

Market Consultation

FTSE
Russell

FTSE TMX Canada Client Consultation Index Evolution Pathway

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 Indexes.



FTSE TMX Canada Client Consultation Index Evolution Pathway

Introduction

With the guidance and direction of FTSE Russell's independent practitioner committees, FTSE Russell regularly consults the market on changes to the methodology of its indexes to ensure that they continue to meet investors' requirements and define and lead global standards in indexing. As part of our commitment to protecting and enhancing the strengths of the FTSE TMX Canada Index franchise, we are undertaking this market consultation to solicit stakeholder feedback on our proposed Index Evolution Pathway for the FTSE TMX Canada Indexes.

The purpose of the Index Evolution Pathway, as set out in this document, is to formalize our approach to capturing and tracking new and developing asset categories in the Fixed Income space, and incorporating these into the FTSE TMX Canada Benchmarks.

Accordingly we invite interested parties to respond to the consultation questions below. The feedback received from this consultation will assist FTSE Russell in making any final decisions on the proposed approach.

Responding to the Consultation

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.co.uk/r/9KT3ZMB>

The consultation will close on **February 28, 2017**. All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation results, 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 rpawson@FTSERussell.com.



Background for Consideration

The debt market in Canada continues to evolve, introducing new structures and opportunities for investors. In the past the desirability of including new asset classes into the FTSE TMX Canada index family was considered on an ad hoc basis. Recent examples include Maple and NVCC bonds where, based largely on feedback provided in client consultations, stand-alone indexes were created for these asset classes rather than them being added immediately to the flagship FTSE TMX Canada Universe Bond Index.

As part of our ongoing commitment to ensure that the FTSE TMX Canada Bond Indexes remain representative of the market and continue to meet client needs, we would like to formalize the treatment of new asset categories and provide a pathway for index evolution.

Asset Categories

Several asset categories have been introduced into the market in recent years. Some have been issued and are trading, and others are in different stages of development and growth. These include, but are not limited to, Maples, NVCC, Bail-In, Syndicated NHA MBS, and Hybrid structures (various) where, for example, investors may be concerned at being exposed to risks associated with new and evolving asset classes. For such reasons, these asset structures are not currently included in the flagship FTSE TMX Canada Universe Bond Index, but may be tracked as stand-alone benchmark indexes.

The below table summarizes at a high level each market asset category:

Asset Category	Description	Current issuance	Approx. Market Cap
Maple Bonds	Bonds issued in Canada in Cad\$ by non-domestic issuers	√	\$ 35 BN
NVCC	Non Viable Contingent Capital (as defined by OSFI) with a contractual conversion trigger into common equity if deemed non viable by the regulator. Applies to subordinated issuance from DSIB Banks.	√	\$ 15 BN
Bail-In	Expected regulatory conversion provision into common equity if deemed non viable by the regulator – actual definition and terms due to be released by OSFI. Applies to senior deposit notes issued by DSIB banks.	Expected mid 2017	-
Syndicated NHA MBS	Following a June 2016 change in the CMHC issuance program, the street is supporting development of the Syndicated NHA MBS, which typically cover: <ul style="list-style-type: none"> - "975" pool type – pre payable MBS backed by residential mortgages – with a 5 year maturity - Sold through a min 5 dealer syndicate - Large pool size, widely held 	√	\$ 20 BN (\$30 BN issued less pay down)
Hybrid Structures	<ul style="list-style-type: none"> - Subordinated Trust of a non-Financial (non-regulated) domestic issuer - Fixed-to-float with long dated or perpetual maturity - Interest deferral option (issue Deferral Preferred Shares) - Exchangeable into Preferred Shares (modelled after legacy Tier 1) 	Potential consideration only	-

Proposed Approach

Creation of Canada Wide Bond Index

We propose to create a broad based Canadian dollar \$ fixed rate benchmark, to be operated in parallel to the FTSE TMX Universe Bond Index, which would cover a wider spectrum of issuance into the Canadian Bond Market. The Canada Wide benchmark would encompass issuance several asset categories in Canada in C\$, including, but not necessarily limited to bonds in the Universe bond index, Maple Bond Index, NVCC and Bail-In debt, and other asset categories as they develop (given that individual bonds meet all other minimum eligibility criteria). Additional consideration is being given to the development of the Syndicated NHA MBS market and potential inclusion of this monthly pay instrument into the broad Canada Wide benchmark.

As part of this market consultation, we seek your feedback on the creation of the broad based Canada Wide index and the asset categories that should be considered for inclusion.

Creation of Stand-Alone Indexes

To best capture developing market segments, as well as provide investors with choice and flexibility in tracking new types of issuance, we propose to continue the practice of creating and maintaining stand-alone indexes for asset categories with material issuance. The stand-alone index would be provided in addition to any potential consideration for qualification of these asset categories into a headline index, such as the Canada Wide or Universe.

As part of this market consultation, we seek your feedback on whether this practice is desirable.

Index Evolution Pathway

We recognize the role FTSE TMX Canada indexes play as part of the Canadian bond market ecosystem and seek to provide transparency to investors and users of the various benchmarks. We propose a streamlined approach to reviewing and incorporating new issue types and asset categories into respective indexes.

1. FTSE TMX Research and Analytics teams engage with market participants to review new issue types to assess parameters such as, but not limited to, access to underlying reference information, calculation and provision of analytics, valuation support in line with the Multi Dealer Pricing Methodology, expected issuance levels, investor interest, etc.;
2. If the issue type is part of an evolving asset category a Stand-Alone Index would be constructed to track and review progress;
3. Issue types satisfying review and meeting all other qualification criteria relevant to the asset class would be included in the Canada Wide Bond Index;
4. In addition, issues can be reviewed by the external advisory committees, put out for broader comment via a market consultation, and escalated to the internal FTSE Russell Governance Board for final decision.

Consideration with respect to Universe Bond Index

Consideration with respect to potential inclusion into the more narrowly defined FTSE TMX Canada Universe Bond Index can be addressed as a separate stream as issuance grows or the asset category's behavior seasons and matures.

Questions

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

<https://www.surveymonkey.co.uk/r/9KT3ZMB>

The consultation will close on **February 28, 2017**. All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation results, 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 rpawson@FTSERussell.com.

Asset Categories

1. Does your current investment policy preclude you from holding any of the following issues?

- NVCC
- Bail-In
- Maple
- Hybrid Structures
- Syndicated NHA MBS

2. Does your current investment policy permit investment in bonds outside the benchmark?

- Yes
- No
- Not Applicable

3. Is there a policy limit placed on holdings in any of the following asset types (mark those to which policy limits apply)?

- NVCC
- Bail-In
- Maple
- Hybrid Structures
- Syndicated NHA MBS
- Other (please specify) _____

4. In general, which of the following do you consider to be a “bond” / “fixed income instrument”?

- NVCC
- Bail-In
- Maple
- Hybrid Structures
- Syndicated NHA MBS
- Other (please specify) _____

Canada Wide Bond Index

5. Do you support the creation of a Canada Wide Bond Index?

- Yes
- No

6. How interested would you be in the creation of a Canada Wide Bond Index?

- Very interested, for potential benchmarking
- Very interested, for research information purposes only
- Somewhat Interested
- Not at all Interested

7. What asset classes do you believe should be considered for inclusion into the Canada Wide Bond Index?

- Universe Bond Index Constituents
- Maple Bonds
- NVCC securities
- Bail-In securities
- Securities with Hybrid features
- Syndicated NHA MBS (monthly pay)
- Other (please specify)

Stand-Alone Indexes

8. Do you support the creation of a Stand-Alone Indexes for select asset type categories?

- Yes
- No

9. What asset categories do you believe should be considered for a Stand-Alone Index?

- Bail-In securities
- Securities with Hybrid features
- Syndicated NHA MBS (monthly pay)
- Other (please specify) _____

Index Evolution Pathway

10. Do you support the proposed approach for an Index Evolution Pathway? Please suggest any modifications you feel we should consider.

- Yes
- No

Universe Bond Index Consideration

11. Do you regard Bail-In debt as an asset class that should be treated in the same way as NVCC debt in terms of following the Index Evolution Pathway?

- Yes
- No
- Other (please specify) _____

12. Do you believe Bail-In debt (once issued) should be included immediately in the Universe Bond Index?

- Yes
- No
- Other (please specify) _____

13. Please provide any additional feedback you may have

For more information about our indexes, please visit ftserussell.com.

© 2017 London Stock Exchange Group plc and its applicable group undertakings (the "LSE Group"). The LSE Group includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE TMX Global Debt Capital Markets Inc. and FTSE TMX Global Debt Capital Markets Limited (together, "FTSE TMX") and (4) MTSNext Limited ("MTSNext"). All rights reserved.

FTSE Russell[®] is a trading name of FTSE, Russell, FTSE TMX and MTS Next Limited. "FTSE[®]", "Russell[®]", "FTSE Russell[®]", "MTS[®]", "FTSE TMX[®]", "FTSE4Good[®]" and "ICB[®]" and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, or FTSE TMX.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE Russell Indexes or the fitness or suitability of the Indexes for any particular purpose to which they might be put.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group index data and the use of their data to create financial products require a licence from FTSE, Russell, FTSE TMX, MTSNext and/or their respective licensors.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

This publication may contain forward-looking statements. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking statements are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially from those in the forward-looking statements. Any forward-looking statements speak only as of the date they are made and no member of the LSE Group nor their licensors assume any duty to and do not undertake to update forward-looking statements.



About FTSE Russell

FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit ftserussell.com.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office:

EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 3581 2764

Sydney +61 (0) 2 8823 3521