

FTSE Canada Indexes - Ground Rule Update

21 March 2019

FTSE Russell would like to inform clients that the FTSE Canada Index Series Ground Rules have been updated. These changes are effective from 15 April 2019.

Section 4: Eligibility Criteria (Updates highlighted in bold)

4.1 Eligible Bonds

4.1.1 In order to be eligible for the FTSE Canada 0+ Year Universe Bond Index Series, bonds must meet the following criteria:

Currency of Denomination:	Canadian Dollars (CAD)
Remaining Effective term to maturity:	At least 5 days
Minimum Rating:	The index rating, as defined in Rule 4.4, must be BBB or higher
Number of Institutional Investors:	At least 10 institutional buyers at issue .

4.4 Index Ratings

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

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, 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 means 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, and at least three investment grade credit ratings if rated by all four rating agencies. For example, a new issue rated BBB- by S&P and BB+ by DBRS would be assigned an index rating of BB, 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.

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

Updated copies of the Ground Rules are now available on the FTSE Russell website:

www.ftserussell.com

For further information please contact FTSE Russell Client Services at info@ftserussell.com or call:

Australia	+1800 653 680
Hong Kong	+852 2164 3333
Japan	+81 3 4563 6346
London	+44 (0) 20 7866 1810
New York	+1866 551 0617

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