S&P Dow Jones Indices

A Division of S&P Global

# Index Administration Services (IAS) - Fixed Income Index Family *Benchmark Statement*

September 2022

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# General Disclosures

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| **Benchmark family name** | IAS Fixed Income |
| **Benchmark administrator** | **IHS Markit Benchmark Administration Ltd**. (**IMBA UK**) |
| **Date of initial publication of this document** | 9 July 2018 |
| **Date of last update to this document** | 1 September 2022 |
| **ISIN (where available)** | ISINs can be found on the list of benchmarks that are administered by IMBA UK, available on the administrator's website here. |
| **Determination by contributions of input data** | The administrator receives contributions of "input data" (as defined by the **BMR**) in relation to this family of benchmarks.<br>With regard to the Nordea Danish Bond Indices, which utilise bond prices Contributed by Nordea Bank AB who are subject to an annual attestation of a Supervised Contributor Code of Conduct.<br>With regard to the UBS CDX/iTraxx indices, which utilise CDS spreads contributed by **IHS Markit CDS Pricing**, who are subject to an annual attestation of a Contributor Code of Conduct. |
| **Qualification of the benchmark family** | The IAS Fixed Income indices are administered as significant benchmarks. |

# Market or Economic Reality of the Benchmark

**General description of the market or economic reality**

The IAS Fixed Income benchmark family measures the performance of a range of fixed income investment strategies which are based interest rate derivatives, credit derivatives or fixed income securities. For some of the indices different generic variants exist (e.g. Total or Excess Return, Target Volatility etc.).

**Geographical boundaries of the market or economic reality**

Each IAS Fixed Income benchmark is comprised of one or multiple interest rate derivatives, credit derivatives and/or fixed income securities which are associated with an underlying market or economy belonging to a country or geographical/economic region.

**Other relevant information relating to the market or economic reality**

The fixed income markets underpinning the IAS Fixed Income indices can be divided into over-the-counter markets with a limited amount of market participants and exchange-traded fixed income derivatives markets which are principally open to all investors.

# Potential Limitations of the Benchmark

**Circumstances in which we would lack sufficient input data to determine the benchmark according to the methodology**

IAS Fixed Income benchmarks are, depending on the nature of the individual index components, based on a range of price providers including futures exchanges, index providers and, for a subset of indices, a regional market-maker in a national bond market.

The benchmarks rely on the continued availability of these data for the determination of the IAS Fixed Income benchmarks. In the case of a market or data source disruption, the administrator will either proceed with or defer the determination of the respective index levels in accordance with the relevant index manual and the relevant Markit Disruption Events Policy.

**Circumstances in which the degree of liquidity of the underlying market becomes insufficient to ensure the integrity and reliability of the benchmark determination according to the methodology**

Potential liquidity issues may be identified as part of the standard input data validation (e.g. abnormally long periods of stale price data) or may be identified in the context of market disruptions or brought forward through third party index owners, in which case the potential issues are escalated to the IAS **Index Administration Committee(IAC)**.

# Exercise of Expert Judgment and Discretion

**Position of each function or body that may exercise discretion in the calculation of a benchmark and governance thereof**

The administrator's indices are rules based and do not typically permit the use of discretion unless there are exceptional circumstances that are not addressed by either the index rules or an administrator policy. Such scenarios may include (but are not limited to):

- Failure of data providers;
- Significant changes to the underlying market;
- Complex corporate events;
- Action by governmental or regulatory bodies that causes market disruption; and
- Events beyond human control.

In the event that the administrator needs to take action or make a decision that has not been foreseen by the methodology or associated policy, senior members of the administration team will consult internally with the applicable IAC; this is to arrive at a decision that is consistent with the objective of the index in question and that causes minimal disruption to index stakeholders.

Any changes to the index methodology or cessations will be decided upon as per IMBA's Benchmark Methodology Changes and Cessation policy (available here). Where a proposed methodology change is material IMBA will launch a wider consultation which is addressed to all relevant stakeholders. it will also notify the **Board** and the **Benchmark Oversight Committee** who will oversee the consultation process and can challenge the suggested approach. A methodology change is likely to be material if it has a substantial impact on the index calculation process or formula, the quality of the input data, the index selection rules, the underlying market or reality measured, the panel of contributors to the benchmark, or the benchmark level.

**Ex-post evaluation process**

As above, the exercise of judgment or discretion in the calculation of the IAS Fixed income benchmarks would need to be approved by the IAC prior to the publication of any benchmark to ensure that no conflict of interest arises and the benchmark continues to reflect the underlying economic reality. The decision of the IAC would be recorded and notes on the nature of the judgment or discretion that have been exercised would be published on made available to the public. To the extent there is feedback or comment on the use of judgment or discretion, the IAC will review those comments at the earliest opportunity.

# Methodology Changes and Benchmark Cessations

**The methodology**

The IAS Fixed Income benchmark family measures the performance of a range of fixed income investment strategies which are based on interest rate derivatives, credit derivatives or fixed income securities. For some of the indices different generic variants exist (e.g. Total or Excess Return, Target Volatility etc.). Each IAS Fixed Income benchmark is comprised of one or multiple interest rate derivatives, credit derivatives and/or fixed income securities which are associated with underlying markets or economies belonging to single or multiple countries or geographical/economic regions.

The methodology of each IAS Fixed Income benchmark or group of IAS Fixed Income benchmarks is documented in a corresponding index manual which is made available to stakeholders upon request.

Generally, IAS benchmarks are administered and calculated by the administrator on behalf of a third-party which retains the intellectual property rights in the index. The initial idea and rationale for a given benchmark methodology is provided to IAS by the relevant third party and undergoes a process of review and approval by the IAS IAC prior to implementation. Any subsequent changes to the determination methodologies or proposed termination of the index are subject to the administrator's change management and consultation process.

Where applicable, Indices are rebalanced on a periodic basis as defined by the index rules in the relevant index manuals.

All benchmark methodologies are assessed prior to their implementation by IAS with respect to the methodological/operational complexities and risks associated with the required data inputs. IAS has put in place policies and procedures applicable to all administered indices ensuring an appropriate level of risk management, error identification resolution, handling of market disruptions, escalation to the IAS IAC, and periodic review of the fitness of the benchmarks. Such reviews are approved by the **Board** and reported to the **Benchmark Oversight Committee**.

IAS operational teams have in place processes for the identification and resolution of errors and, where applicable, validation of data versus third-party sources.

Additional benchmark- specific governance and control arrangements may be put in place as deemed appropriate by the IAS IAC. Policies and procedures are documented in the administrator Control Framework.

IAS has an official restatement policy in place that describes how errors in the index calculation are handled. A number of key factors are considered to determine whether an index restatement is required following an error including (but not limited to) the materiality of the deviation between published and updated index levels and the impact of not restating.

Full details of the administrator's Restatement policy are available on the administrator's website here.

**Rationale for adopting the methodology**

The key elements of the methodology of the IAS Fixed Income benchmarks are the sources of input data and regular rebalancing.

Sources of input data - Generally, prices are sourced from securities/derivative exchanges or from regulated providers. Where appropriate, other reliable pricing sources may be used.

Regular Rebalancing - Where an index follows a rebalancing/constituent selection schedule, commonly monthly, quarterly or annually, the factors considered when determining the frequency reflect the need for the index to be current and well aligned to its objective and intended economic reality, whilst balancing these considerations against specific characteristics of the underlying market(s) including; liquidity, transaction costs, volatility, and contract expiry schedules.

Some indices may rebalance and/or undergo a new constituent selection based on a trigger event as determined by the index methodology rules. Such rules seek to capture certain thresholds/signals within the underlying markets which translate into a requirement for the index to re-align to its objective.

**Possible impact of changes to, or the cessation of the benchmarks upon the financial contracts, financial instruments that reference the benchmark or the measurement of the performance of investment funds**

Generally, IAS will publicly consult on any planned material change or the cessation of an IAS Fixed Income benchmark to allow stakeholders to indicate where changes to or the termination of a benchmark are expected to have adverse impacts. IAS will make reasonable efforts to address stakeholder concerns expressed in response to such consultation and to allow for reasonable advance notice for stakeholders in order to unwind existing contracts or instruments or seek an appropriate substitute benchmark. However, there may be circumstances where external factors beyond the control of the administrator could lead to short-term changes to or the termination of an IAS Fixed Income index without proper consultation or adequate notice period, e.g. where a continuous disruption of the underlying market or an underlying data point requires a change to the methodology or impacts the viability of a benchmark. This may have a direct impact on investors with positions in financial contracts or financial instruments referencing the benchmark.

Further details of the administrator's Change and Cessation policy are available on the administrator's website here.

# Key Terms

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| **IHS Markit CDS Pricing** | means IHS Markit CDS Pricing standalone service that is independent of the index administrator and is based on contributed data, observed quotes in the market and parsed data. |
| **Benchmark Oversight Committee** | means the Benchmark Oversight Committee, the independent function overseeing the IMBA UK Board with regard to the administration of the IAS Fixed Income indices. |
| **BMR** | means the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016. |
| **Board** | means the Board of Directors of IMBA UK. |
| **ESG** | means Environmental, Social, Governance, recognised as the 3 central pillars measuring sustainability and societal impact of institutions, sovereigns, or other entities. |
| **IHS Markit Benchmark Administration Ltd. (IMBA UK)** | means the administrator, which is the UK entity authorised by the FCA responsible for the daily provision of the IAS Fixed Income indices. |
| **Index Administration Committee (IAC)** | means the committee with responsibility for overseeing day to day administration of the IAS Fixed Income Indices. |

# Additional Information

**Updates to this Benchmark Statement**

This Benchmark Statement will be updated whenever the information it provides is no longer correct or sufficiently precise and at least where:

(a) there is a change in the type of the benchmark;

(b) there is a material change in the methodology for determining the benchmark or, where the Benchmark Statement refers to a family of benchmarks, in the methodology for determining any benchmark within the family of benchmarks.

This Benchmark Statement will be updated at least every two years.

**Contact us**

For more information, including to request index specific methodologies, please visit https://ihsmarkit.com/products/index-administration-services.html or contact us support@ihsmarkit.com.

# Appendix I - Consideration of ESG Factors

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| **Type of benchmark family** | Fixed Income Corporate benchmarks |
| **Name of the benchmarks** | Fixed Income Indices |
| **Does the benchmark pursue ESG objectives?** | No |
| **Where the answer to the above question is negative, is any EU Climate Transition Benchmark or EU Paris-Aligned Benchmark available in the portfolio of IMBA UK or does IMBA UK have benchmarks that pursue ESG objectives or benchmarks that take into account ESG factors?** | Yes |

# Appendix II - Disclosure of the Alignment with the Objectives of the Paris Agreement

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| **Does the benchmark align with the target of reducing carbon emissions or the attainment of the objectives of the Paris Agreement?** | No |
| **The temperature scenario, in accordance with international standards, used for the alignment with the target of reducing GHG emissions or attaining of the objectives of the Paris Agreement.** | Not applicable. The benchmarks do not pursue the objective of seeking to reduce carbon emissions or attaining the objectives of the Paris Agreement and therefore a temperature scenario is not relevant to the benchmarks. |
| **The name of the provider of the temperature scenario used for the alignment with the target of reducing GHG emissions or the attainment of the objectives of the Paris Agreement.** | Not applicable |
| **The methodology used for the measurement of the alignment with the temperature scenario.** | Not applicable |
| **The hyperlink to the website of the temperature scenario used.** | Not applicable |
| **Date on which information has last been updated and reason for the update.** | Not applicable |

# Disclaimer

**Performance Disclosure/Back-Tested Data**

Where applicable, S&P Dow Jones Indices and its index-related affiliates ("S&P DJI") defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P DJI defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Information presented prior to an index's launch date is hypothetical back-tested performance, not actual performance, and is based on the index methodology in effect on the launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate certain ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used. Index returns shown do not represent the results of actual trading of investable assets/securities. S&P DJI maintains the index and calculates the index levels and performance shown or discussed but does not manage any assets.

Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US $100,000 investment for a 12-month period (or US $10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US $1,650), the net return would be 8.35% (or US $8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US $5,375, and a cumulative net return of 27.2% (or US $27,200).

**Intellectual Property Notices/Disclaimer**

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