

Eligibility of Maple Bonds for the FTSE Canada Universe Bond Index

April 2024



Introduction

FTSE Russell is committed to ensuring that the FTSE Canada Bond Index Series continues to remain representative of the market it is intended to track and meets the needs of domestic investors in Canada. Regular reviews of index rules are undertaken to ensure they are aligned with stated index objectives. FTSE Russell periodically consults the market regarding significant changes to index methodologies and a robust governance process exists to facilitate this type of engagement with index stakeholders.¹

FTSE Russell announces that it is opening a market consultation to understand sentiment amongst market participants regarding the potential evolution of the methodology for the FTSE Canada Universe Bond Index² to include Maple bonds, which are currently excluded as a rule. Further details and consultation questions can be found in the remainder of this document.

Responding to the consultation

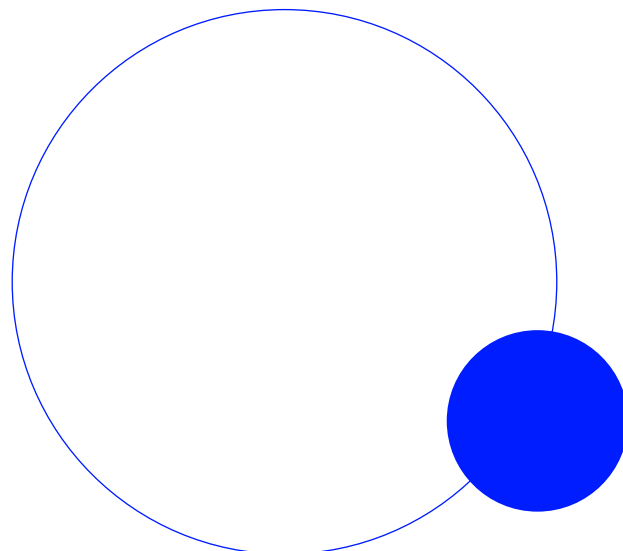
The questions posed as part of this consultation are intended to gather feedback from all market participants and may or may not result in changes to our indices.

Index users and market stakeholders are invited to respond by 31 May 2024. The responses will be reviewed by the FTSE Russell Index Governance Board and any changes will be communicated by via an announcement, which will be available on the FTSE Russell public website.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.com/r/K7CTN5W>

All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation feedback, but no individual responses will be published and no respondents will be named.

If you have any questions about this survey, or if you encounter any technical issues, please contact committeesecretary@ftserussell.com.



¹ Full details on these initiatives, as well as their results can be [found on the FTSE Russell website](#).

²The methodology for the index can be found [here](#).

Background and Global Context for Index Construction

The objective of the FTSE Canada Universe Bond Index is to measure the market for Canadian dollar denominated, fixed-rate, investment grade, government and corporate bonds. It is intended to be representative of the choice set of such securities available to domestic investors in Canada. Bonds must meet published index inclusion criteria, such as minimum issue size, time to maturity and credit rating.

Securities issued by non-Canadian entities, referred to as Maple bonds, have been excluded, as a rule, from the flagship FTSE Canada Universe Bond Index since the inception of the Maple market in the early 2000s, when there were explicit foreign content limits that applied to Canadian pension plans and Registered Retirement Savings Plans (RRSPs). Since that time, this limit was lifted in 2005 and the Maple bond market has matured and developed with respect to a number of factors, such as (generally) broader syndication of new issues and an increase in market size.

The notion of whether the FTSE Canada Universe Bond Index should have a consistent methodology with comparable single currency (e.g., USD or EUR), multi-sector, investment-grade indices has also come into focus in recent years. When compared to similar indices, the FTSE Canada Universe Bond Index is unique in its exclusion of bonds issued by non-domestic issuers. For example, the FTSE US Broad Investment-Grade and the FTSE Euro Broad Investment Grade Indices do not include a screening criteria for issuer country and include all securities that meet specified bond-level inclusion criteria. The bond-level inclusion rules will generally incorporate other criteria, such as market of issue, to ensure that the constituents are sufficiently available to domestic investors.¹

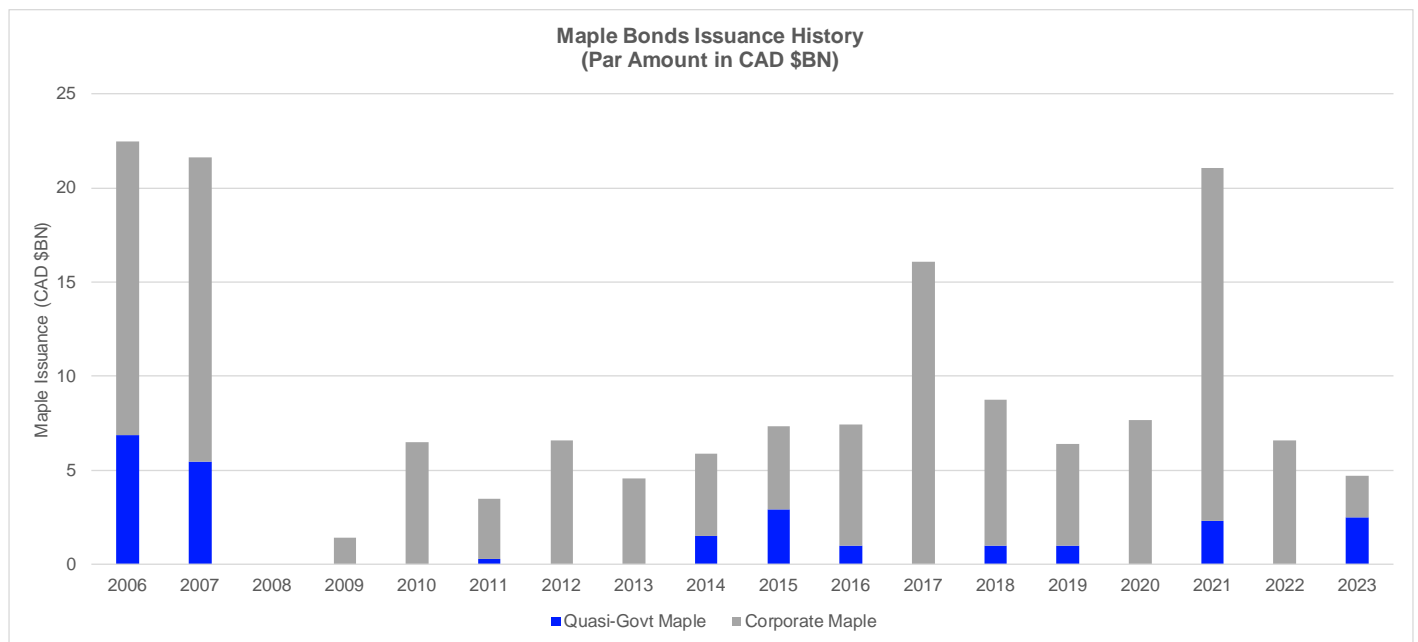
¹ It is common, however, for other global index constructs to incorporate issuer country inclusion criteria (e.g., US High-Yield Bond Indices will generally exclude emerging markets issuers owing to the generally separate investor base for USD-denominated high-yield and USD-denominated emerging markets bonds).

Market Structure for Maple Bonds

Maple bonds are Canadian dollar denominated securities issued in Canada by non-Canadian entities. For purposes of index inclusion within the FTSE Canada Bond Index Series, issuer country is assigned based on country of incorporation.² FTSE Russell currently tracks this asset class in the FTSE Canada Maple Bond Index, which provides transparency into the market and tools for relative value analysis.

As of 31 December 2023, the index includes 74 bonds with CAD 48.0 billion in market value. Further details can be found in the below figures.

Figure 1. FTSE Canada Maple Bond Index, Annual Issuance Since 2013.

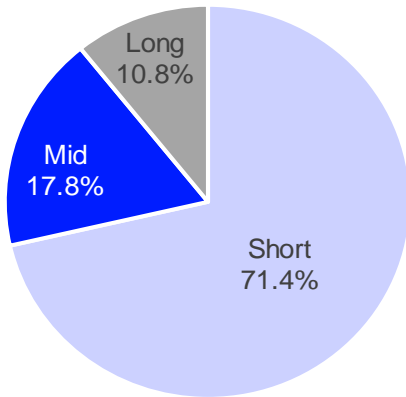


Source: FTSE Russell.

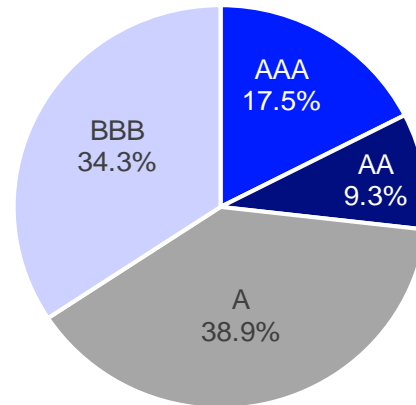
² With respect to supranationals, the Canadian government must be a member of the organization for its debt to be included in the FTSE Canada Universe Bond Index. If the Canadian government is not a member of the organization, a supranational is currently classified as a Maple for purposes of index inclusion.

Figure 2. FTSE Canada Maple Bond Index, Market Value Weight by Term to Maturity and Credit Quality.

FTSE Canada Maple Bond Index by Term



FTSE Canada Maple Bond Index by Quality



Source: FTSE Russell. Data as of December 31, 2023.

Index Inclusion Considerations for a Potential Rule Change

If a rule change to include Maple bonds in the FTSE Canada Universe Bond Index were made, there are a number of considerations for how it may be implemented, which are detailed below. Any change would also be applied to standard sub-indices, such as the corporate component of the FTSE Canada Universe Bond Index, thematic variants, and adjacent indices, such as the FTSE Canada High-Yield Bond Index. Users of custom indices are generally able to specify the manner in which changes to standard indices are applied to their index.

Issuer Eligibility

The FTSE Canada Universe Bond Index includes debt issued by government, quasi-government and corporate entities. While Maple bonds have representation across a number of these sectors, a change to index rules may incorporate feedback that, for example, investors prefer Maple exposure is limited to corporate entities only.

The universe of Maple bonds eligible for the FTSE Canada Universe Bond Index may also be refined based on a specified list of eligible issuer countries of incorporation. Such an approach could limit the exposure to select macroeconomic operating environments for the issuing entity, though it would potentially add complexity to the methodology for index users. For example, the eligibility criteria may specify that issuer country must be assigned as a Developed Market. In such a scenario, the Emerging Markets designations would be the same as global FTSE fixed income indices, which are based on IMF and World Bank designations.

As part of this consultation, FTSE Russell seeks to understand preferences for issuer eligibility based on both sector and issuer country, and whether there is a compelling rationale to further refine the Maple bond universe based on these dimensions if they were added to the FTSE Canada Universe Bond Index.

Bond-Level Index Eligibility

If a rule change were to be implemented, consideration would also be given to the application of existing bond-level index eligibility criteria for the FTSE Canada Universe Bond Index, such as minimum issue size. It is possible that certain inclusion rules may warrant recalibration for this asset class (e.g., a higher minimum issue size or the requirement that additional credit ratings be available) based on consultation feedback.

Implementation Considerations for a Potential Rule Change

There is precedent for FTSE Russell to implement index rules changes in a number of ways. Given the nature of a change, it may be implemented on a go-forward basis only (i.e., outstanding securities that were issued prior to the

effective date of the change are not added and only newly issued securities enter the index). Alternatively, all outstanding securities that meet the index criteria as a result of the rules change could be added on the effective date of the change. Implementing a change on a go-forward basis eliminates the need for existing index users to add exposure to securities that are no longer available on the primary market and may have limited inventory amongst domestic market makers. Conversely, secondary market dislocations may arise if similar securities have different eligibility based on the implementation date of a rule change.

As part of any rule change, a notice period, representing the period of time (e.g., 60 days) between the announcement date of the change and the implementation date of the change, is also provided to index stakeholders. The length of this notice period reflects the practicalities of the implementation of the change and incorporates feedback from market participants on the amount of time they require to prepare internally within their organizations.

Questions

1. **Please provide your view 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.**

- Yes, Maple bonds should be included
- No, all Maple bonds should continue to be excluded as a rule
- It depends on the implementation approach of a change to the index rules

Please provide your rationale in the comments here:

2. **If Maple bonds were to become eligible for the FTSE Canada Universe Bond Index, FTSE Russell propose that the change be made on a go-forward basis only and that previously issued, outstanding bonds are not added to the index. Do you support this approach?**

- Yes
- No

Please provide any additional comments on your response here:

3. **If Maple bonds were to be added to the FTSE Canada Universe Bond Index, which sectors should be eligible for inclusion?**

- All sectors, including Corporate and Quasi-Government
- Corporate only
- Other

Please provide any additional comments on your response here:

4. If Maple bonds were to become eligible for the FTSE Canada Universe Bond Index, should bond issuers incorporated in all countries outside of Canada be included?

- Yes
- No, only the United States
- No, only G4 (United States, United Kingdom, Eurozone, and Japan) countries
- No, only Developed Markets (as defined by FTSE fixed income index methodology)

Please provide any additional comments on your response here:

5. If Maple bonds were to become eligible for the FTSE Canada Universe Bond Index, should the same bond-level inclusion rules apply for this asset type?

- Yes, for consistency sake, all other bond-level inclusion rules should be applied
- No, a higher minimum amount outstanding threshold should be applied for Maple bonds
- No, there should be a requirement that more than one credit rating agency rate a Maple bond for it to be included
- Other

Please provide any additional comments on your response here:

6. If a rule change to include Maple bonds in the FTSE Canada Universe Bond Index were announced, what is the preferred notice period for your firm, *if bonds were added on a go-forward basis only*?

- 30 days
- 60 days
- 90 days
- Other

Please provide any additional comments on your response here:

7. If a rule change to include Maple bonds in the FTSE Canada Universe Bond Index were announced, what is the preferred notice period for your firm, *if all index-eligible bonds were added*?

- 30 days
- 60 days
- 90 days
- Other

Please provide any additional comments on your response here:

8. Do you have any other comments related to this potential rule change?

Please enter your comments here:



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For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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