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Minimum Maturity Rule Change for Defaulted Foreign Currency Government Bonds in FTSE FI Indices

29 August 2024

In August 2022, FTSE Russell **announced** a change to the default rules for foreign currency government bonds in the FTSE USD Emerging Markets Government Bond Index, and indices that are derived from it. Effective from the September 2022 index profiles, the following approach for foreign currency government bonds is followed:

- In the event that one or more foreign currency government bonds fail to make a coupon payment, all foreign currency government bonds from that issuer will be retained in the index and continue to reflect updated pricing in index return calculations, to the extent that this is available from the index pricing provider.
- In the event of a subsequent debt restructuring, FTSE Russell will reflect the economic reality of the transaction for bond investors in the index calculations, to the extent that this is feasible.
- Any foreign currency government bonds that are newly issued as part of a debt restructuring will be required to meet relevant index eligibility criteria before being added to the index, with timing of inclusion based on index rebalancing rules.
- In the event that a defaulted foreign currency government bond market is no longer functioning, and FTSE Russell deems that a market disruption event has taken place, it will reference its FTSE Fixed Income Statement of Principles to determine the appropriate index treatment for the impacted securities.

FTSE Russell has continued to review the treatment of defaulted foreign currency emerging markets government bonds in its fixed income indices, incorporating feedback from index stakeholders and based on recent default scenarios. FTSE Russell announces that effective with November 2024 index profiles, the minimum time to maturity for these bonds in FTSE fixed income indices will change from one year to one month (based on Average Life). This change ensures that the index better reflects the investment approach of index users, who increasingly participate in sovereign debt restructurings and retain these securities in their portfolios. There will be no impact to the minimum time to maturity of 1 year that is applied to other securities in the FTSE Emerging Markets USD Government Bond Index.

Additional 0-1 Year maturity sub-indices will be made available in the following Sector Level index files starting with January 2025 index profiles:

- X_MP_EMUSDGBI
- IX_MPRE_EMUSDGBI
- IX_DPR_EMUSDGBI
- IX_MP_EMUSDDBI
- IX_MPRE_EMUSDDBI
- IX_DPR_EMUSDDBI
- IX_MP_EMUSDGBIC
- IX_MPRE_EMUSDGBIC
- IX_DPR_EMUSDGBIC

Please contact us at fi.index@lseg.com with any comments or questions.

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