

# Statement of Principles

v2.3

For FTSE Fixed Income Indices

**This Statement of Principles applies to any index series where this statement is specifically referenced in its Methodology Documentation.**



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# Statement of principles

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Fixed income indices must keep pace with the evolving markets they measure; however, the documentation that sets out the index methodology, including index guides, ground rules and guides to calculation (collectively the index's Methodology Documentation) cannot anticipate or codify every eventuality. Where an index's Methodology Documentation does not fully cover a specific event or development, FTSE Russell will first seek to determine the appropriate treatment by reference to the guiding principles set out below, which summarize the ethos underlying FTSE Russell's approach to index construction. In the event that a custom index specifies a principle that is inconsistent with those outlined in this document, it will be explicitly stated in the Methodology Documentation for that index.

Where there is an actual or potential conflict between an index Methodology Documentation and the Statement of Principles concerning management decisions required for a fixed income index series, precedence shall be given to this Statement of Principles. In such circumstances or when application of the Methodology Documentation may reasonably be expected to lead to a market disruption, FTSE Russell may apply an exception to the Methodology Documentation. In such circumstances, FTSE Russell will seek input as appropriate from its external advisory committees when deciding on any exceptions.

This Statement of Principles is reviewed annually, and any changes proposed by FTSE Russell are presented to the FTSE Fixed income Index Advisory Committees and the FTSE Russell<sup>1</sup> Policy Advisory Board for discussion before approval by the FTSE Russell Index Governance Board. This Statement of Principles applies to any index series where specifically referenced in its Methodology Documentation.

- 1. Index Objectives:** Fixed income indices are constructed to reflect the objective specified in their Methodology Documentation, and provide supporting analytics to facilitate detailed risk analysis of such markets. The Methodology Documentation for each FTSE fixed income index series should include the relevant description of the fixed income market(s) intended to be represented by that index and the index eligibility criteria. The composition of indices will be reviewed periodically, at least on an annual basis, by FTSE Russell's governance committees to ensure they remain representative of the markets they are meant to measure and are consistent with the index descriptions. This review should also be set against the objectives of implementing updates for market structure changes effectively, with adequate justification, and in line with existing index precedent when it is sensible and prudent.
- 2. Security Weighting and Index Contribution:** Unless otherwise specified in the index Methodology Documentation, constituent securities of FTSE fixed income indices should be weighted by the current par amount outstanding of each constituent security, multiplied by its price, inclusive of accrued interest, reflecting a market value weighting approach. The Methodology Documentation for index series that reflect alternative weighting schemes will explicitly detail the formulae applicable to those indices where they differ from market value weighting. The treatment of changes in index universe composition and security-level contributions should seek to reflect how such events are likely to be handled within investment portfolios and should normally be designed to minimize the trading activity required by investors to track the index performance. The calculation methods should be capable of being readily understood and followed by index users and only use data available to all investors. Changes to the composition of FTSE fixed income indices should be made according to the frequency stated in the Methodology Documentation.

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<sup>1</sup> FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.

3. **Reference Data and Price Inputs:** Data used in the construction of FTSE fixed income indices should originate from a reputable and reliable source that is specified in the index Methodology Documentation where appropriate. Prices used in index calculations should be taken from reliable sources and should be representative of the securities' valuations, based on the methodology of the price source. The source and methodology of prices used as inputs to index return calculations will be provided in the Methodology Documentation of each FTSE Russell fixed income index series. Additionally, pricing inputs are subject to FTSE Russell's rigorous internal operational and quality controls. Use of an alternative price source or data input in the event that the primary source is unavailable or unreliable will be considered on a case-by-case basis. The relevant policies for security-level exclusion solely on the basis of lack of pricing will be outlined in the published Methodology Documentation.

For details of individual pricing methodology for FTSE's fixed income indices please visit the FTSE Russell website.

4. **Security Analytics:** FTSE fixed income indices are supported by analytics designed to assist index users in their risk assessment of fixed income markets, including the calculation of yields, duration, convexity, and in some cases, model-driven analytics. The suitability of analytic calculations should continually be monitored to ensure they adhere to market convention and/or internationally recognized standards.

For details of individual analytics calculations for FTSE's fixed income indices please visit the FTSE Russell website.

5. **Market Disruption Events:** A consistent approach to the index treatment of market disruption events should be maintained and upheld wherever practical. In assessing the most appropriate course of action, FTSE Russell may consult widely as part of its formal governance process to ensure that indices continue to meet the needs of index users. Extraordinary events or periods of market disruption may require the use of expert judgment by FTSE Russell in order to continue the timely production of its indices and to ensure that the indices continue to conform to the stated objectives. In the case of extraordinary events or periods of market disruption, information about the event and the impact on the indices will be posted on the FTSE Russell website and disseminated through client channels.

6. **Unbiased Disclosure:** To ensure that no index user can benefit unfairly from predicting the future composition of a fixed income index, the index methodology documents shall include a description of the use of any external data that is required to determine the eligibility and weightings of index constituents. FTSE Russell will make available information regarding any changes to an index's Methodology Documentation to all users simultaneously, where material and appropriate.

7. **Interested Parties:** The interests of all market participants should be considered in managing the indices and decisions taken independent of any single interest group. In determining index policy, unless issues relate to a single or specific group of markets, global consistency of treatment should apply as far as practical, and decisions will attempt to incorporate the views of all users.

# Further information

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For further information on FTSE Russell Indices please visit [www.lseg.com/en/ftse-russell/](http://www.lseg.com/en/ftse-russell/) or e-mail [info@ftserussell.com](mailto:info@ftserussell.com). Contact details can also be found on this website.

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