

FTSE TMX Canada High Yield Bond Index: Ground Rule Clarification

22 February 2018

FTSE Russell would like to inform clients of the following Ground Rule clarification to the FTSE TMX Canada High Yield Bond Index Ground Rules which is effective immediately. Please note that this clarification does not have any impact to the current index constituents.

Section 4: Eligibility Criteria

4.1.1 The following clarification language has been added to section 4.1.1

Senior and subordinated securities that are subject to a conversion to common shares or bail-in (full or partial) at the discretion of local regulators in a non-viability event are eligible for index inclusion, provided all other index criteria are met. 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 are not index eligible (such securities are sometimes labelled contingent capital CoCo). For the avoidance of doubt, Non Viability Contingent Capital (NVCC) falls into the former category as the bail-in mechanism is a discretionary option at the behest of the local regulator (office of the superintendent of financial institutions of Canada - OFSI) in a non-viability scenario.

4.1.2 - the following clarification language (in bold below) has been added to section 4.1.2

The majority of the bonds in the index are semi-annual pay bullet securities with no call or other option features. However, the index can also include the following: callable bonds, extendible/ retractable bonds, sinking funds, exchangeables, fixed-to-floaters with a stated legal maturity and fixed-to-floaters without a stated maturity considered as a bullet for the period when the coupon is fixed, semi-annual amortizing securities, and certain asset-backed securities (ABS) that are structured as semi-annual pay bullet bonds. Bonds with option features are assigned to index term sectors based on their effective maturity date (either the option exercise date or the final maturity date). Although most bonds in the index are public issues, private issues that meet the above criteria are also eligible for inclusion.

An updated copy of the FTSE TMX Canada High Yield Bond Index Ground Rules (Version 2.1) is now available from FTSE Russell: info@ftserussell.com

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