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Results of the Consultation on Eligibility of Maple Bonds for the FTSE Canada Universe Bond Index

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In April 2024, FTSE Russell **launched** a market consultation to invite feedback on the eligibility of Maple bonds for the FTSE Canada Universe Bond Index. It sought views from index stakeholders on whether it is appropriate for Maple bonds to be included in the FTSE Canada Universe Bond Index, given its stated objective to measure the market for Canadian dollar denominated, fixed-rate, investment grade, government and corporate bonds.

FTSE Russell has carefully considered the comments received as part of this consultation and announces that newly issued Maple bonds will be included in the FTSE Canada Universe Bond Index, effective January 1, 2025. Maple bonds that are issued and settle on or after this date, and meet other index eligibility criteria, will be included in the index.

This change will also be applied to standard sub-indices, such as the corporate component of the FTSE Canada Universe Bond Index, thematic variants, and related indices, such as the FTSE Canada High-Yield Bond Index. Users of custom indices will be able to specify the manner in which the change is applied to their index.

Further details on the consultation feedback and implementation details of the change can be found in the remainder of this announcement.

Consultation Feedback

Based on discussions with a broad group of index stakeholders, FTSE Russell has determined that Maple bonds comprise a growing and material part of the local currency, fixed-rate, investment grade choice set for domestic Canadian investors and their inclusion results in a more representative index universe given its objective. The change also aligns the construction of the FTSE Canada Universe Bond Index with other comparable and widely used single currency, investment grade, broad-based indices, such as the FTSE US Broad Investment-Grade Index. Among the benefits of inclusion highlighted to FTSE Russell were increased issuer diversification in the index and an expanded investment choice set for passive index portfolio managers. Though certain index users indicated a preference to retain the status quo, the supporting rationale did not indicate that there were fundamental or structural differences to justify the continued exclusion of Maple bonds.

The consultation feedback indicated strong support for implementation of the change on a go-forward basis only and without the addition of seasoned bonds to the index from the effective date of the change. This approach alleviates concerns, voiced by some respondents, regarding their ability to, and the cost associated with, sourcing previously issued bonds on the secondary market and the need to expand credit coverage to many new issuers at a single point in time.

Though preferences varied somewhat across respondents, there was an overarching theme amongst the feedback that FTSE Russell should look to avoid introducing any added complexity in the index construction when making the rule change and therefore, avoid asymmetrical inclusion of Maple bonds with respect to minimum amount outstanding, credit rating, issuer sector and country eligibility. Furthermore, our analysis found that benchmark issue sizes within the current Maple bond market tended to be aligned with higher values and these bonds did not systematically carry fewer ratings across agencies. As such, the same minimum issue size threshold¹ and credit rating methodology will be applied across the entire index once the change is implemented, and all non-Canadian issuers across all sectors will be considered for inclusion.

Bond-Level Inclusion Criteria

All existing bond-level inclusion criteria will be applied to Maple bonds to determine index eligibility after the implementation date of the change. For any avoidance of doubt, this includes the same CAD 100 minimum issue size rule, credit rating methodology and minimum 10 institutional buyer rule.

In the event that a Maple bond issued prior to January 1, 2025 is reopened, the security will continue to be excluded in its entirety from the index.

¹ FTSE Russell reviewed this rule in 2018 and the minimum was raised from CAD 50 million to CAD 100 million for government issuers, effective December 31, 2018. FTSE Russell welcomes feedback from index users on whether this rule should be reviewed again across the entire index in the future.

Issuer Country Assignment

The issuer country assignment within the index will continue to be based on the country of incorporation of the issuing entity. FTSE Russell clarifies that bonds issued by an offshore special purpose entity or financing vehicle assume the nationality of the ultimate borrower company regardless of whether there is an explicit guarantee of debt repayment by the ultimate borrower or parent company.

In the case of Supranational entities, securities from issuers where the Canadian government is a member of the Supranational consortium will continue to have a country assignment as Canada. Where the Canadian government is not a member of the Supranational, the country will be assigned as the country of incorporation of the Supranational. This will allow for continuity for index users who may wish to use a Domestic-only sub-set of the FTSE Canada Universe Bond Index subsequent to the change.

Issuer Sector Assignment

In line with index issuer country assignments, issuer sector assignments will continue to reflect that of the ultimate borrower. Currently, the sector scheme that is used within the FTSE Canada Bond Index Series is domestically-oriented with two high-level sub-sectors for Government and Corporate. Within the Government sector, there are sub-sectors for Federal, Provincial and Municipal. Within Federal, there are sub-sectors for Non-Agency, Agency and Supranational.

FTSE Russell announces that for purposes of issuer sector assignment within the FTSE Canada Bond Index Series, bonds issued by non-Canadian government and quasi-government entities will be classified as Government > Federal > Supranational, which will be defined as follows effective from January 1, 2025:

- Direct obligations of non-Canadian central, local and regional governments;
- Bonds issued by non-Canadian entities that are fully nationalized (i.e., 100% government owned) or containing an explicit government guarantee.

Where:

- Government ownership is by either a central, local or regional government, and can be a combination of these if totalling 100% public ownership;
- The explicit guarantee can be from a central, local or regional government, and can reference a joint guarantee from one or more governments.

Index methodology documents will be updated to reflect the above and the current Supranational sector will be renamed as "Sovereign, Supranational and Foreign Agency". All other non-Canadian entities will be classified based on their respective business lines within Corporate. This approach will continue to allow for a Canadian domestic view of quasi-government issuers in sub-index construction.

These sector assignments will be aligned with that of global indices, which typically group non-native currency agency, local government, and quasi-government issuers within the same sector. Native currency government agency debt is typically considered to be a separate peer group by fixed income investors, and the Federal > Agency bucket will contain Canadian agencies only.

FTSE Russell will review the sector classification of existing Maple issuers in advance of the implementation date of the rule change for the FTSE Canada Universe Bond Index, and details of resulting sector changes will be communicated to index users in due course with appropriate notice. FTSE Russell will also work with the investment community to provide transparency into the index sector assignment of new Maple bond issuers in a timely manner as securities are issued.

Eligibility of Debt Issued by Financial Institutions Regulated Outside of Canada

The methodology for the FTSE Canada Universe Bond Index explicitly excludes "*Regulatory capital that counts towards Additional Tier 1 (AT1) debt for deposit taking institutions, Tier 1 capital for life insurers, and Category B capital for property and casualty, and mortgage insurers.*" Equivalent debt issued by non-Canadian banks and other financial institutions will also be excluded from the index to ensure a consistent approach once the rule change is implemented. In other jurisdictions, this tier of financial debt is broadly defined as "*securities that exhibit equity conversion or write-down features (full or partial) based on explicit trigger mechanisms linked to an issuer's regulatory capital ratios or other solvency balance sheet metrics*".

Index-Level and Issue-Level File Enhancements

FTSE Russell intends to publish additional sub-indices of the FTSE Canada Universe Bond Index and the FTSE Canada High-Yield Index that exclude Maple Bonds. The naming convention of these indices will reference the Domestic nature of their composition, such as the "FTSE Canada Universe Domestic Bond Index". These will be included in existing standard index data packages.

Additionally, a "Country" attribute will be added to the enhanced issue-level files for the FTSE Canada Universe Bond Index and the FTSE Canada High-Yield Index.

Further details on these changes to index-level and issue-level files will be provided in the coming weeks.

FTSE Russell will continue to publish the FTSE Canada Universe + Maples Bond Index, though its composition will align with the FTSE Canada Universe Bond Index over time.

The Ground Rules for the FTSE Canada Universe Bond Index and related indices will be updated upon implementation

of the change on January 1, 2025.

FTSE Russell appreciates the thoughtful feedback provided by Canadian investors and index stakeholders, and welcomes further comments or questions on the content of the above announcement.

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