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FTSE Canada Bond Indices - Update on the Sector for Maples in the FTSE Canada Indices

28 October 2024

Following a market consultation, in July 2024, FTSE Russell **announced** 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.

As part of the rule change announcement, FTSE Russell published a series of proposed implementation details for the change, including guidance on the sector assignment of Maple bonds. Based on feedback received from index stakeholders, FTSE Russell proposes an update to the approach originally communicated to index users. Details can be found in the remainder of this announcement.

Proposed Issuer Sector Assignment for Maple Bonds

Issuer sector assignments for Maple bonds are based on the existing sector scheme that is used within the FTSE Canada Bond Index Series, which is domestically-oriented and comprised of two high-level 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.

For purposes of issuer sector assignment within the FTSE Canada Bond Index Series, FTSE Russell proposes that 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 contain an explicit government guarantee, where the explicit guarantee can be from a central, local or regional government, and can reference a joint guarantee from one or more governments.

As part of the rule change, the current Supranational sector will be renamed as "Sovereign, Supranational and Foreign Agency" (SSA), effective from January 1, 2025. This name change will be reflected in index-level sub-index names, as well as within the bond-level Level 3 sub-sector assignments. All other non-Canadian entities, including those that are fully nationalized (i.e., 100% government-owned) 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 sovereign / local government, supranational and government-guaranteed debt within the same sector. Native currency government agency debt is typically considered to be a separate peer group by fixed income investors, and the Government > Federal > Agency bucket will contain Canadian agencies only.

This proposed approach for the sector assignment of Maple issuers is not intended to impact existing sector classification for Canadian issuers within the indices.

FTSE Russell also intends to support the investment community in providing transparency into the index sector assignment of new Maple bond issuers in a timely manner as securities are issued, where appropriate.

FTSE Russell welcomes any further market feedback on this approach that index stakeholders would like to provide by November 20, 2024. A confirmatory announcement of the sector classification approach will subsequently be made available in advance of the January 1, 2025 implementation date of the Maple rule change.

If you have any questions or comments, please do not hesitate to contact us at fi.index@ftserussell.com / 416.572.7979

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