



FTSE MTS Short Government Bond Index Series

v2.3



Contents

| | | |
|------------|---|-----------|
| 1.0 | Introduction..... | 3 |
| 2.0 | Management Responsibilities | 5 |
| 3.0 | FTSE Russell Index Policies | 7 |
| 4.0 | Eligibility Criteria | 8 |
| 5.0 | Price Sources..... | 9 |
| 6.0 | Index Rebalancing | 10 |
| | Appendix A: The FTSE MTS Short Bond Index Family | 12 |
| | Appendix B: Further Information | 13 |



Section 1

Introduction

1.0 Introduction

1.1 The FTSE MTS Index Structure

1.1.1 FTSE MTS Indexes are a set of benchmarks for European sovereign bond market. The indexes are calculated and distributed by FTSE Russell using pricing data from the MTS platform. All quotes made on the consolidated inter-dealer platform are live and tradable to member dealers. Additionally, market data from the order book is widely distributed via data vendors.

1.2 The FTSE MTS Short Government Bond Index Series does not take account of ESG factors in its index design.

1.3 IOSCO

1.3.1 FTSE International Limited (FTSE) considers that the FTSE MTS Short Government Bond Index Series (the Index Series) meets the IOSCO Principles for Financial Benchmarks as published in July 2013.

Full details can be accessed at www.iosco.org.

Details of FTSE Russell's Statement of Compliance with respect to the IOSCO Principles can be accessed using the following link:

[IOSCO Statement of Compliance](#).

1.4 FTSE Russell hereby notifies users of the index series 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 series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

1.5 Index users who choose to follow this index series 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 group companies (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

1.6 These Ground Rules

1.6.1 This document sets out the Ground Rules for the construction and management of the FTSE MTS Short Bond Index series.

1.7 FTSE Russell

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.

1.8 Index Series Objectives

1.8.1 The FTSE MTS Short Government Bond Index Series is designed to be a measure of the Eurozone Government Bond market. They are transparent indexes, and are designed to be replicable with individual security holdings and prices disclosed electronically each day.

1.9 Publication of Index and Underlying Data

1.9.1 The Short FTSE MTS Indexes are published daily at 17:15 CET. Underlying bond portfolio composition and notional amounts are also published on the FTSE MTS Index website.

1.10 The base currency of the benchmark is EUR.

1.11 FTSE MTS Short Government Bond Index Series

The FTSE MTS Short Government Bond Index Series measures the total return of a portfolio of:

- bonds that have been sold short (after being borrowed in the repo market) and
- cash on overnight deposit.

The short bond positions modelled by the indexes are fully collateralised i.e. the total value of the short bond positions equals the cash on deposit, and the short positions are adjusted each day to maintain this requirement.

Each short index is associated with a total-return FTSE MTS Bond index. The portfolio of bonds used for each short index is identical to the portfolio used in its associated bond index, and the short indexes are calculated in terms of their associated bond indexes.

1.12 Price and Total Return indexes

1.12.1 Price and Total Return indexes are calculated.

1.12.2 Total Return Index: Coupons paid out on any bond in an index portfolio are reinvested overnight in the index itself. No deduction is made to a coupon before it is reinvested in the index i.e. no withholding tax is applied.

1.13 Index Calculation

The indexes are calculated on every day that is a TARGET Business and a MTS market trading day. The index calculation will use the T+2 settlement convention for the valuation of index constituents and the calculation of index analytics.



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 series.¹

2.1.2 FTSE Russell is responsible for the daily calculation, production and operation of the FTSE MTS Short Government Bond Index Series 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.

2.2 FTSE EMEA Fixed Income Advisory Committee

2.2.1 The FTSE EMEA Fixed Income Advisory Committee has been established by FTSE Russell. The Committee may recommend changes to the Ground Rules for approval by the FTSE Russell Product Governance Board.

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

[FTSE EMEA 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 series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with the FTSE EMEA Fixed Income Advisory Committee 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 As provided for in the Statement of Principles for FTSE Fixed Income Indexes, 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 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 summarises 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 Advisory Board 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:

[Statement of Principles Fixed Income Indexes.pdf](#)

3.3 FTSE MTS Pricing Methodology Guide

3.3.1 For further information, please see the FTSE MTS Pricing Methodology Guide which is available using the following link:

[FTSE MTS Pricing Methodology Guide](#)

3.4 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](#)

3.5 FTSE Russell Policy for Benchmark Methodology Changes

3.5.1 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 The FTSE MTS Short Bond Indexes are comprised of three index groups:

- FTSE MTS Short Government Broad Indexes
- FTSE MTS Short Government Broad IG Indexes
- FTSE MTS Daily Short Government ex-AAA Index

4.2 Selection Criteria

All Eligible Bonds automatically become Selected Bonds.

A list of sub index eligibility criteria is presented in Appendix A.

Section 5

Price Sources

5.0 Price Sources

5.1 FTSE MTS Indexes are priced using live quotes from the MTS inter-dealer platform. Each bond quoted on the MTS platform is supported by multiple dealers supplying continuous quotes. These quotes are widely distributed for information to the market via data vendors.

Index updates are calculated using best bid prices. New bonds entering the index for the first time use the best offer price, replicating the bid-offer spread experienced by a fund tracking the index. This applies to both the all-maturity and the individual maturity sub-indexes.

Selected indexes of each series are also available in mid-priced versions, where existing constituents are valued using mid prices. In order to replicate the bid-offer spread incurred when tracking the mid-index, new constituents enter the mid-priced index using their respective ask prices, and leave the index using their respective bid prices. The mid-price is calculated as the arithmetic average of the respective bid and offer price pair.

5.2 Prior to being used in the index calculation, the prices are subject to a multi-step verification process which aims to remove stale or off-market prices. The verification procedure includes:

- Comparing the bid and offer spreads against country thresholds
- Comparing price movements in individual bonds against pre-defined thresholds

Any price that successfully completes the verification process is referred to as the Last Good Price (LGP) and is subsequently used in the index calculation. In the event that the verification process disqualifies all prices for a particular bond the LGP is used, until a new price is available.

5.3 For further information, please see the FTSE MTS Pricing Methodology Guide which is available using the following link:

[FTSE MTS Pricing Methodology Guide](#)

Section 6

Index Rebalancing

6.0 Index Rebalancing

6.1 FTSE MTS Short Bond Index Algorithm

Each FTSE MTS Short Government Broad index on day d , $SI[d]$, is based on

$$SI[d] = \left\{ 1 + \left(1 - \frac{LI[d]}{LI[d-1]} \right) + \frac{daycount(d-1,d)}{360} \times (r_e + r_r) - 2 \times \frac{s}{100} \times \text{Max} \left(1 - \frac{LI[d-1]}{LI[d]}, 0 \right) \right\} \times SI[d-1] \quad (1)$$

where

$LI[d]$ = the associated long index on day d

$daycount(d-1, d)$ = the number of calendar days from $d-1$ to d

r_e = the EONIA rate

r_r = RFR Euro

s = the weighted average bid-offer spread of the selected bonds.

r_r is the 5 day average taking the rates from Monday to Friday, effective on the following Monday. The RFR Euro is sourced from NEX Data.

s is calculated using bid-offer spreads at 17:15 CET and is averaged over a week.

Each FTSE Short EMTX Broad index is calculated during the week *without* the spread factor, i.e. as

$$SI[t, d] = \left\{ 1 + \left(1 - \frac{LI[t,d]}{LI[11:00CET,d-1]} \right) + \frac{daycount(d-1,d)}{360} \times (r_e + r_r) \right\} \times SI[11:00CET, d-1] \quad (2)$$

where indexes at time t on day d are based on the 17:15 CET fixing on day $d-1$ (in accordance with the convention used for the associated FTSE MTS Government Broad Indexes).

At the end of each week, the average spread is calculated by reference to the bid-offer bond spreads at 17:15 CET on each day during the week.

The 17:15 CET fixing from the last business day of each week is then adjusted (“Adjusted Fixing”) by applying the average spread to equation (1).

Note that to calculate the Adjusted Fixing, equation (1) is compounded over each business day during the week. Note also that the Adjusted Fixing is used in the calculation of the index on the first business day of the following week only; the published 17:15 CET fixing on the last business day of each week is not altered.

6.2 Rebalancing Costs

Just as offer prices are used for new entrant bonds in the long index, bonds exiting a short position must be ‘bought back’ at the offer price, having initially been sold short at the bid price.

The long index $LI[d]$ in equation (1) above for the first business day of the month at 17:15 CET must therefore be recalculated and increased to account for the bid-offer spread cost experienced on bonds exiting the portfolio by a fund tracking the index.

In addition, the effect on the underlying long index of using an offer price for bonds entering the portfolio for the first time is in fact to reduce LI , which, due to the nature of the calculation of $SI[d]$ in (1) above, would cause the short index to be increased by the same amount – a gain which a fund tracking the index would not experience in reality.

The $LI[d]$ on the first business day of the month at 17:15 CET is therefore recalculated, adjusting for the cost of the bid-offer spread for both entering and exiting bonds in the short index portfolio to fully replicate the cost experienced by a fund tracking the index.

This recalculated $LI[d]$ is used to generate a new $SI[d]$ on the first business day of the month at 17:00 CET. This recalculated $SI[d]$ is not used until the 2nd business day of the month, whereupon it becomes the $SI[d-1]$ for short index values calculated on the 2nd business day.



Appendix A: The FTSE MTS Short Bond Index Family

FTSE MTS Short Government Broad IG Indexes

Two short bond indexes based on the total return FTSE MTS Government Broad IG Indexes, as follows:

| FTSE MTS Short Government Broad IG Index | Associated FTSE MTS Government Broad IG Index |
|--|---|
| all maturity | all maturity |
| 10-15yr | 10-15yr |

The FTSE MTS Short Government Broad IG indexes are based to 100 on 31 December 1998 and are published daily at 17:15 CET. For bond selection criteria for the associated FTSE MTS Short Government Broad IG Index, please see the ground rules for this index.



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 MTS Short Government Bond Index Ground Rules please visit

www.ftse.com/products/mts or e-mail info@ftserussell.com.

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