FTSE Canada NVCC Bond Index
v2.2
## Contents

1.0 Introduction ...........................................................................................................3
2.0 Management Responsibilities .............................................................................5
3.0 FTSE Russell Index Policies ...............................................................................7
4.0 Eligibility Criteria ...............................................................................................9
5.0 Price Sources ......................................................................................................11
6.0 Periodic Change to the Portfolios .................................................................12
Appendix A: Index Calculations .............................................................................13
Appendix B: Further Information ............................................................................14
Section 1

Introduction

1.0 Introduction

1.1 The FTSE Canada NVCC Bond Index

1.1.1 The FTSE Canada NVCC Bond Index is a benchmark of the performance of Non Viable Contingent Capital (NVCC), as that term is set out by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) Guideline, bonds issued in Canadian Dollars.

1.2 The FTSE Canada NVCC Bond Index does not take account of ESG factors in its index design.

1.3 FTSE Russell hereby notifies users of the index that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.4 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index’s rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell nor its subsidiary undertakings (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation of the Index or any constituent data.

1.5 These Ground Rules

1.5.1 This document sets out the Ground Rules for the construction and management of the FTSE Canada NVCC Bond Index.

1.6 FTSE Russell

1.7 **Capital Index** (also known as the Price Index or the Clean Price Index)

1.7.1 The capital index tracks the notional weighted average change in the prices of the index constituents and is calculated every business day.

1.8 **Total Return Index** (also known as the Performance Index)

1.8.1 A total return index is calculated for the index. A total return index takes into account the price changes and interest accrual, CPI accrual, and payments of each index constituent.

1.8.2 In addition to the Capital Index and Total Return Index, the following index analytics are also calculated:

- Average Coupon
- Average Yield to Maturity
- Average Time to Maturity
- Value of 01
- Average Macaulay Duration
- Average Modified Duration
- Average Convexity
- The sum of the nominal value of all bonds in each index
- The number of bonds in each Index, and
- The weight of the index in relation to its relevant aggregated index (when applicable).

1.9 The base currency of the benchmark is Canadian Dollars (CAD).
Section 2

Management Responsibilities

2.0 Management Responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index.¹

2.1.2 FTSE Russell is responsible for the daily calculation, production and operation of the FTSE Canada NVCC Bond Index and will:

- maintain records of all the constituents;
- be responsible for the addition and deletion of bonds and changes of nominal amounts, in accordance with the Ground Rules.

2.1.3 These Ground Rules set out the methodology and provide information about the publication of the FTSE Canada NVCC Bond Index.

2.2 FTSE Canada Fixed Income Advisory Committee

2.2.1 The FTSE Canada Fixed Income Advisory Committee is established by FTSE Russell.

2.2.2 The purpose of the Committee is to provide a forum for FTSE Russell to interact with index users and other stakeholders with a view to enhancing the underlying methodologies of FTSE Russell indexes.

2.2.3 The Terms of Reference of the FTSE Canada Fixed Income Advisory Committee are set out on the FTSE Russell website and can be accessed using the following link:

FTSE_Canada_Fixed_Income_Advisory_Committee.pdf

2.3 Amendments to these Ground Rules

2.3.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to best reflect the aims of the index. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

¹ The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation).
2.3.2 Where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Rules should subsequently be updated to provide greater clarity.
Section 3

FTSE Russell Index Policies

3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

3.1 Queries and Complaints

FTSE Russell’s complaints procedure can be accessed using the following link:

Benchmark_Determination_Complaints_Handling_Policy.pdf

3.2 Guide to the Calculation Methods for the FTSE Fixed Income Indexes

3.2.1 For a description of the methodology used to calculate the index and bond level analytics, please consult the Guide to Calculation Methods for FTSE Fixed Income indexes, which can be found using the following link:

FTSE_Fixed_Income_Index_Guide_to_Calculation.pdf

3.3 Statement of Principles for FTSE Fixed Income Indexes (the Statement of Principles)

Indexes need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles for FTSE Fixed Income Indexes which summarizes the ethos underlying FTSE Russell’s approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Group for discussion before approval by the FTSE Russell Product Governance Board.

The Statement of Principles for Fixed Income Indexes can be accessed using the following link:


3.4 Price Sources

3.4.1 For further information, please see the FTSE Canada Multi Dealer Pricing Methodology Guide which can be accessed using the following link:

FTSE_Canada_Multi_Dealer_Pricing_Methodology_Guide.pdf
3.5 Recalculation Policy and Guidelines
The Recalculation Policy and Guidelines for Fixed Income Indexes document is available from the FTSE Russell website using the link below or by contacting info@ftserussell.com.

Fixed_Income_Recalculation_Policy_and_Guidelines.pdf

3.6 Policy for Benchmark Methodology Changes
3.6.1 Details of FTSE Russell’s policy for making benchmark methodology changes can be accessed using the following link:

Policy_for_Benchmark_Methodology_Changes.pdf
Section 4

Eligibility Criteria

4.0 Eligibility Criteria

4.1 Eligible Bonds

4.1.1 In order to be eligible for the FTSE Canada NVCC Bond Index Series, bonds must meet the following criteria:

- **Currency of Denomination:** Canadian Dollars (CAD)
- **Country of Issue:** Canada
- **Country of issuing entity:** Canada
- **Issue Type:** NVCC
- **Remaining Effective term to maturity:** At least one year
- **Minimum Rating:** The index rating, as defined in Section 3.3, must be BBB or higher
- **Number of Institutional Investors:** At least 10 institutional buyers at issue.2

4.1.2 Bonds must have fixed rate coupons, payable semi-annually. Coupon bonds may have odd first and/or last coupon/principal payments:

- short last shall mean a bond with scheduled semi-annual payments, where only the last coupon / principal payment date is less than 6 months in term from the previous scheduled semi-annual payment date;
- long last shall mean a bond with scheduled semi-annual payments, where only the last coupon / principal payment date is greater than 6 months but less than 12 months in term from the previous scheduled semi-annual payment date;
- bonds with odd first coupon payments remain eligible under the definition of semi-annual.

4.1.3 In order to be eligible for the indexes bonds must have a price assigned from a price source as specified in Section 5 of these Ground Rules.

4.2 Weighting

The FTSE Canada NVCC Bond Index is capitalisation-weighted. That is, each bond contributes to the return on the index in proportion to its nominal market value.

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2 Effective 15 April 2019
4.3 Index Ratings

4.3.1 Bonds must have an index rating of at least investment grade, in order to be eligible for the Index.

The index rating for each bond is based on the ratings from Dominion Bond Rating Service, Standard and Poor's, Moody's Investors Service and Fitch. In cases where the agencies do not agree on the credit rating, the index rating will be classified according to the following rules:

If two agencies rate a security, and the ratings are not equal, use the lower of the two ratings;

- If two agencies rate a security, use the lower of the two ratings;
- If three agencies rate a security, use the middle of the three ratings;
- If four agencies rate a security, use the middle of the three lowest ratings

These rules mean that a bond rated by two or more agencies must have at least two investment grade credit ratings in order to be eligible for the Universe Bond Index. For example, a new issue rated BBB- by S&P and BB+ by DBRS would be assigned an index rating of BB for the purposes of the index, and would not be eligible for inclusion in the index.

The index ratings are classified into broad credit rating categories of AAA/AA, A, and BBB. The index rating does not distinguish between minor ratings notches, such as plus or minus signs or their equivalent within a broad letter category. Thus, the ratings A+, A-, and A are viewed as equivalent for the purposes of the index. Additionally, the index does not take into account a rating agency's outlook for a credit rating, or whether a particular rating may be under review by an agency.

4.3.2 An issuer rating may be applied for bonds classified as Government or Financial if security-level ratings are not available.
Section 5

Price Sources

5.0 Price Sources

5.1.1 The securities that make up the Universe Bond Index are priced using inputs from leading fixed income broker/dealers in Canada at 4:00pm Eastern Time. The individual price for each security is derived by using proprietary filters that first remove any significant outliers, followed by a Standard Deviation Mean calculation. This Multi Dealer data best represents the marketplace by removing the ability of any one dealer to have undue influence upon the final calculated price/yield. The final security price is the mid-market price.

5.1.2 The index assumes a T+0 settlement period for the purposes of calculating bond analytics such as yields, duration or accrued interest.

5.1.3 For more information on the price sources used for the Universe Bond Index, please see the FTSE Canada Multi Dealer Pricing Methodology Guide can be accessed using the following link:

FTSE_Canada_Multi_Dealer_Pricing_Methodology_Guide.pdf
Section 6

**Periodic Change to the Portfolios**

6.0 **Periodic Change to the Portfolios**

6.1 **Rebalancing the Indexes**

6.1.1 The FTSE Canada NVCC Bond Index is rebalanced on a daily basis.

6.2 **Addition of Constituents**

6.2.1 A new issue enters the index on the day it is issued or auctioned. The bond is included in the calculation of index risk statistics such as duration on the day of issue, though it does not affect the return on the index until the following business day. The new security does not begin to accrue interest until the new issue settlement date. The cut-off time for inclusion on the day of issue is 3:00pm EST.

6.3 **Removal of Constituents**

6.3.1 A bond is removed from the index on the day its remaining effective term to maturity declines to one calendar year, whether that year has 365 or 366 days.

6.3.2 When a bond is downgraded below BBB, it is removed from the index 30 days after the initial downgrade.

6.3.3 In the case that the NVCC conversion provision is triggered, the conversion date would be treated as the effective maturity and the bond removed in accordance with Section 5.3.1.

6.4 **Alterations to Constituents**

6.4.1 The following events are implemented on their effective date:

- Unscheduled redemptions or repurchases, including puts or calls
- Coupons which step up or down, for example rating driven bonds
- Bonds which funge into an existing bond.
Appendix A: Index Calculations

For further details on the index and bond level calculations, please see the Guide to Calculation Methods for the FTSE Fixed Income Indexes which can be accessed using the following link:
FTSE_Fixed_Income_Index_Guide_to_Calculation.pdf

The following notation is used in the following calculations:

- $P_{i,t}$: clean price of a constituent bond $i$ on valuation day $t$
- $A_{i,t}$: accrued interest of a constituent bond $i$ as of valuation day $t$
- $N_{i,t}$: nominal value of a constituent bond $i$ on valuation day $t$
- Coupon$_i$: coupon rate of a constituent bond $i$
- $y_{i,t}$: yield to maturity of a constituent bond $i$ as of valuation day $t$
- MacDur$_{i,t}$: Macaulay duration of a constituent bond $i$ as of valuation day $t$
- ModDur$_{i,t}$: Modified duration of a constituent bond $i$ as of valuation day $t$
- Dval$_{01,i,t}$: Dollar duration of a constituent bond $i$ as of valuation day $t$
- Convexity$_{i,t}$: Convexity of a constituent bond $i$ as of valuation day $t$
- $C_{i,t}$: value of any coupon payment received from the bond $i$ for the assumed settlement date at time $t$. If none the value = 0

Clean Price Index (Capital Index)

The clean price ($Pl$) or capital index is given by

$$Pl_{i,0}=100$$
$$Pl_{i,t}=Pl_{i,t-1} \times \frac{\sum [P_{i,t} \times N_{i,t-1}]}{\sum [P_{i,t-1} \times N_{i,t-1}]}$$

Total Return Index

The total return index ($TRI$) is given by

$$TRI_{i,0}=100$$
$$TRI_{i,t}=TRI_{i,t-1} \times \frac{\sum [(P_{i,t}+A_{i,t}+C_{i,t}) \times N_{i,t-1}]}{\sum [(P_{i,t-1}+A_{i,t-1}) \times N_{i,t-1}]}$$
Appendix B: Further Information

A Glossary of Terms used in FTSE Russell’s Ground Rule documents can be found using the following link: 
Fixed_Income_Glossary_of_Terms.pdf

For further information on the FTSE Canada NVCC Bond Index Ground Rules please visit www.ftserussell.com or e-mail info@ftserussell.com. Contact details can also be found on this website.