
FTSE TMX Canada Market Consultation

Universe Bond Index treatment of NVCC debt issued
prior to 1 July 2017

Important Information

The proposals set out in this consultation document are included in order to gather feedback and may or may not result in changes to the FTSE TMX Canada Bond Index Series..

FTSE TMX Canada Market Consultation

Responding to the Consultation

Please submit your response to the questions included in this survey online at <https://www.surveymonkey.co.uk/r/5FMYLW2>

This consultation will close on June 30, 2017. If you have any questions please contact us at pcbond@ftse.com or 416.572.7979. If you encounter any technical issues, please contact rpawson@ftserussell.com.

Introduction

With the guidance and direction of FTSE Russell's independent fixed income advisory committees, FTSE Russell regularly consults with market participants on the preferred index handling of market developments to ensure that the indexes continue to meet their stated objectives and lead global standards in benchmarking. As part of our commitment to protecting and enhancing the FTSE TMX Canada Indexes, we are soliciting stakeholder feedback regarding index treatment of previously issued (settled prior to 1 July 2017) non-viability contingent capital (NVCC) bank debt in the Universe Index in light of our recently announced rules change to include newly issued NVCC bonds, effective 1 July 2017.

Accordingly, we invite index users to respond to the consultation questions below. The feedback received from this consultation will assist FTSE Russell in making a final decision regarding the index treatment of NVCC securities issued prior to 1 July 2017. The consultation will close on 30 June 2017 and FTSE Russell will make an announcement shortly thereafter (and no later than 31 July).

Background

On 5 June 2017, FTSE Russell announced that newly issued non-viability contingent capital (NVCC) bonds will be eligible for the flagship FTSE TMX Canada Universe Bond Index, effective from 1 July 2017. This decision was made after careful consideration to ensure that the FTSE TMX Canada Universe Bond Index continues to accurately measure and represent the domestic Canadian investment grade fixed income market. While inclusion of these securities ensures that the Universe Bond Index continues to have appropriate representation of core Canadian banking debt going forward, there are additional considerations for handling the outstanding issuance, which require further review.

For further details on this rules change, [click here](#) to see the announcement.

Implementation Options for NVCC Debt Issued Prior to 1 July 2017

We recognize that as an index provider, we must balance the objective of the index to accurately represent the market it is intended to track with potential market implications of any rule changes. In considering the treatment of previously issued NVCC debt within the Universe Bond Index, we are asking index users to consider three potential approaches:

1. NVCC debt will be eligible for the Universe Bond Index on a going forward basis only from 1 July 2017, and NVCC debt issued prior to 1 July 2017 will be permanently excluded from the Universe Bond Index;
2. NVCC debt issued prior to 1 July 2017, following a notice period, will be phased into the Universe Index over a predetermined time frame on a security-by-security basis starting with the bonds closest to their final maturity date;
3. All NVCC debt issued prior to 1 July 2017, following a notice period, will be included in full on the same predetermined date.

Note: For options #2 and #3, the predetermined dates will be chosen to avoid market sensitive periods or days, such as quarter- or year-end.

Projected Index Impact of Inclusion of NVCC Debt Issued Prior to 1 July 2017

The NVCC universe under consideration as part of this consultation is comprised of 15 NVCC bonds with C\$15.8 par amount outstanding. It is projected that these securities would comprise 1.0% of the Universe Index by market value, 3.7% of the Corporate, 6.6% of the Short Term Corporate, and 8.9% of the Financial sectors as of May 2017. A list of the NVCC bonds can be found in Table 1 and a pro forma impact to the Universe Index is provided in Table 2.

Table 1: Legacy NVCC Securities under Review for Universe Index Inclusion

Cusip	Issuer	Coupon	Maturity Date	AO (\$bn)	Rating
780086JC9	Royal Bank Of Canada	3.04	07/17/2019	964.5	A
06369ZBS2	Bank of Montreal	3.12	09/19/2019	1,000.00	BBB
136069JJ1	C.I.B.C.	3	10/28/2019	934	BBB
780086KR4	Royal Bank Of Canada	2.48	04/06/2020	1,000.00	A
8911454X9	Toronto-Dominion Bk	2.692	06/24/2020	1,500.00	A
06369ZBT0	Bank of Montreal	3.34	08/12/2020	1,000.00	BBB
064151GC1	Bank of Nova Scotia	3.367	08/12/2020	655.4	BBB
8911455X8	Toronto-Dominion Bk	2.982	09/30/2020	951.5	A
06369ZCC6	Bank of Montreal	3.32	01/06/2021	1,214.00	BBB
780086LZ5	Royal Bank Of Canada	3.31	01/20/2021	1,500.00	A
136069LY5	C.I.B.C.	3.42	01/26/2021	990	BBB
780086JM7	Royal Bank Of Canada	3.45	09/29/2021	887.5	A
06369ZCD4	Bank of Montreal	2.57	01/06/2022	850.00	BBB
064151AR4	Bank of Nova Scotia	2.58	03/30/2022	1,197.80	BBB
8911457R9	Toronto-Dominion Bk	4.859	04/03/2026	1,168.00	A

Note: Data are as of May 31, 2017

Table 2: Pro forma Impact of Legacy NVCC Inclusion in the Universe Index, by Sector

	Current Universe Index			Projected Universe Index			Change		
	Count	MV (bn)	MV (%)	Count	MV (bn)	MV (%)	Count	MV (bn)	MV (%)
Government	494	1,145.0	72.8	494	1,145.0	72.1	0	0.0	-0.8
Federal	96	577.8	36.7	96	577.8	36.4	0	0.0	-0.4
Provincial	308	537.5	34.2	308	537.5	33.8	0	0.0	-0.4
Municipal	90	29.8	1.9	90	29.8	1.9	0	0.0	0.0
Corporate	935	427.4	27.2	950	443.9	27.9	15	16.5	0.8
Communication	69	42.0	2.7	69	42.0	2.6	0	0.0	0.0
Energy	251	84.0	5.3	251	84.0	5.3	0	0.0	-0.1
Financial	220	169.0	10.7	235	185.5	11.7	15	16.5	0.9
Auto Finance	35	16.6	1.1	35	16.6	1.0	0	0.0	0.0
Bank	94	112.7	7.2	109	129.2	8.1	15	16.5	1.0
Insurance	44	18.8	1.2	44	18.8	1.2	0	0.0	0.0
Services	47	20.9	1.3	47	20.9	1.3	0	0.0	0.0
Industrial	76	26.9	1.7	76	26.9	1.7	0	0.0	0.0
Infrastructure	203	68.7	4.4	203	68.7	4.3	0	0.0	0.0
Real Estate	99	27.1	1.7	99	27.1	1.7	0	0.0	0.0
Securitization	17	9.7	0.6	17	9.7	0.6	0	0.0	0.0
TOTAL	1,429	1,572.5	100.0	1,444	1,589.0	100.0	15	16.5	0.0

Note: Data are as of May 31, 2017

With the exception of one medium issue, the majority of the legacy NVCC securities are short-dated with less than 5 years to final maturity and fall into the Short Term sub-indexes of the Universe and Corporate benchmarks. Table 3 provides further details on the pro forma impact of inclusion by maturity.

Table 3: Pro forma Impact of Legacy NVCC Inclusion in the Universe Index, by Maturity

	Current Universe Index			Projected Universe Index			Change		
	Count	MV (bn)	MV (%)	Count	MV (bn)	MV (%)	Count	MV (bn)	MV (%)
Short	556	714.3	45.4	570	729.4	45.9	14	15.1	0.5
Government	154	485.6	30.9	154	485.6	30.6	0	0.0	-0.3
Corporate	402	228.7	14.5	416	243.8	15.3	14	15.1	0.8
Mid	323	359.4	22.9	324	360.8	22.7	1	1.3	-0.2
Government	126	276.7	17.6	126	276.7	17.4	0	0.0	-0.2
Corporate	197	82.7	5.3	198	84.1	5.3	1	1.3	0.0
Long	550	498.8	31.7	550	498.8	31.4	0	0.0	-0.3
Government	214	382.8	24.3	214	382.8	24.1	0	0.0	-0.3
Corporate	336	116.0	7.4	336	116.0	7.3	0	0.0	-0.1
TOTAL	1,429	1,572.4	100.0	1,444	1,588.9	100.0	15	16.5	0.0

Note: Data are as of May 31, 2017

Questions

Please submit your response to the questions included in this survey online at

<https://www.surveymonkey.co.uk/r/5FMYLW2>

This consultation will close on June 30, 2017. All responses will be treated as confidential. FTSE Russell may publish a summary of consultation feedback, but no individual responses will be published and no respondents will be named.

If you have any questions please contact us at pcbond@ftse.com or 416.572.7979. If you encounter any technical issues, please contact rpawson@ftserussell.com.

- 1. What is your preferred treatment for NVCC debt issued prior to 1 July 2017 in the Universe Bond Index?**
 - Inclusion on a going forward basis only (i.e. NVCC debt issued prior to 1 July 2017 will remain ineligible)
 - Inclusion using a phase-in approach where bonds are added on a security-by-security basis with the bonds closest to maturity first
 - Inclusion in full at a predetermined date, with sufficient notice

- 2. If FTSE Russell were to incrementally include NVCC bonds issued prior to 1 July 2017, which sequencing approach would you prefer? All approaches listed below would also include a notice period of at least one month prior to the first inclusion detailing the sequencing for all bonds.**
 - One security at a time, on a weekly basis
 - Four securities at a time, on a monthly basis
 - One security at a time, on a monthly basis

- 3. If FTSE Russell were to include all NVCC bonds issued prior to 1 July 2017 at a single future date, how much lead time would be sufficient to accommodate the rebalance?**
 - 1 month
 - 3 months
 - 6 months
 - Other/no preference

- 4. If you prefer exclusion of NVCC debt issued prior to 1 July 2017 from the Universe Bond Index, what is your primary reasoning?**
 - Inclusion of these bonds will disadvantage certain market participants (i.e. those investors who have not tactically invested out-of-index)
 - On the inclusion date, the anticipated market disruption/liquidity effect is likely to impact index rebalancing
 - In principle, I disagree with their inclusion and want to minimize index exposure
 - Other

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