



IHS Markit™

IHS Markit Consultation on the configuration update of the iBoxx Inflation Breakeven Indices

7 October 2020

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA**) is the Index Administrator of the iBoxx Inflation Breakeven Indices.

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

On 9 September 2020, the Federal Republic of Germany performed a "twin" issuance of a conventional sovereign bond and a green sovereign bond with an identical coupon and maturity, resulting in an identical annual modified duration (AMD). The green twin bond is a separate bond issued with the same maturity and coupon as the conventional bond, but with a smaller issue volume. The aim of this structure is to ensure that the issuance of green bonds does not negatively influence overall liquidity in German government bonds.

IMBA analysis has found evidence that the introduction of "twin" bonds has disrupted the index's selection procedure for the iBoxx Breakeven Inflation indices, because the ranking process ends up in a tie. In the selection process of these indices the bonds were exclusively ranked by the annual modified duration, which would cause twin bonds to be equally ranked. For the systematic process to operate as intended, bonds have to be uniquely ranked, providing a logic for which bond should be referenced. As such, a proposal has been made to adjust the ranking criteria and avoiding that 2 bonds can have the same rank.

The following changes were made for the 30th September 2020 rebalancing on an ad hoc, one off basis to ensure the Breakeven Inflation indices could be rebalanced without disruption. IMBA now consults on whether to make these changes a permanent feature of the methodology.

The following indices were affected by the ad-hoc, one-off ranking change:

ISIN	Index Name
GB00BYVXCZ47	Markit iBoxx EUR Breakeven Euro-Inflation France & Germany
GB00BGFPQZ84	iBoxx EUR Inverse Breakeven Euro-Inflation France & Germany
GB00BF9Q1C26	iBoxx EUR Breakeven 10-Year Inflation France & Germany
GB00BZ7PCG24	Markit iBoxx EUR Breakeven Euro-Inflation France Germany & Italy 7-15

3. Proposal

As a result of the analysis conducted by IMBA, it was decided that to overcome the issue, a set of three ordering (ranking) criteria should be introduced to the logic of the index configuration. The ranking criteria are applied subsequently until a unique rank is established for each of the bonds. Those three ordering criteria are:

1. Higher annual modified duration (AMD)
2. Higher notional amount outstanding
3. Higher ISIN (ranked in alphanumerical order)

N.B. The last of the ordering criteria (3. Higher ISIN (ranked in alphanumerical order)) is only used as a 'tie-breaker' to establish unique ranking for the twin bonds if they are otherwise identical.

The use of the above 3 ranking factors would replace the previous ranking based solely on the annual modified duration. The proposal is to make the additional ranking criteria that had to be introduced on 30th September 2020 a permanent feature of the index methodology starting with 31st October 2020 rebalancing.

4. Analysis

The below table provides the indices for which the ranking change is proposed:

ISIN	Index Name
GB00BD72SJ43	Markit iBoxx GBP Breakeven 10-Year Inflation
GB00BYVXCZ47	Markit iBoxx EUR Breakeven Euro-Inflation France & Germany
GB00BGFPQZ84	iBoxx EUR Inverse Breakeven Euro-Inflation France & Germany
GB00BF9Q1C26	iBoxx EUR Breakeven 10-Year Inflation France & Germany
GB00BZ7PCG24	Markit iBoxx EUR Breakeven Euro-Inflation France Germany & Italy 7-15
GB00BYVXD172	Markit iBoxx USD Breakeven 10-Year Inflation
GB00BF9QJQ24	iBoxx USD Inverse Breakeven 10-Year Inflation
GB00BHFSRH32	iBoxx USD 10-Year Breakeven Inflation (Futures)

The addition of the proposed ordering criteria is intended to take effect from the 31st October 2020 rebalancing for the indices listed above.

The table below highlights the affected twin bonds, in order of their 'ranking' for consideration in the inflation breakeven calculation:

ISIN	Issuer Country	AMD	Amount Outstanding	Settlement Date
DE0001102507	GERMANY	9.926657673	24,500,000,000	19-Jun-20
DE0001030708	GERMANY	9.926657673	6,500,000,000	9-Sep-20

5. Consultation timetable

The timetable IMBA is suggesting is as follows:

- 7 October 2020 Consultation opens
- 21 October 2020 Consultation closes
- 22 October 2020 IMBA reviews stakeholder feedback and a final decision is communicated
- 31 October 2020 Implementation of rule change in the select indices (changes will be reflected in the forward files accordingly)

6. 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@ihsmarkit.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.

7. Key questions

Do you have any concerns regarding IMBA's proposal to update the configuration of the iBoxx Inflation Breakeven Indices?