

## Consulting Market Stakeholders to Ensure Benchmarks Continue to be Representative

**By Marina Mets, managing director, FTSE Russell Canada**

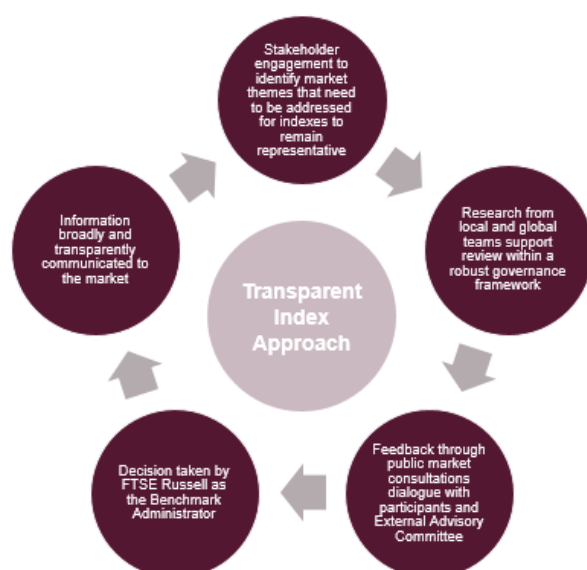
One of the key design elements for any broad market benchmark is considering the minimum size of an index constituent. In equity indexes, the market capitalization of an issuer (such as large, small, or microcap) determines its relevant index eligibility. For fixed income benchmarks, a bond's amount outstanding is one of the key characteristics used to determine index eligibility while serving as a transparent proxy for liquidity. As capital markets evolve and issuance patterns change, it is important to constantly review index eligibility thresholds to ensure the benchmark accurately reflects and tracks the market it is intended to represent.

To maintain accurate benchmarks, it is not just important to focus on the details of index construction, but equally important to have a robust and transparent process for engaging with the marketplace. We have implemented a thorough, disciplined methodology to gather feedback from a broad set of Canadian fixed income market investors on key topics. With guidance from our independent practitioner advisory committees, significant progress has been made over the past year to review and streamline existing index methodologies with a view to ensuring they continue to represent best practice.

We have engaged the market in a series of public consultations around the Index Evolution Pathway, Universe Bond Index Inclusion and Treatment of Legacy NVCC (non-viable contingent capital) debt. And we have broadly communicated our findings and any resulting decisions to the market and our end users.

### Market consultation approach

FTSE Russell regularly consults the market for input on changes to the index methodologies and provides feedback in broad, clear and transparent fashion.



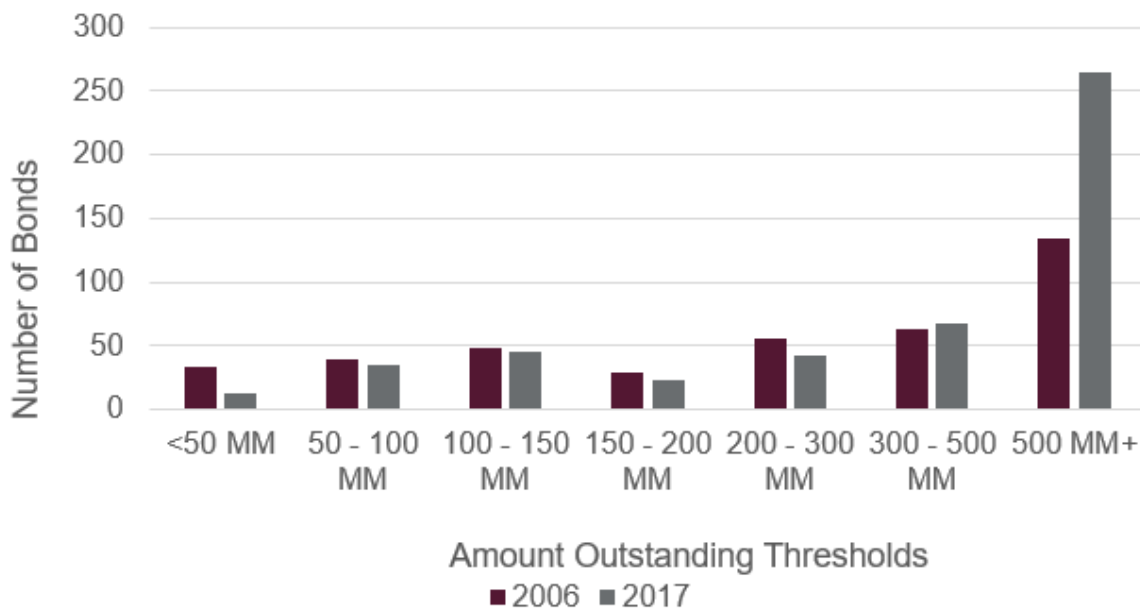
#### Examples of past and present consultations

- Index Evolution Pathway
- NVCC Inclusion
- NVCC Implementation
- Minimum Issue Size Criteria (current)

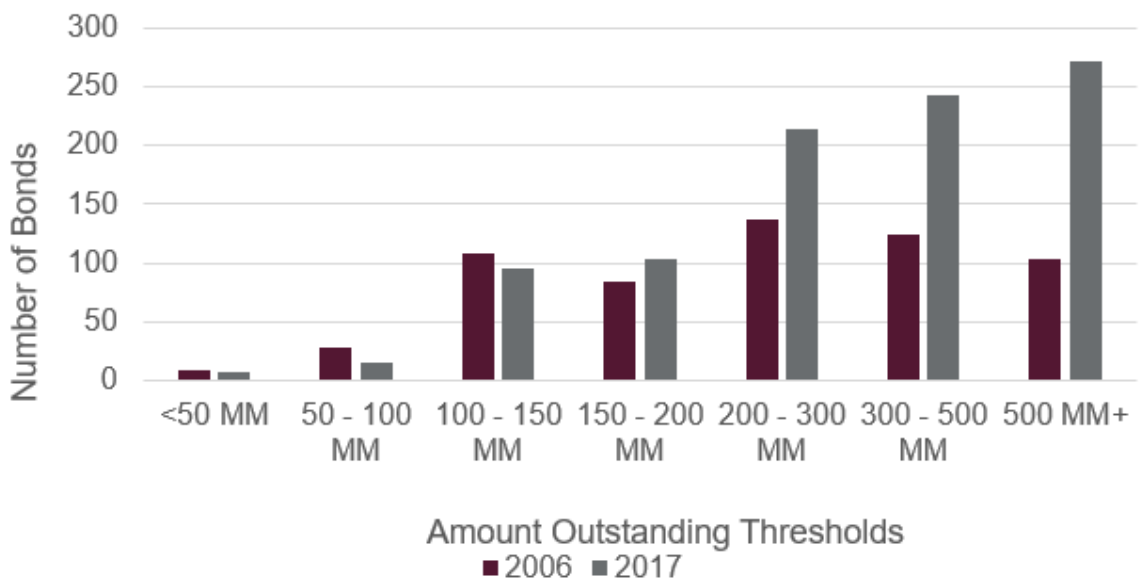
The various FTSE Russell consultations can be viewed on our public website <https://www.ftse.com/products/indices/market-consultations>

We recently completed a Canada market consultation on minimum issue size inclusion considerations for several FTSE Canada Bond Indexes. The consultation, launched earlier this year, asked the market for feedback on minimum issue size thresholds for the FTSE Canada Universe, Maple and High Yield Bond Indexes as well as for the Government and Corporate sub-indexes. Our research indicated that in the last 10 years the index is holding a greater number of securities with larger individual issue size, whereas securities with smaller size have continued to be captured in similar numbers. For example, Figure 1 shows the number of bonds composition of the FTSE Canada Universe Bond Index in 2006 and 2017 by amount outstanding bucket.

### FTSE Canada Universe Index Composition Amount Outstanding (Government)



### FTSE Canada Universe Index Composition Amount Outstanding (Corporate)



FTSE Canada Bond Indexes consider the current amount outstanding of the individual securities, adjusted for any buyback, stripping, principal amortization or corporate actions in calculating the market capitalization, weights and contribution to returns. As securities may have a smaller amount outstanding than at issue, the consultation also considered user feedback on the possible application of minimum issue size thresholds throughout the life of a bond.

We saw robust participation in the survey from a comprehensive range of market stakeholders, including asset owners, asset managers, issuers and sell-side institutions. With findings recently shared with clients and the publish on our website, the results mostly confirmed that the minimum size thresholds for our Canada bond indexes continue to be largely representative of the market and suitable to investor needs. The only finding that warranted a change is in the minimum threshold for Canada Government bonds in the Universe Bond Index. Investors felt our current \$50M level was too low and, as a result, it will be raised to \$100M effective January 1, 2019.

We will no doubt look for more opportunities in the future to solicit feedback from Canadian investors. As the Canadian bond market evolves, we continue to evolve our global index capability along with it.

-----

© 2018 London Stock Exchange Group plc and its applicable group undertakings (the "LSE Group"). The LSE Group includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) MTSNext Limited ("MTSNext"), (5) Mergent, Inc. ("Mergent"), (6) FTSE Fixed Income LLC ("FTSE FI") and (7) The Yield Book Inc ("YB"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, MTS Next Limited, Mergent, FTSE FI and YB. "FTSE®", "Russell®", "FTSE Russell®", "MTS®", "FTSE4Good®", "ICB®", "Mergent®", "WorldBIG®", "USBIG®", "EuroBIG®", "AusBIG®", "The Yield Book®", and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, FTSE Canada, Mergent, FTSE FI or YB. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by the LSE Group, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or of results to be obtained from the use of the FTSE Russell Indexes or the fitness or suitability of the FTSE Russell Indexes for any particular purpose to which they might be put. Any representation of historical data accessible through FTSE Russell Indexes is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of the LSE Group is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing contained in this document or accessible through FTSE Russell Indexes, including statistical data and industry reports, should be taken as constituting financial or investment advice or a financial promotion.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group data requires a licence from FTSE, Russell, FTSE Canada, MTSNext, Mergent, FTSE FI, YB and/or their respective licensors.