

Consultation on the European, North American, and Global iBoxx Indices

LONDON, OCTOBER 31, 2024: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the European, North American, and Global iBoxx indices.

BACKGROUND

The iBoxx indices measure the performance of global bond markets. As part of the Annual Index Review (AIR), S&P DJI considers potential updates to the rules governing iBoxx indices, with the recent 2024 iBoxx European and North American Annual Index Review Global Advisory Panel indentifying five potential methodology changes for consideration. The topics are detailed below.

SUMMARY:

A. Classification of European Union Debt.....	2
B. Eligibility of Bonds with American Call Options for the iBoxx EUR Investment Grade and the iBoxx GBP Investment Grade Index Universes	3
C. Minimum Run Rule	4
D. Inflation-Linked Indices	5
E. Expected Rating	6

A. Classification of European Union Debt

BACKGROUND

S&P DJI is consulting on a potential update to the classification of European Union (EU) debt from Supranational to Sovereign. The EU is a political and economic alliance comprised of 27 independent member states, characterized by its distinct institutional framework. The European Union maintains a common budget intended to fund its policy priorities and facilitate EU debt issuance. Furthermore, the EU has the capability to issue bonds to generate funds, especially for targeted initiatives such as the NextGenerationEU recovery plan, which aims to mitigate the economic effects of crises.

Debt issued by the European Union is currently classified as Supranational. The iBoxx EUR Sovereign indices include bonds issued by the central government of a member country of the Eurozone denominated in Euros or a pre-Euro currency.

The EU ranks fifth in the league of EU official sector issuers, behind only Germany, Italy, France, and Spain. The EU became a larger issuer in the context of its recovery package bonds.

IMPACT

As of July 31, 2024, debt from the European Union (€447 billion) makes up 27% of the EUR Sub-Sovereigns, Supranationals, & Agencies debt.

Debt from the European Union would make up 6% of the total aggregate of the iBoxx EUR Sovereigns index.

The impacted index families:

- iBoxx EUR Investment Grade
- iBoxx Global Government
- Any custom index that uses the iBoxx EUR Investment Grade and/or iBoxx Global Government indices as the index universe

QUESTION

- 1) **Should S&P DJI update the classification of EU debt from Supranational to Sovereign?**

CONSULTATION

B. Eligibility of Bonds with American Call Options for the iBoxx EUR Investment Grade and the iBoxx GBP Investment Grade Index Universes

PROPOSAL

Both the iBoxx EUR Investment Grade and iBoxx GBP Investment Grade indices include bonds with American call options only within the final year of maturity. All other bonds with American call options are currently ineligible for inclusion in the index families.

Bonds with American call options are eligible for other iBoxx indices, including the iBoxx EUR High Yield, iBoxx GBP High Yield, iBoxx USD High Yield, and iBoxx USD Investment Grade.

S&P DJI proposes allowing bonds with American call options to be added to the iBoxx EUR Investment Grade and iBoxx GBP Investment Grade universes. The proposed adjustment to the inclusion criteria is designed to align the iBoxx EUR Investment Grade and iBoxx GBP Investment Grade universes with the corresponding high yield universes and to create a more coherent framework within the index families.

IMPACT

As of August 31, 2024, the below table summarizes the impact of the proposed inclusion of bonds with American call options for EUR IG and GBP IG universe:

Issuer	Ticker	ISIN	Currency	Amount Outstanding
OCI NV	OCINV	XS2241400295	EUR	360,000,000
Flutter Treasury Designated Activity Co	FLTR	XS2805234700	EUR	500,000,000
James Hardie International Finance DAC	JHXAU	XS1888221261	EUR	400,000,000
WMG Acquisition Corp	WMG	XS2193974701	EUR	325,000,000
WMG Acquisition Corp	WMG	XS2367081523	EUR	445,000,000
Pinewood Finance Co Ltd	PINEFI	XS2052466815	GBP	290,296,000
Pinewood Finance Co Ltd	PINEFI	XS2411236859	GBP	300,000,000
Pinewood Finco PLC	PINEFI	XS2783792307	GBP	750,000,000

The impacted index families:

- iBoxx EUR Investment Grade indices
- iBoxx GBP Investment Grade indices
- Any custom index that uses the iBoxx EUR Investment Grade and/or iBoxx GBP Investment Grade indices as the index universe

QUESTION

- 2) Should all bonds with American call options be added to the iBoxx GBP Investment Grade and iBoxx EUR Investment Grade universes?

CONSULTATION

C. Minimum Run Rule

PROPOSAL

The minimum run rule is designed to reduce unnecessary turnover in an index and to ensure stability by allowing new additions to remain in an index for a minimum number of months (e.g., six months) before said bond can be considered for removal or replacement, even if the bond no longer meets some eligibility criteria. The minimum run rule can be customized to allow certain breaches to overrule the minimum run. For example, upgrades to investment grade, defaults, or full redemptions overrule the six-month minimum run rule for the iBoxx USD Liquid High Yield indices and the iBoxx Global Developed Markets High Yield indices.

S&P Dow Jones Indices proposes to remove or amend the minimum run rule to enhance clarity regarding instances where securities that would otherwise be ineligible remain in an index because of the minimum run rule. The proposal aims to simplify the index rules to better support the index management process and to improve alignment with industry practices.

IMPACT

As of September 30, 2024, the following bonds are included in the iBoxx USD Liquid High Yield Index and the iBoxx Global Developed Markets High Yield Index because of the six-month minimum run rule.

If breaches of the amount outstanding threshold overrule the minimum run rule, these securities would be excluded from the indices. The impact is identical if the six-month minimum run rule is removed.

Issuer	Ticker	ISIN	Currency	Amount Outstanding
California Resources Corp	CRC	US13057QAH02	USD	245,452,000
Fortress Intermediate 3 Inc	PSDO	US34966MAA09	USD	750,000,000

The impacted index families:

- iBoxx USD Liquid High Yield indices
- iBoxx Global Developed Markets High Yield indices
- Any custom index that uses the iBoxx USD Liquid High Yield and/or iBoxx Global Developed Markets High Yield indices as the index universe

A full list of the indices impacted by this proposal is accessible [here](#).

QUESTIONS

- 3) Should the six-month minimum run rule for the iBoxx USD Liquid High Yield indices be:
 - a. removed, or:
 - b. updated to include a check that bonds being retained under the minimum run rule do not breach the amount outstanding threshold?
- 4) Should the six-month minimum run rule for the iBoxx Global Developed Markets High Yield indices be:
 - a. removed, or:
 - b. updated to include a check that bonds being retained under the minimum run rule do not breach the amount outstanding threshold?

CONSULTATION

D. Inflation-Linked Indices

PROPOSAL

The iBoxx Global Inflation-Linked amount outstanding thresholds were designed to match the iBoxx Sovereign Bond Indices. The iBoxx Global Inflation-Linked indices currently include sovereign and sub-sovereign bonds.

Inflation-linked bonds tend to be issued in smaller sizes compared to regular bonds and are likely to be tapped more. As a result of the high amount outstanding thresholds, some new inflation-linked bonds only become eligible for the index after the second or third tap. Inflation-linked bonds issued by sub-sovereign issuers are likely to be less liquid and smaller in size compared to sovereign issuers.

Currently, there is only one sub-sovereign issuer included in the iBoxx Global Inflation-Linked indices as detailed under 'Impact' below.

S&P DJI proposes to lower the minimum amount outstanding threshold (see below) and to limit iBoxx Inflation-Linked indices to sovereign issuers only.

Currency	Current Min Amount Outstanding Threshold (millions)	Proposed Min Amount Outstanding Threshold (millions)
AUD	500	500
CAD	3,000	500
EUR	2,000	500
GBP	1,000	500
ILS	5,000	1,500
JPY	200,000	100,000
NZD	500	500
SEK	5,000	5,000
USD	2,000	500

IMPACT

- As of September 30, 2024, lowering the amount outstanding threshold leads to the additional inclusion of one bond, denominated in CAD, as detailed in the table below.
- Three sub-sovereign bonds currently part of the iBoxx Global Inflation-Linked Index will be removed.

Issuer	Ticker	ISIN	Currency	Amount Outstanding	Comment
Canada Government Bond Inflation Linked Bond	CANRRB	CA135087M433	CAD	2,100,000,000	Inclusion
Network Rail Infrastructure Finance Plc	UKRAIL	XS0322049296	GBP	3,960,000,000	Exclusion
Network Rail Infrastructure Finance Plc	UKRAIL	XS0299655448	GBP	3,940,000,000	Exclusion
Network Rail Infrastructure Finance Plc	UKRAIL	XS0307538016	GBP	3,790,000,000	Exclusion

The impacted index families:

- iBoxx Inflation-Linked indices
- Any custom index that uses the iBoxx Inflation-Linked indices as the index universe

QUESTIONS

- Should the minimum amount outstanding threshold for the iBoxx Inflation-Linked indices be lowered to the proposed levels?
- Should iBoxx Inflation-Linked indices be restricted to sovereign bonds only?

CONSULTATION

E. Expected Rating

PROPOSAL

A bond's inclusion in iBoxx indices and pro-forma files is based on the confirmed rating, as provided by the rating agencies. iBoxx indices currently do not consider expected ratings when evaluating bond eligibility.

Expected ratings may be available earlier for new issuances than the confirmed rating. The time between receiving the expected rating and the confirmed rating differs and can exceed 30 days. There is a possibility that the confirmed rating differs from the expected rating. Analyzing the period from January 2021 until December 2023, only five out of 289 bonds received a different confirmed rating compared to the expected rating from the same rating agency.

S&P DJI proposes to consider expected rating for bond inclusion in the iBoxx indices. The change would enable faster incorporation of new issuances into pro-forma files (Forwards/Preview files), and to enhance predictability and consistency of the indices.

IMPACT

As of September 30, 2024, there is no immediate impact of considering expected ratings on any index composition.

The impacted index families:

- All iBoxx index families

QUESTIONS

- 7) **Should iBoxx indices consider expected ratings, in addition to confirmed, as an element of the ratings eligibility criteria for index inclusion?**

CONSULTATION

IMPLEMENTATION TIMING

S&P DJI will publish the detailed implementation timing together with the results of the consultation .

QUESTIONS

8) Do you have any comments to any of the above questions that you would like S&P DJI to consider?

Additional data and analysis may be made available in the Client Resource Center www.spglobal.com/spdji/en/client-services/, which may be updated from time to time throughout the consultation without notice. Additional data and analysis may also be made available upon request.

Participation in this consultation is important as S&P DJI gathers information from various market participants in order to properly evaluate market participants' views and preferences. Please respond to this survey by **November 29, 2024**, as S&P DJI does not accept responses post the survey closure date. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

Please be advised that S&P DJI reviews and considers all feedback before a final decision is made. However, S&P DJI makes no guarantees nor is under any obligation to comply with any of the responses. The consultation may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, the change(s) will be announced to clients and posted to the S&P DJI website with prior notice ahead of the effective date.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spglobal.com/spdji.

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit www.spglobal.com/spdji.

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CONSULTATION