



IHS Markit™

IHS Markit Consultation on input data changes for the iBoxx USD FRN Investment Grade Corporates 100 Index

06 February, 2019

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (IMBA) is the Index Administrator of the Markit iBoxx USD Liquid FRN Investment Grade Corporates 100 index (the Index).

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).

1. Background

In November 2018, IHS Markit Evaluated Bond Pricing ("EVB"), who is the primary contributor of input data for the Index and iBoxx universe in general, released an enhancement to its pricing rules. This enhancement significantly reduces the bid offer spread of USD bonds if the primary source of the pricing is dealer runs. This change was based on an analysis that compared TRACE traded prices with the bid offer spreads of dealer runs. The conclusion was that a large portion of trades were executed within the bid offer spread seen on dealer runs.

Following the change, IMBA received some initial feedback from clients pointing out that bid offer spreads on the impacted bonds are now so tight that the index is no longer replicable in the market.

2. Proposal

Whilst EVB will remain the primary pricing source iBoxx, IMBA proposes to update the pricing rules for the Index. It intends to identify the cases where EVB has applied the rules-based spread tightening to constituents of the Index and reverse the tightening. EVB will make the rules and the applicable adjustment factor available to IMBA, so that the prices can be reversed to the untightened level. This will result in wider spreads for about a third of the bonds and bring the status back in line to the pre-enhancement.

3. Analysis

IMBA compared the two price types as of 31 December 2018. The pricing for 38 out of the 100 constituent bonds were primarily based on dealer runs and the spreads on those bonds was consequently tightened by EVB. When reversing the rules-based

spread tightening, the weighted bid offer spread would move from 13.72 bps to 17.99 bps. This is in line with the weighted bid offer spread that the index has seen historically, prior to the EVB enhancement.

1. Consultation timetable

The timetable IMBA is suggesting is as follows:

- 07 Feb 2019 – Consultation opens
- 14 Feb 2019 – Consultation closes
- 15 Feb 2019 – The Index Committee reviews stakeholder’s feedback and final decision is communicated
- By end of February (assuming proposed change is confirmed) – The implementation is deployed to Production and the Index is calculated using the updated methodology.

2. 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@markit.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, and this will be ratified by the Index Committee.

3. Key questions

Do you have any concerns regarding IMBA’s proposal to change the pricing methodology of the Index as described in this consultation paper?