IHS Markit™

2020 European and North American Annual Index Review

Results Announcement

10 December 2020

IHS Markit has now completed its European and North American iBoxx Annual Index Review 2020. The relevant topics were published on the iBoxx website and made available to all index users on 12th November for the European topics and 19th November for the US topics.

Feedback on the relevant topics was received from the members of both the European iBoxx Advisory Committees and the North American Technical committee.

Based on the feedback received IHS Markit announces the following changes and clarifications of its index rules. Any further feedback should be provided before 18 December when these changes will be final.

1. Ask insertion prices for standard liquid indices

The majority of iBoxx liquid indices currently use the ask price for the insertion of new issues. There is a selection of standard liquid indices based on rating, maturity band and sector sub-indices, where a new insertion 'inherits' a bid price from a broader liquid index. iBoxx is adjusting the configuration of these standard liquid indices to ensure that the ask price is taken at bond insertion, to ensure that such liquid sub-indices are replicable and reflect the realistic underlying security transactions. All iBoxx standard Liquid indices will use ask price for bond insertions going forward.

The change in standard liquid index configuration that do not yet use ask insertion prices will be effective as of 31 January 2021 rebalancing, and reflected in the Forward/Preview files for January month end rebalancing.

[AN OUTLINE OF THE IMPACT OF THIS CHANGE IS AVAILABLE IN THE 'IMPACT ANALYSES' SUPPLEMENT DOCUMENT]

2. IBOR transition

iBoxx will extend the index eligibility rules to include securities with new references rates. This will apply to iBoxx indices where floating rate notes are eligible. This change will impact four headline indices:

Index name	Reference rates becoming eligible for inclusion
iBoxx EUR FRN Investment Grade	€STR (EUR short-term rate)
iBoxx EUR High Yield	€STR (EUR short-term rate)
iBoxx GBP High Yield	SONIA (Sterling Overnight Index Average)
iBoxx USD FRN Investment Grade	SOFR (Secured Overnight Financing Rate)

These changes will be effective as of 28 February 2021 rebalancing.

3. iBoxx EUR High Yield classification

iBoxx is aligning the EUR High Yield schema with the global, unified sector classification schema used across the iBoxx Investment Grade families in EUR, GBP, and USD. There will be no impact to current indices' composition due to the changes being made to the schema. Only sector definitions will be affected, and classification 'levels' will be shifted, aligning with other indices. The names of existing iBoxx indices based on the legacy EUR HY sector classification will remain unchanged.

Sector classification changes

Example 1:

Old Level 3	Level 4	Level 5
Non-Financials	TMT	*
New Level 3	Level 4	Level 5
Non-Financials	Consumer Services	Media
Non-Financials	Technology	Technology
Non-Financials	Telecommunications	Telecommunications

Example 2:

Old Level 3	Level 4	Level 5
Non-Financials	Energy	*
New Level 3	Level 4	Level 5
Non-Financials	Oil & Gas	Oil & Gas
Non-Financials	Utilities	Utilities

Sector classification level alignment

Example 1:

	Level 0	Level 1	Level 2	Level 3	Level 4	Level 5
Legacy*	iBoxx High Yield	EUR	Corporates	Financials	Financials	Core Financials
Current*	EUR	Corporates	Financials	Financials	Core Financials	Banks
New / Global Schema	EUR	Corporates	Financials	Core Financials	Banks	Banks

Example 2:

	Level 0	Level 1	Level 2	Level 3	Level 4	Level 5
Legacy*	iBoxx High Yield	EUR	Corporates	Financials	Financials	Financial Services
Current*	EUR	Corporates	Financials	Financials	Financial Services	Consumer Finance
New / Global Schema	EUR	Corporates	Financials	Financial Services	Financial Services	General Finance

*Legacy refers to the files published on ftp with the naming convention "iboxx_eur_hy_eod_underlyings_cumcrossover". Current refers to the files published on ftp with the naming convention "iboxx_eurhy_eod_underlyings".

Additionally, iBoxx will adopt the 3-level seniority classification for iBoxx EUR HY, which is already in use for the iBoxx EUR, GBP and USD investment grade indices and retain the granular seniority levels currently used within iBoxx EUR HY.

For financial debt, the iBoxx EUR Benchmark seniority classification will be used:

Debt		Seniority Level 1	Seniority Level 2	Seniority Level 3
Senior	➔	SEN	Bail-In	*
Subordinated		SUB	T2	T2 callable

For non-financial debt, the current detail from the field 'Debt' will migrate to 'Seniority Level 2':

Debt		Seniority Level 1	Seniority Level 2	Seniority Level 3
Senior	➔	SEN	Senior	*
Senior Unsecured		SEN	Senior Unsecured	*
Senior Secured		SEN	Senior Secured	*

These changes will be effective as of 31 March 2021 rebalancing.

4. iBoxx USD seniority classification updates

iBoxx will align the seniority classifications of insurance bonds in the iBoxx USD Benchmark to align with the European classification.

Old				
Level 6	Seniority Level 1	Seniority Level 2	Seniority Level 3	
Insurance	SUB	Other	Hybrid	
New				
Level 6	Seniority Level 1	Seniority Level 2	Seniority Level 3	
Insurance	SUB	T1	*	
Insurance	SUB	T2 perpetual	*	
Insurance	SUB	T2 dated	T2 dated callable	
Insurance	SUB	T2 dated	T2 dated non-callable	
Insurance	SUB	T3	*	

This change will be effective as of 28 February 2021 rebalancing.

5. Retained bond portions and club deals

(1). Review cycle for suspected private placements

iBoxx will introduce a review cycle of up to 1 month for suspected private placements. This review cycle is to facilitate a thorough review of these bonds prior to making a decision about their eligibility.

(2). Grandfathering of existing collateralised bonds with retained portions

Collateralized bonds with retained portion that are already part of iBoxx indices are grandfathered and the total amount outstanding, including the retained portion, remains in use for the index calculation.

(3). Retained portion to be deducted from total amount outstanding for new collateralized bonds

New collateralized bonds that are issued after the effective date will not have the retained portion counted towards the 'total amount outstanding'. This will cause bonds which are only able to satisfy the minimum amount outstanding criteria with the consideration of the notional from their retained portion to be ineligible. These retained portions will only be considered if brought to the market via a public offering (in line with iBoxx private placement validation process).

These changes will be effective as of 28 February 2021 rebalancing.

6. Rule clarifications on distressed debt

No changes to the existing rules. Distressed debt will be eligible for iBoxx indices as long as all other eligibility criteria are fulfilled.

7. Rating stabilization rule

iBoxx will remove the rating stabilization rule from the iBoxx USD Liquid High Yield & the iBoxx Global Developed Markets High Yield indices, aligning rules across index families.

This change will be effective as of 28 February 2021 rebalancing.

[AN OUTLINE OF THE IMPACT OF THIS CHANGE IS AVAILABLE IN THE 'IMPACT ANALYSES' SUPPLEMENT DOCUMENT]

8. USD Indices snap time

iBoxx will shift the USD indices snap time from 3pm New York time to 4pm New York time.

This change will be effective as of 28 February 2021 rebalancing.

9. Daily index calculations

iBoxx will calculate index levels from Monday to Friday, including calendar month-end dates, irrespective of holidays. Exceptions will be made for indices that have non-standard calendars, such as overnight indices, interest rate hedged and swap hedged indices due to other market data dependencies and iBoxx USD Loans indices.

This change will be effective as of 31 March 2021 rebalancing.

10. Emerging market sub-sovereign debt classification definition

iBoxx will update the definition of 'Other Sub-Sovereigns' to provide a more robust definition that is applicable to Emerging Markets issuers as per below. This is not expected to have any impact on the current composition of iBoxx indices.

The current iBoxx definition for 'Other Sub-Sovereigns' is:

*'An issuer from a non-financial sector with **explicit** or **strong implicit** debt guarantee from the state, whose credit rating is closely correlated with the sovereign rating and expresses a strong credit uplift based on a high level of support from the government. iBoxx would expect the issuer credit rating reflected as **no worse than on par or 2 notches below** the sovereign rating.'*

*A '**strong implicit guarantee**' is defined as an issuer being **100%** owned by the state or public-sector, and their debt being consolidated into state public debt, or the issuer has pre-*

existing access to government financing, or funding derived from tax revenues.

The local regulatory and political framework will be considered when assessing the classification of state-owned companies.'

The new iBoxx definition for Emerging Markets 'Other Sub-Sovereigns' issuance will be:

*'An issuer from a non-financial sector with **explicit** or **strong implicit** debt guarantee from the state, whose credit rating is closely linked to the sovereign rating and expresses a strong credit uplift based on a high level of support from the government.*

*A '**strong implicit guarantee**' is defined as an issuer being 100% owned by the state or public-sector, and their debt being consolidated into state public debt, or the issuer has pre-existing access to government financing, or funding derived from tax revenues.*

The local regulatory and political framework will be considered when assessing the classification of state-owned companies.'

These changes will be effective as of 31 January 2021 rebalancing.

11. Eligibility of Emerging Market callable sovereigns

iBoxx will make callable USD-denominated sovereign bonds eligible for inclusion into the iBoxx USD EM Sovereign index. iBoxx USD Liquid EM Sovereign and Custom indices that have specific methodologies excluding callable securities will remain unchanged.

This change will be effective as of 28 February 2021 rebalancing.

[AN OUTLINE OF THE IMPACT OF THIS CHANGE IS AVAILABLE IN THE 'IMPACT ANALYSES' SUPPLEMENT DOCUMENT]

12. Hybrid bonds definition amendment

iBoxx will amend the definition of hybrid bonds to capture bonds whose original time to maturity is greater than or equal to five years. The definition was previously limited to bonds with an original time to maturity of greater than five years.

This change will be effective as of 28 February 2021 rebalancing.

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13. Issuer amount outstanding for iBoxx \$ Liquid High Yield

The iBoxx USD High Yield Developed Markets Index and the iBoxx USD Corporates (IG) universe will become the selection universe for determining the issuer amount outstanding.

This change will be effective as of 28 February 2021 rebalancing.

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14. Treatment of tap issues for 144A/RegS bonds

iBoxx will add RegS bond tap issue amounts (regardless of fungibility status) to existing RegS versions to maintain consistency with the treatment of tap issues as reflected under existing 144A versions.

This change will be effective as of 31 March 2021 rebalancing.

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