



FTSE Canada Fixed Income Minimum Issue Size Thresholds Consultation Results and Index Changes August 2018

FTSE Russell has concluded its Minimum Issue Size Thresholds market consultation which considered how issue size and amount outstanding thresholds should be applied in the construction and maintenance of the FTSE Canada Universe Bond Index, the FTSE Canada Maple Bond Index, and the FTSE Canada High Yield Bond Index. The consultation can be viewed [here](#).

The consultation considered the following topics:

- *Minimum issue size thresholds in the Universe, Maple, and High Yield indexes given contemporary issuance patterns and coverage;*
- *Differentiated minimum issue size thresholds at the Government and Corporate sub-index level, with potential further differentiation within the Government sector for Federal, Provincial and Municipal bonds;*
- *Whether minimum issue size thresholds should be applied to determine eligibility at issuance only, or applied throughout the life of a bond to trigger deletion of holdings.*

The feedback received as part of this consultation has been considered under the FTSE governance framework. This includes input from the FTSE Canada External Advisory Committee with the final decision being taken at the FTSE Product Governance Board. Following the completion of that process, we are pleased to announce the following changes:

- ***Effective January 1, 2019, the minimum issue size threshold for Government sector bonds in the Universe Bond Index will be raised to \$100MM, from its current minimum of \$50MM. The minimum issue size threshold for Corporate sector bonds will remain unchanged at \$100MM. Minimum thresholds across all securities in FTSE Canada Universe, Maple, and High Yield Indexes will be aligned as a result of this change;***
- ***Existing index constituents will be grandfathered and bonds issued (and settled) between now and December 31, 2018 will continue to be eligible for inclusion under current minimum issue size thresholds. There will be no impact to current constituents as a result of this change;***
- ***Minimum issue size thresholds will continue to apply to determine index eligibility at entry only. Securities with amount outstanding adjustment for stripping, reconstitution, amortization, and / or corporate action will remain eligible for the indexes. The determination of market value weights and contribution to return in the indexes continues to be based on adjusted amount outstanding.***

The remainder of this document provides further details on the feedback gathered by FTSE Russell as part of the minimum issue size consultation and the rationale for the resulting changes.

Market Consultation Approach

FTSE Russell regularly consults the market for input on index methodologies. Any proposals for amendments to existing rules follow a robust [protocol](#) and are subject to consultation with external advisory committees and, for significant changes, with the broad market. The FTSE Russell Product Governance Board has ultimate decision-making authority. Any resulting changes are clearly and broadly communicated to the market.

Gathering and Analyzing Market Feedback

The Minimum Issue Size market consultation was conducted through an on-line survey platform and ran for a period of approximately 3 months. The broad market was encouraged to provide feedback. Fully completed responses from 54 respondent firms across a broad and comprehensive range of market participants were obtained. In addition to answering the formal survey questions, participants were able to provide comments which were also taken into consideration by FTSE Russell.

Survey Results Summary

The consultation feedback did not provide a strong mandate to support significant revisions to minimum issue size thresholds other than the changes announced here. The key highlights from the responses are summarized below:

- The majority of respondents supported an increase to the current Government bond issue size threshold of \$50MM. The feedback received indicated there was broad support for sector-specific thresholds to be applied as appropriate for Government and Corporate bonds. The possibility of introducing additional differentiation between Federal, Provincial and Municipal sectors was noted. The majority of respondents favoured a \$100MM minimum threshold for Provincial and Municipal sectors.
- Feedback on whether the minimum issue size for the Corporate sector should be raised was fairly evenly split. Those in favour of an increase indicated a preference for a threshold between \$150 to \$200MM. However, there was no consensus or overall strong mandate to warrant a change.
- In respect of the Maple Index, most respondents indicated that differentiation of the issue size rules between Government and Corporate sector thresholds was less relevant. Views on the appropriateness of the current threshold of \$100MM were fairly evenly split between the status quo and an increase to \$200MM.
- In respect of the High Yield Index, the majority of respondents supported the current minimum issue size threshold of \$100MM as being representative of the market.
- In considering the application of minimum issue size thresholds throughout the life of the security versus at issuance only, responses were split. There was a slightly higher preference for continued inclusion of securities if they fell below an amount outstanding threshold. There was a general consensus among respondents that existing constituents should be grandfathered, and stripping or amortization should not be considered as a trigger for removal.

In light of this market feedback, and in consideration of the potential movement of securities between the various index families (for example the potential for bonds to be downgraded or upgraded and to move between the Universe and the High Yield Bond Indexes), the minimum issue size threshold for Government sector bonds in indexes will be raised to \$100MM. This aligns the minimum thresholds across all securities in the FTSE Canada Universe, Maple, and High Yield indexes. The changes apply on a go forward basis only and there will be no other impact to the treatment of constituents.

FTSE Russell recognizes the need to maintain transparency and stability in its indexes, as well as the need to give due consideration to the requirement to provide sufficient notice to stakeholders of any change. We are therefore providing the market with a four (4) month notice period to allow for any necessary adjustments to be made to issuance programs. **The effective implementation date of these changes is January 1, 2019.** The existing index constituents will be grandfathered and bonds issued (and settled between now and December 31, 2018 will continue to be eligible for inclusion under the current minimum issue size thresholds.

Several respondents also provided comments which generally related to considerations of broad market representativeness, issuer access, and the impact on existing investors; the respondents noted that these requirements needed to be balanced with considerations of investability and the potential effect on new investors. FTSE Russell is considering these points as part of its policy of continually reviewing its existing index methodologies and its global product offering.

Please contact us at ftsebond@ftserussell.com or 416.572.7979 with any questions or comments.

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