

FTSE Canada Fixed Income Indexes - Changes to Index Rating Methodology 15 April 2019

21 March 2019

FTSE Russell has conducted a review of the rules used to assign a composite credit rating to individual securities tracked by FTSE Canada Fixed Income Indexes. The review was undertaken following our announcements on 25 September 2018¹ and considered the following topics:

- *Enhancement of the composite index rating methodology;*
- *Display of notched rating at the issue level;*
- *Documentation of the approach and instances to use issuer ratings, where issue level ratings are not available.*

Following thorough consideration under the FTSE governance framework, which incorporated feedback from index users and the FTSE Canada External Advisory Committee with the final decision being taken at the FTSE Product Governance Board, we are pleased to announce the following changes:

- Effective 15 April 2019, the index ratings methodology will be updated to the following:
 - *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***

This update addresses the previously noted limitation of handling rating assignment in the case of four rating agencies with a three-way split. **As a result of this change, the following security will move composite rating buckets in the index.** No other impact to index constituents is expected as a result of this change:

CUSIP	Issuer	Group	Sub Group	S&P	Moodys	FITCH	DBRS	CURRENT Composite Rating	NEW Composite Rating
1360695D9	C.I.B.C. 3.29% 15Jan2024	Financial	Bank	BBB+	A2	AA-	AAL	AA	A

- Effective 15 April 2019, the index methodology will be **updated to clarify the operational practice of applying an issuer rating to bonds classified as Government or Financial** (in accordance to the FTSE Canada classification schema), **if security-level ratings are not available**. As a result of this change, legacy issuer level ratings will be removed for a small number of non-Government and non-

¹ For further details please see the following [\[link\]](#)

Financial bonds. **There will be no impact to the composite rating of current constituents as a result of this change.** FTSE will provide a list of securities to index users upon request.

- FTSE will continue to solicit feedback with respect to demand for future enhancements to index files to provide notched ratings at the security level. Any such enhancement **will not have an impact on index quality buckets for sub-index or reporting purposes**

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