



IHS Markit™

# IHS Markit Consultation on Markit iBoxx EUR Liquid Corporates Large Cap Index

16 October 2020

## 1. IHS Markit’s Administration

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IHS Markit Benchmark Administration Limited (**IMBA**) is the Index Administrator of the Markit iBoxx EUR Liquid Corporates Large Cap 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

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IMBA analysis of forwards files relevant to the September rebalancing highlighted that, at the rebalancing of the Markit iBoxx EUR Liquid Corporates Large Cap Index, there could be an inclusion of EUR-denominated bonds which were originally denominated in a pre-EUR (legacy) currency at issuance. Following the introduction of the European Monetary Union, they were redenominated into EUR. The liquidity of these bonds is more limited given that they are trading in odd lot minimum pieces and increment based on the original currency.

The two bonds in question shown below were originally denominated in Italian Lira (ITL):

<b>ISIN</b>	<b>Ticker</b>	<b>Issuer</b>	<b>First Settlement Date</b>	<b>Coupon</b>	<b>Notional Amount</b>
DE0001892057	DB	Deutsche Bank AG	20/01/1997	0	1,367,975,541
DE0001342244	DB	Deutsche Bank AG	15/10/1996	0	1,783,622,635

The index rules for the Markit iBoxx EUR Liquid Corporates Large Cap Index state that “...all bonds need to be EUR-denominated...”. There is no mention of legacy currency denominated bonds.

The broad iBoxx EUR Benchmark index that contains these two bonds already has a special provision for such legacy bonds and states that “...Markit iBoxx EUR indices include only Euro and legacy currency denominated bonds...”

This leaves the treatment of legacy currency denominated bonds undefined in the current rules of the Markit iBoxx EUR Liquid Corporates Large Cap Index. A decision

was made to not include such bonds in the September rebalancing and to conduct a consultation on their eligibility.

### 3. Proposal

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As a result of the analysis conducted by IMBA, it is proposed that the Markit iBoxx EUR Liquid Corporates Large Cap Index rules and index guide are updated to explicitly exclude such redenominated legacy currency bonds (bonds whose prevailing currency denomination at the time of issuance was not EUR).

A key consideration is that legacy currency bonds were issued prior to 1998 and the availability of these bonds is thus more restricted in the markets. Including those bonds in this liquid index does not align with its purpose of being more replicable and tradable. The exclusion of redenominated legacy currency bonds is thus proposed to preserve the index's liquidity profile.

**The Markit iBoxx EUR Liquid Corporates Large Cap Index guide currently reads:**

"All bonds must be denominated in EUR. The issuer's domicile is not relevant for bond selection."

**IMBA proposes this should be adjusted to read:**

"All bonds must be denominated in EUR. Redenominated legacy currency bonds are not eligible. The issuer's domicile is not relevant for bond selection."

Redenominated legacy currency bonds will not be eligible to enter the Markit iBoxx EUR Liquid Corporates Large Cap Index due to their liquidity profile, which would otherwise undermine the design and character of the index.

The redenominated legacy currency bonds remain eligible to the broad iBoxx EUR Benchmark index, which purpose is to capture the broad EUR investment grade market.

### 4. Consultation timetable

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The timetable IMBA is suggesting is as follows:

- 16 October 2020 Consultation opens

- 11 November 2020 Consultation closes
- 12 November 2020 IMBA reviews stakeholder feedback and a final decision is communicated
- 30 November 2020 Implementation of rule change

## 5. Consultation process

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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](mailto: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.

## 6. Key questions

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**Do you have any concerns regarding IMBA's proposal to update the methodology of the Markit iBoxx EUR Liquid Corporates Large Cap Index?**