



IHS Markit™

# IHS Markit Consultation on the Methodology Update for the Markit iBoxx Pfandbriefe Index

## 1. IHS Markit’s Administration

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IHS Markit Benchmark Administration Limited (IMBA UK) is the Index Administrator of the iBoxx indices. IMBA UK administers the indices in accordance with the International Organisation of Securities Commissions Principles for Financial Benchmarks (the IOSCO Principles) and the UK Benchmarks Regulation (UK BMR).

## 2. Background

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IHS Markit Benchmark Administration Ltd. administers more than 33,000 benchmarks across asset classes, including fixed income, derivatives, economic indicators, equity and commodities, and both proprietary and third-party benchmarks.

The Markit iBoxx Pfandbriefe Index reflects the performance of EUR denominated investment-grade, Pfandbriefe bonds from German issuers. The index rules have been designed to offer broad coverage of the market with an emphasis on diversification. The Markit iBoxx Pfandbriefe Index is rebalanced once a month at month-end (the “rebalancing date”), and consists of bonds rated by at least one of the following three rating services: Fitch Ratings, Moody’s Investors Service, or S&P Global Ratings.

Index Name	Return Type	ISIN	Ticker	RIC
Markit iBoxx Pfandbriefe Index	TRi	GB00B9BPQY25	IBXXDECT	.IBXXDECT
Markit iBoxx Pfandbriefe Index	CPi	GB00B97L5N67	IBXXDECP	.IBXXDECP

To facilitate replication and diversification, the index has a maximum weight per issuer. The weight determination per issuer and per bond for the Markit iBoxx Pfandbriefe Index is described below:

### Minimum Number of Issuers

For the index to be calculated nine distinct issuers need to be eligible for the index. If fewer than nine issuers are eligible for the index, the index level is kept constant until the next rebalancing.

### Determination of the issuer and security weight

At each rebalancing the following algorithm is applied to separate issuers into large cap and small cap buckets. The algorithm likewise imposes caps on individual weights of issuers according to their respective large/ small cap buckets as well as the combined weight of all large cap issuers (tickers).

- Each issuer with an uncapped weight less than 5% is treated as small cap issuer
- Each issuer with an uncapped weight greater or equal to 5% is treated as large cap issuer

- A small cap issuer can switch to a large cap issuer only if the uncapped weight has been above 5% for at least 3 months and the uncapped weight in the third month is greater than 5.5%
- A large cap issuer can switch to a small cap issuer only if the uncapped weight has been less or equal to 5% for at least 3 months and the uncapped weight in the third month is less than or equal to 4.5%
- Small cap issuers are capped at 4.5% at each rebalancing and large cap issuers are capped at 24% at each rebalancing
- The combined weight of large cap issuers should not exceed 78%. The excessive weight of large cap issuers is redistributed pro rata to all small cap issuers subject to the 4.5% issuer cap mentioned above.

Currently, if a merged entity (issuer) weight changes as a result of a merger, it is subject to the 3-month stabilization rule for defining it as a large or small cap issuer. In the case of June 2021 rebalancing, the issuers with tickers NDB (Norddeutsche Landesbank Girozentrale) and DHY (Deutsche Hypothekenbank AG) were both considered small cap issuers with unconstrained weights of 2.33% and 4.24% respectively. Following their merger in July, the unconstrained weight of NDB increased to 6.62% post rebalancing. Under the existing 3-month stabilization rule, NDB was still considered a small cap issuer, and thus was subject to a 4.5% cap. The cap remained in place until 30 Sept 2021 rebalance when the unconstrained weight of 6.33% was published for NDB. This resulted in unnecessary turnover as existing bonds in the index were forced to be sold due to the cap only to be re-purchased three months later.

### 3. Proposal

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IMBA UK proposes to update the weight determination methodology per issuer (ticker) and per bond for the Markit iBoxx Pfandbriefe Index to account for mergers that occur between issuers that are part of the index. If an existing issuer has an index weight change as a result of a merger with another existing issuer, the three-month stabilization rule will be removed, and the merged entity will be considered a small cap in month one if the combined uncapped weight is less than 5%, or will be considered a large cap in month one if the combined uncapped weight is greater or equal to 5%.

The proposed methodology update will ensure a smoother weight transition and avoid unnecessary turnover for existing issuers in the index that undergo a merger.

## 4. Impact Analysis

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IMBA UK has investigated the theoretical impact of the updated methodology based on the end of July, August, September, and October 2021 rebalancing. The recent merger of NDB and DHY would have been considered a merger of existing issuers in the index and the three-month stabilization rule would not have applied. Therewith, NDB would have been considered a large cap at the end of August 2021 rebalance and no 4.5% capping would have been applied.

The proposed methodology update will ensure that future mergers of existing issuers in the index will undergo a smoother transition by avoiding unnecessary turnover in the index.

		Index Weight				
		31-May	30-Jun	31-Jul	31-Aug	30-Sep
Current	DHY	4.22%	4.32%	-	-	-
	NBD	2.28%	2.33%	4.50%	4.50%	6.33%
Proposed	DHY	4.22%	4.32%	-	-	-
	NBD	2.28%	2.33%	6.62%	6.68%	6.33%

## 5. Consultation timetable

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The timetable IMBA UK is suggesting is as follows:

- 16 November 2021 Consultation opens
- 10 December 2021 Consultation closes
- 14 December 2021 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 31 December 2021 Implementation

## 6. Consultation process

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

To participate in this consultation please respond to IMBA UK 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 UK 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 UK reserves the right to make a final decision on the proposal.

## **Key question**

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**Do you have any concerns regarding IMBA UK's proposal or the implementation timeline?**