



## FTSE Canada Bond Indexes – Results of Market Consultation on Index Eligibility of Limited Recourse Capital Note Structure

21 July 2020

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On Thursday July 16, 2020, FTSE Russell announced that it would consult market participants on the index eligibility of the Limited Recourse Capital Note (LRCN) structure<sup>[1]</sup> which is currently being marketed by a Canadian bank.

An extraordinary meeting of the FTSE Canada Fixed Income Advisory Committee was convened on Friday July 17, 2020 to discuss this topic. After careful consideration of the consultation results and a thorough review of the security structure, FTSE Russell announces that this structure will not be deemed eligible for the FTSE Canada Universe Bond Index or other FTSE Canada fixed-rate indexes.

The coupon structure of the LRCNs is incongruent with the eligible coupon types for inclusion in the FTSE Canada Universe Bond Index: fixed-rate, fixed-to-floating rate or fixed-rate step-up where the future interest rate is predetermined at issuance. Setting the Effective Maturity Date for this bond as the first Interest Reset Date (in line with the handling for fixed-to-floating rate bonds) appears to be inconsistent with investors' views of its materially longer duration and complex risk profile as a non-bullet security. Further, it would not be appropriate to set the Effective Maturity Date after the first Interest Reset Date since, after the first reset, the rate is variable rather than fixed. FTSE Russell has therefore determined that the Limited Recourse Capital Note is not appropriate for inclusion in fixed-rate benchmarks.

FTSE Russell has received feedback that this structure could in future constitute a significant portion of the Canadian corporate market. We therefore intend to review both the needs of index users to track this asset type, as well as the analytic modelling capabilities required for this new coupon structure.

Please contact [pcbond@ftserussell.com](mailto:pcbond@ftserussell.com) / 416.572.7979 with any questions or comments.

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<sup>[1]</sup> For further details, please see: <https://research.ftserussell.com/products/index-notices/home/getmethodology/?id=2597108>

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