



IHS Markit™

IHS Markit Consultation on expanding the eligibility criteria for the Markit iBoxx GBP Liquid Investment Grade Ultrashort Index

13 June, 2019

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (IMBA) is the Index Administrator of the Markit iBoxx GBP Liquid Investment Grade Ultrashort 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).

2. Background

The Index is designed to provide a balanced representation of the Sterling (GBP) denominated investment grade ultra short credit market and comprises both fixed coupon bonds and floating rate notes. The current rule set only allows floating rate notes that use Libor as a reference rate. In the light of the fact that Libor will be gradually phased out, issuers have started to bring floater to the market that use the Sterling Overnight Index Average (SONIA). Based on the current rule set, these bonds are not eligible for the Index, yet they represent a growing share of the investment grade ultra short credit market that the Index is meant to reflect.

3. Proposal

IMBA proposes to update the index rules for the Index and make floating rate notes that use SONIA as a reference rate eligible, provided they fulfil all other eligibility criteria.

The change will be recorded in paragraph "2.1 Bond type" of the enclosed index guide. The current language states:

"...In particular, bonds with the following characteristics are included:

...

Floating rate notes with LIBOR as a reference interest rate (including overall/base rate floors at 0% and/or regulatory caps set at the rate defined by the usury laws of the relevant jurisdiction) coupon reset at least once per year..."

IMBA proposes to amend the guide in the following way:

"...In particular, bonds with the following characteristics are included:

...

Floating rate notes with LIBOR or SONIA as a reference interest rate (including overall/base rate floors at 0% and/or regulatory caps set at the rate defined by the usury laws of the relevant jurisdiction) coupon reset at least once per year...”

4. Analysis

The index contains 89 constituent bonds as of 31st May 2019 with a notional of ca. £ 56.7 billion. At the time of writing there are 10 SONIA-linked floaters outstanding with a combined notional of £ 7 bn that are potentially eligible following the proposed rule change. They represent about 11% of the GBP investment grade ultra short credit market bond universe. In the light of Libor rates planned discontinuation IMBA regards this rule change highly relevant in order to keep the index representative of the GBP investment grade ultra short credit market bond universe.

Consultation timetable

The timetable IMBA is suggesting is as follows:

- 13 June 2019 – Consultation opens
- 21 June 2019 – Consultation closes
- 24 June 2019 – The Index Committee reviews stakeholder’s feedback and final decision is communicated
- 3 business days before June month end (assuming proposed change is confirmed) – the previews including the newly eligible SONIA floaters will be published and the Index will be rebalanced with the updated rules on 30 June 2019.

5. 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.

6. 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?