



IHS Markit™

IHS Markit Consultation on the methodology update of the iBoxx Corporates/Non-Gilts Fallen Angels Indices

15 July 2020

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA**) is the Index Administrator of the iBoxx USD Corporates Fallen Angels Index, the iBoxx EUR Corporates Fallen Angels Index and the Markit iBoxx GBP Non-Gilts Fallen Angels Index (collectively, "the **Indices**").

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 requesting a change to methodology of the iBoxx Corporates/Non-Gilts Fallen Angels Indices. Based on the suggested change, fallen angel bonds would be defined on an issuer level rather than on a bond level as in the current methodology. This will help capture a broader set of bonds that are considered as fallen angels in the market. It would also improve the relevance and the usability of the Indices.

3. Proposal

IMBA proposes adjusting the methodology of the Indices to capture fallen angel bonds on an issuer level rather than a bond level:

Below is a summary of the current rules with the proposed rules that will move the fallen angels definition on an issuer level:

Current Rules	Proposed Rules
<ul style="list-style-type: none"> • Contains only bonds that downgraded from IG to HY • Identification of the Minimum Holding Period (MHP) is based on unique bond identifier • MHP of 5 years, bonds will permanently leave the index after 5 years 	<ul style="list-style-type: none"> • Contains bonds that downgraded from IG to HY and new issuances from these entities that shares the same ticker. • Identification of the Minimum Holding Period (MHP) is based on the combination of the entity ticker and debt type, <u>not single bond identifier</u>. Bonds acts as a group. • The ticker aggregation will comprise different issuers / subsidiaries of a corporate entity group • MHP of 5 years applies to the entity ticker-debt type group. All bonds that have the same ticker-debt leave the index once MHP of the ticker-debt is completed, irrespective of individual time of the stay. The MHP is activated with the first downgraded bond of that ticker-debt group. • No insertion for a ticker-debt group during the last 6 months of the MHP. • Bonds will <u>not</u> permanently leave the index. If they are upgraded and then downgraded again (go into the "IG to HY" cycle), the MHP will be restarted with the first bond of that ticker-debt group. • If the MHP is restarted for a ticker-debt group , old bonds that haven't been upgraded to IG in the meantime, will not be included (only downgrades and new issuances) • If there are no bonds left in the index for a specific ticker-debt group, this ticker-debt group will be kept active for an additional 1-year period for new issuances, then will be discontinued in case of no new bonds. • The age of the new issue should not be more than two months by the time of the inclusion. (providing an additional one month here, in case the new bond is not captured or rated on the first month) • In the case of a ticker change, the following will apply: <ul style="list-style-type: none"> ○ Existing bonds will remain unless the new ticker has been discontinued or is a high yield entity which has never been IG previously. ○ If the new ticker is also an active ticker, the earlier future

discontinuation date of the two will be applied to all bonds with the new ticker.

4. Analysis

The change in methodology will result in a change in index membership.

The change was performed for illustration purposes for the June 2020 month-end rebalancing to visualise the impact on the indices from the proposed change.

Inclusions

iBoxx USD Corporates Fallen Angels (DE000A26RE05)

ISIN	Issuer	Final Maturity	Coupon	Amount Outstanding
US03938LAP94	ArcelorMittal	15/10/2039	7.25	685601000
US12508EAF88	CDK Global Inc	01/06/2027	4.875	599694000
US12508EAG61	CDK Global Inc	15/06/2026	5.875	500000000
US247361ZZ42	Delta Air Lines Inc	15/01/2026	7.375	1250000000
US251526BN89	Deutsche Bank AG/New York NY	01/12/2032	4.875	1000000000
US25525PAA57	Diversified Healthcare Trust	15/06/2025	9.75	1000000000
US345370CV02	Ford Motor Company	21/04/2023	8.5	3500000000
US345370CW84	Ford Motor Company	22/04/2025	9	3500000000
US345370CX67	Ford Motor Company	22/04/2030	9.625	1000000000
US345397A605	Ford Motor Credit Co LLC	16/06/2025	5.125	1750000000
US35671DCC74	Freeport-McMoRan Inc	01/09/2027	5	600000000
US35671DCD57	Freeport-McMoRan Inc	01/09/2029	5.25	600000000
US35671DCE31	Freeport-McMoRan Inc	01/03/2028	4.125	700000000
US35671DCF06	Freeport-McMoRan Inc	01/03/2030	4.25	600000000
US651229BB19	Newell Brands Inc	01/06/2025	4.875	500000000
US81761LAA08	Service Properties Trust	15/09/2025	7.5	800000000
US845467AM16	Southwestern Energy Co	01/04/2026	7.5	650000000
US88167AAK79	Teva Pharmaceutical Finance Netherlands II BV	01/03/2028	6.75	1246345000
US88167AAL52	Teva Pharmaceutical Finance Netherlands II BV	15/04/2024	6	1248171000
USG42045AC15	Grupo Aval Ltd	04/02/2030	4.375	1000000000
USN8540WAC84	Teva Pharmaceutical Finance Netherlands III BV	31/01/2025	7.125	1000000000
USP09252AK62	Banco de Bogota SA	12/05/2026	6.25	1100000000
USP1905CJX94	BRF SA	24/01/2030	4.875	750000000
USP1R027AA25	Banco do Brasil SA/Cayman	20/03/2024	4.75	750000000
USP3772WAH53	Banco do Brasil SA/Cayman	15/01/2025	4.625	1000000000
USP3772WAJ10	Banco do Brasil SA/Cayman	19/04/2023	4.875	750000000
USU05638AB41	Buckeye Partners LP	01/03/2025	4.125	500000000

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USU05638AC24	Buckeye Partners LP	01/03/2028	4.5	500000000
USU12227AD34	CDK Global Inc	15/05/2029	5.25	500000000
USU26886AA62	EQM Midstream Partners LP	01/07/2025	6	700000000
USU26886AB46	EQM Midstream Partners LP	01/07/2027	6.5	900000000
USU5009LBA71	Kraft Heinz Foods Co	15/05/2027	3.875	1350000000
USU5009LBB54	Kraft Heinz Foods Co	01/03/2031	4.25	1350000000
USU5009LBC38	Kraft Heinz Foods Co	01/06/2050	5.5	800000000
USU5561NAA47	Macy's Inc	15/06/2025	8.375	1300000000
USU84591AD56	Spirit AeroSystems Inc	15/04/2025	7.5	1200000000
USV7780TAD55	Royal Caribbean Cruises Ltd	15/06/2023	9.125	1000000000
XS1493823725	MTN Mauritius Investments Ltd	13/10/2026	6.5	500000000
XS1503116912	MTN Mauritius Investments Ltd	13/02/2022	5.373	500000000
XS1508390090	Turkiye Is Bankasi	21/04/2022	5.5	600000000
XS1578203462	Turkiye Is Bankasi	25/04/2024	6.125	1250000000
XS1955059420	Turk Telekomunikasyon AS	28/02/2025	6.875	500000000
XS1961766596	KOC Holding AS	11/03/2025	6.5	750000000
XS2016768439	Greenland Global Investment Ltd	25/06/2022	6.75	500000000
XS2055399054	Greenland Global Investment Ltd	26/09/2023	6.75	500000000
XS2188664929	Greenland Global Investment Ltd	16/12/2022	6.25	500000000
XS2196325331	UniCredit SpA	30/06/2035	5.459	1500000000

iBoxx EUR Corporates Fallen Angels (DE000A26RE62)

ISIN	Issuer	Final Maturity	Coupon	Amount Outstanding
DE000CZ45V25	Commerzbank AG	05/12/2030	4	750000000
DE000DL19VB0	Deutsche Bank AG	19/05/2031	5.625	1250000000
ES0213307061	Bankia SA	12/11/2026	1.125	750000000
XS0849517650	UniCredit SpA	31/10/2022	6.95	1500000000
XS1323897725	Solvay Finance	Perpetual	5.869	500000000
XS1812903828	Teva Pharmaceutical Finance Netherlands II BV	15/04/2022	3.25	700000000
XS1813724603	Teva Pharmaceutical Finance Netherlands II BV	01/03/2025	4.5	900000000
XS1841967356	DKT Finance ApS	17/06/2023	7	1050000000
XS1854830889	K+S AG	18/07/2024	3.25	600000000
XS2010039118	Quatrim SASU	15/01/2024	5.875	800000000
XS2049419398	Teollisuuden Voima Oyj	09/03/2026	1.125	650000000
XS2083962691	Teva Pharmaceutical Finance Netherlands II BV	31/01/2025	6	1000000000

Markit iBoxx GBP Non-Gilts Fallen Angels (GB00BDRKX260)

No change

Exclusions

There were no exclusions of bonds from the existing indices under the updated methodology.

Index Profile

The below table provides an indication of the of the updated methodology on the index’s profile, based on the June end of month rebalance:

	Bonds (#)	Non-Financials (%)	Financials (%)	Other (%)	BB (%)	B (%)	Other (%)
iBoxx USD Corporates Fallen Angels							
Existing Index	225	83.5%	16.5%	0.0%	93.3%	6.7%	0.0%
Updated methodology	272	81.6%	18.4%	0.0%	93.5%	6.5%	0.0%
iBoxx EUR Corporates Fallen Angels							
Existing Index	86	79.8%	20.2%	0.0%	95.3%	4.7%	0.0%
Updated methodology	98	76.6%	23.4%	0.0%	92.7%	7.3%	0.0%
Markit iBoxx GBP Non-Gilts Fallen Angels							
Existing Index	33	70.2%	7.0%	22.8%	93.3%	6.7%	0.0%
Updated methodology	33	70.2%	7.0%	22.8%	100.0%	0.0%	0.0%

5. Consultation timetable

IMBA suggests the following timetable for consultation on this proposal and implementation of the change (if approved):

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

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 iBoxx methodology of the iBoxx Corporates/Non-Gilts Fallen Angels Indices?