



IHS Markit™

IHS Markit Consultation on proposed changes to the Asian iBoxx indices:

Recommended from the 2021 iBoxx Asian Annual Index Review

27 August 2021

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA UK**) is the Index Administrator of the following indices:

- iBoxx ABF
- iBoxx Asia ex-Japan
- iBoxx USD Asia ex-Japan
- iBoxx ADBI

IMBA UK administers these indices in accordance with the International Organisation of Securities Commissions Principles for Financial Benchmarks (the IOSCO Principles) and the UK Benchmarks Regulation (UK BMR).

2. Background

As part of the Annual Index Reviews, IMBA UK considers potential updates to the rules of the iBoxx indices. As part of the 2021 iBoxx Asian Annual Index Review, several potential index methodology changes were discussed with index users as well as the iBoxx Asian General Advisory Committee (GAC). Following the discussions, IMBA UK proposes to make changes to the index methodologies of four Asian iBoxx index families as outlined below.

iBoxx ABF and iBoxx Asia ex-Japan

The iBoxx ABF Indices are designed to reflect the performance of local currency denominated sovereign and sub-sovereign debt from 8 Asian markets, including China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, and Thailand. iBoxx ABF indices, launched in 2005, are the official benchmark for the Asian Bond Fund (**ABF2**) initiative of the Executives' Meeting of East Asia and Pacific Central Banks (**EMEAP**). The ABF2 initiative was set up by EMEAP to promote the development of local currency bond markets in the region. Over the past year, IHS Markit has held extensive discussions with EMEAP on potential revisions to the iBoxx ABF index rules.

The discussions were two-fold:

- Updating and simplifying the existing index rules for sub-sovereign issuers

- Establishing inclusion criteria for local currency green bonds from sub-sovereign issuers to reflect the revised goals of the ABF2 initiative supporting the development of local currency green bond markets

The iBoxx Asia ex-Japan index is an extension of the iBoxx ABF index, with the inclusion of two markets, namely India and Taiwan¹. As a result, the proposed changes to iBoxx ABF also apply to iBoxx Asia ex-Japan.

iBoxx USD Asia ex-Japan, iBoxx ADBI and iBoxx AHBI

The iBoxx USD Asia ex-Japan, iBoxx ADBI and iBoxx AHBI indices are designed to reflect the performance of USD denominated bonds from Asian issuers. IHS Markit publishes the index levels of these indices twice daily reflecting index performance at the end of the Asia and US trading day. Currently, the Asian end-of-day calculation time is approximately 1600 HKT / SGT.

Based on feedback received from market participants, IMBA UK proposes to move the Asian end-of-day calculation time from 1600 to 1700 HKT / SGT as trading activities in Asian USD bonds display good liquidity until 1700 HKT / SGT.

3. Proposal & Impact

3.1 iBoxx ABF and iBoxx Asia ex-Japan

Proposal

Weight cap for sub-sovereign issuers

The main objective of this change is to simplify the rules of the index. The existing rule has a cap of 5 bonds per eligible sub-sovereign issuer, using a z-score to determine the relative liquidity of a bond compared to other bonds from the same issuer based on size, age, time to maturity and existing constituents. IMBA UK proposes to replace the cap on the number of bonds per sub-sovereign issuer with a weight cap. All eligible bonds from each sub-sovereign issuer are included in the index subject to a cap of 10% per issuer in each iBoxx ABF single market index, e.g. a single sub-sovereign issuer may not account for more than 10% of the iBoxx ABF China index, iBoxx ABF Hong Kong index, etc. The excess weight is distributed across all other issuers within each iBoxx ABF single market index.

¹ Taiwan's current weight in iBoxx Asia ex-Japan is 0%

Reduced minimum notional outstanding of sub-sovereign green bonds

Local currency green bonds are a new asset class, and therefore initial issuance sizes are likely to be smaller than for regular bonds. In order to properly represent sub-sovereign green bonds in the index, IMBA UK proposes to establish a lower minimum outstanding notional cut-off for sub-sovereign green bonds, as described in the following table.

Market	Currency	Existing sub-sovereign bonds cutoff (bn)	Proposed sub-sovereign green bonds cutoff (bn)
China	CNY	10	1.5
Hong Kong	HKD	0.5	0.3
Indonesia	IDR	1,000	750
South Korea	KRW	100	100
Malaysia	MYR	0.5	0.25
Philippines	PHP	3	2.5
Singapore	SGD	0.2	0.15
Thailand	THB	2	1.5
<i>Taiwan*</i>	<i>TWD</i>	3	2.5
<i>India*</i>	<i>INR</i>	-	-

* Applicable for iBoxx Asia ex-Japan

The following criteria are used to identify and classify bonds as green:

- Bonds that are green labelled by Climate Bonds Initiative (CBI), or
- Externally reviewed self-labelled green bonds according to the International Capital Market Association (ICMA) Green Bonds Principles

IMBA UK proposes to implement the above-mentioned changes according to the following timeline:

Event	Date	Technical Specification
New rules for sub-sovereigns and green bonds become effective	31 Mar 22	–
Transition period for newly included bonds	31 Mar 22 – 31 Aug 22	Takes place over 6 rebalances, where 1/6 of the market value will be included at each rebalance

Impact

Weight cap for sub-sovereign eligibility

The following table presents the potential impact on iBoxx ABF and iBoxx Asia ex-Japan single market indices as a result of the proposed rule change; this change does not affect the overall weight of individual markets in the aggregated iBoxx ABF Pan-Asia and iBoxx Asia ex-Japan index as they are determined from (1) local bond market size published on www.asianbondsonline.adb.org or local official sources, (2) sovereign local debt rating and (3) GEMLOC investability indicator.

Market	# Sub-sov bonds	Sub-sov weight	Yield (%)	Duration (yrs)	Yield / Dur. (bps)
China	252 (↑227)	35.76% (↑17.19)	3.13 (↓0.02)	6.02 (↓0.85)	52 (↑6)
Hong Kong	56 (↑21)	37.35% (↑4.69)	1.05 (↑0.08)	4.32 (↑0.12)	24 (↑1)
Indonesia	8 (↑3)	0.34% (↑0.10)	6.51 (—)	6.06 (—)	107 (—)
South Korea	816 (↑746)	14.27% (↑12.09)	1.87 (—)	8.19 (↓0.45)	23 (↑1)
Malaysia	227 (↑176)	18.41% (↑10.90)	3.66 (↑0.05)	7.02 (↑0.12)	52 (—)
Philippines	0 (—)	0.00% (—)	3.89 (—)	5.86 (—)	66 (—)
Singapore	52 (↑35)	18.56% (↑8.33)	1.53 (↓0.02)	8.04 (↓0.36)	19 (↑1)
Thailand	93 (↑58)	8.06% (↑3.61)	2.01 (↓0.01)	8.50 (↓0.12)	24 (—)
<i>Taiwan*</i>	70 (↑60)	7.41% (↑5.79)	0.47 (—)	8.99 (↓0.30)	5 (—)
<i>India*</i>	0 (—)	0.00% (—)	6.76 (—)	6.46 (—)	105 (—)

* Applicable for iBoxx Asia ex-Japan (as of July 2021)

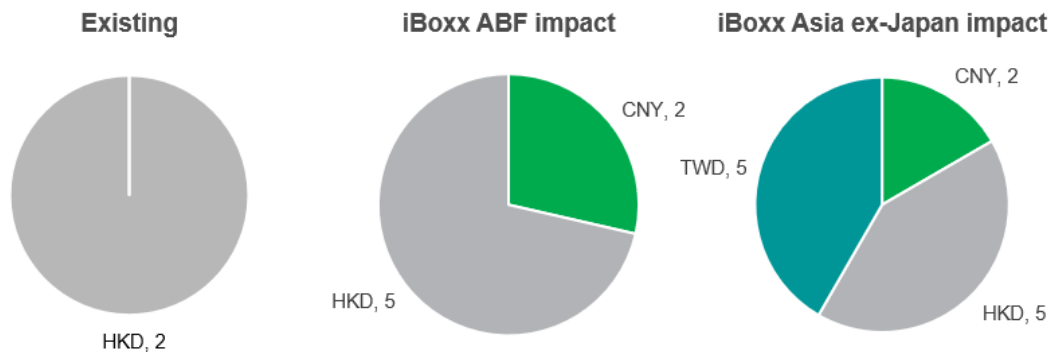
The following table presents the potential impact on the iBoxx ABF Pan-Asia and iBoxx Asia ex-Japan overall index as a result of the proposed rule change:

Index	# Sub-sov bonds	Sub-sov weight	Yield (%)	Duration (yrs)	Yield / Dur. (bps)
iBoxx ABF Pan-Asia (today)	758	10.49%	2.78	7.20	39
iBoxx ABF Pan -Asia (10% cap)	2024	20.07%	2.78	6.88	40
	↑1266	↑9.58%	—	↓0.32	↑1
iBoxx Asia ex-Japan (today)	956	9.76%	2.91	7.18	40
iBoxx Asia ex-Japan (10% cap)	2283	18.55%	2.91	6.90	42
	↑1327	↑8.79%	—	↓0.28	↑2

As of July 2021

Reduced minimum notional outstanding of sub-sovereign green bonds

Currently only a few sub-sovereign green bonds have been issued across the eligible markets for the iBoxx ABF and iBoxx Asia ex-Japan indices. Hence, the impact of the rule change on the current indices is very small. The following charts and table illustrate the impact in terms of number of sub-sovereign green bonds that would be included in the indices.



Green Bond by Type

	iBoxx ABF	iBoxx Asia ex-Japan
Labelled by Climate Bonds Initiative	7	12
Based on ICMA Green Bond Principles with external review	–	–

% weight

0.14%

0.15%

As of July 2021

3.2 iBoxx USD Asia ex-Japan and iBoxx ADBI

Proposal

IMBA UK proposes to move the Asian end-of-day calculation time for the iBoxx USD Asia ex-Japan, iBoxx ADBI and iBoxx AHBI indices from 1600 HKT/SGT to 1700 HKT/SGT. The change is made to reflect the point in time more closely when liquidity and trading activities on USD bonds move from Asia to Europe and thus is more representative of an Asian end-of-day index value.

The proposed implementation of this change is with effect from the 31 October 2021 index rebalance.

Impact

As a result of the change, the Asian end-of-day index data for the impacted indices will be published approximately one hour later.

4. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 27 Aug 2021 Consultation opens
- 23 Sep 2021 Consultation closes
- 24 Sep 2021 IMBA UK reviews stakeholder feedback and a final decision is communicated

5. Consultation process

The participation of stakeholders in this consultation is important as IMBA UK seeks to gather views on the proposals herein and the suggested timetable for implementation of those proposals. IMBA UK may publish summaries of stakeholders' comments along with IMBA UK's responses to those comments unless the stakeholder in question expressly requests confidentiality.

To participate in this consultation please respond to IMBA UK Administration Services at MK-IndexAdminConsultation@ihsmarkit.com.

Please be advised that all comments will be reviewed and considered before a final decision is made; however, IMBA UK 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 UK reserves the right to make a final decision on the proposal.

6. Key question

Do you have any concerns regarding IMBA UK's proposal to update the methodology of the described indices and the respective implementation timelines?