

FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index

v1.7



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Section 1

Introduction

1. Introduction

1.1 FTSE World Government Bond – Developed Markets 1-3 Years Capped Select Index

1.1.1 The FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index (“Index”) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds in the FTSE World Government Bond Index – Developed Markets (WGBI-DM) excluding the United States.

1.1.2 The market capitalisation-based weights of each individual country in the Index are capped at 21%. Furthermore, the total market weights of the countries with more than 4.6% market weight in the index cannot exceed 47% of the total index weight. After the country weights are determined, constituents within each country are assigned weights in proportion to their market capitalisation.

1.1.3 The FTSE World Government Bond – Developed Markets 1-3 Years Capped Select Index does not take account of ESG factors in its design.

1.2 FTSE Russell

1.2.1 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, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.

1.2.2 FTSE Russell hereby notifies users of the index that it is possible that factors, including external factors beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.2.3 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index’s rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any inaccuracies in the compilation of the Index or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE Fixed Income LLC (FTSE)

2.1.1 FTSE is the benchmark administrator of the index.¹

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- disseminate the indices.

2.2 Amendments to these Ground Rules

2.2.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they best reflect the aim of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

2.2.2 As provided for in the Statement of Principles for FTSE Russell Fixed Income Indices, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Ground Rules should subsequently be updated to provide greater clarity.

¹ The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (the UK Benchmark Regulation). FTSE Fixed Income LLC administers the Index Series in line with the third country transitional provisions contained within Article 51(5) of the European Benchmark Regulation and the third country transitional provisions as amended by Article 42(5) of the UK Benchmark Regulation.

Section 3

FTSE Russell index policies

3. FTSE Russell index policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below or by contacting fi.index@lseg.com. These policies are reviewed annually and any changes are approved by the FTSE Russell Product Governance Board.

3.1 **Statement of Principles for FTSE Fixed Income Indices (the Statement of Principles)**

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles for FTSE Fixed Income Indices which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Index Advisory Board for discussion before approval by the FTSE Russell Product Governance Board.

The Statement of Principles for Fixed Income Indices can be accessed using the following link:

[Statement of Principles Fixed Income Indices.pdf](#)

3.2 **Queries and Complaints**

FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark Determination Complaints Handling Policy.pdf](#)

3.3 **Recalculation Policy and Guidelines**

The Recalculation Policy and Guidelines for Fixed Income Indices document is available from the FTSE Russell website using the link below or by contacting fi.index@lseg.com.

[Fixed Income Recalculation Policy and Guidelines.pdf](#)

3.4 **Policy for Benchmark Methodology Changes**

Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

3.5 FTSE Russell Governance Framework

To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks², the European benchmark regulation³ and the UK benchmark regulation⁴. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

3.6 Real Time Status Definitions

3.6.1 Please refer to the following guide for details of real time status definitions for indices that are calculated in real time.

[Real Time Status Definitions.pdf](#)

² IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

³ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

⁴ The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019.

Section 4

Composition and design criteria

4. Composition and design criteria

The index is based on of the FTSE World Government Bond Index – Developed Markets (WGBI-DM). For more information, please see the FTSE Fixed Income Index Guide.

Design criteria and calculation assumptions for the FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index

| | |
|---|---|
| Coupon | Fixed-rate |
| Currency | USD |
| Minimum maturity | At least one year and less than 3 years |
| Minimum issue size | <p>Americas</p> <p>Canada: CAD 2.5 billion (excludes Bank of Canada Cash Management bond buybacks)</p> <p>Europe, Middle East, and Africa</p> <p>Denmark: DKK 20 billion</p> <p>Eurozone Markets: EUR 2.5 billion</p> <p>Israel: ILS 5 billion</p> <p>Norway: NOK 20 billion</p> <p>Sweden: SEK 25 billion</p> <p>United Kingdom: GBP 2 billion (excludes Bank of England holdings)</p> <p>Asia Pacific and Japan</p> <p>Australia: AUD 750 million</p> <p>Japan: JPY 500 billion; 20+ year bonds: JPY 450 billion (excludes Bank of Japan holdings and Ministry of Finance buybacks)</p> <p>New Zealand: NZD 750 million (excludes Reserve Bank of New Zealand holdings)</p> <p>Singapore: SGD 1.5 billion (excludes Monetary Authority of Singapore holdings)</p> |
| Minimum credit quality⁵ | <p>Entry: A- by S&P and A3 by Moody's, for all new markets.</p> <p>Exit: Below BBB- by S&P and Baa3 by Moody's.</p> |
| Market Accessibility Level | <p>Minimum level of 2.</p> <p>For further details on calibration of Market Accessibility Levels, please see FTSE Fixed Income Country Classification Process.</p> |
| Country Eligibility | All markets that are included in the WGBI-DM, excluding the United States. |
| Composition | <p>Sovereign debt denominated in the domestic currency. Eligible security types by market are listed in the below table.</p> <p>Variable rate, floating rate, fixed-to-floating rate, index-linked, retail directed, bills, stripped zero coupon, convertibles, savings, and private placements are excluded.</p> |

⁵ Each month, the upcoming month's index constituents are "fixed" on the profile fixing date. The credit qualifications of the index are treated as provisional, in order to give market participants time to react to last-minute downgrades. A market will be removed from the index after the fixing if it becomes rated below investment-grade by both S&P and Moody's. This exception window is kept open until 5:00 p.m. New York time on the second to last business day of the month for removal only. Removal from the index, on or after the fixing date, is not reversible except by qualifying for the index once again, which takes a minimum of six months. There is no specific rule concerning default or what constitutes default. Conceivably, a market could technically default, but an immediate rescue could leave its existing bonds in the investment-grade category. Only a downgrade to below investment-grade would trigger a credit-related expulsion from the index.

| | |
|-----------------------------------|---|
| Weighting | Market capitalisation subject to following caps: <ul style="list-style-type: none"> – individual country is capped at 21% – total market weights of the countries with more than 4.6% market weight in the index cannot exceed 47% of the total index weight After the country weights are determined, constituents within each country are assigned weights in proportion to their market capitalisation. ⁶ |
| Rebalancing | Once a month on the last business day of the month (pricing as of the last business day of the monthly and settlement as of the last calendar day of the month.) |
| Reinvestment of cash flows | Intra-month cash flows from interest and principal payments are not reinvested as part of monthly index total return calculations. ⁷ |
| Pricing | Refinitiv except for: Israeli (provided by the Tel Aviv Stock Exchange) ⁸ Singapore (provided by the Monetary Authority of Singapore). For more information on local market close, see Figure 1. |
| Calculation frequency | Daily |
| Settlement date | Monthly: Settlement is on the last calendar day of the month. Daily: Same day settlement except if the last business day of the month is not the last calendar day of the month; then, settlement is on the last calendar day of the month. |
| Fixing date | Each month, the upcoming month's index constituents are "fixed" on the profile fixing date. Each year's scheduled fixing dates are published on the website. |
| Base date | July 31, 2009 |

FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index composition by market

| WGBI-DM markets | Security type |
|------------------|---|
| Australia | Excludes tax rebate bonds |
| Austria | Includes Bundesanleihen Excludes Bundesobligationen bonds |
| Belgium | N/A |
| Canada | N/A |
| Denmark | Excludes mortgage credit bonds |
| Finland | Excludes sinking fund, putable, extendable, housing fund and yield bonds |
| France | Includes Obligations Assimilables du Trésor (OATs) and Bons du Trésor à Intérêt Annuel Normalisé (BTANs) |
| Germany | Includes Bundesrepublik, Schatzanweisungen, Bundesobligationen, Unity bonds, Treuhandanstalt, and Treuhandobligationen Excludes Schuldscheine, Unverzinsliche, Bundespost, Bundesbahn, and European Recovery Program Bonds |
| Ireland | N/A |
| Israel | N/A |
| Italy | Includes Buoni del Tesoro Poliennale (BTPs) |
| Japan | Includes callable bonds Excludes JGBs for individuals and discount bonds |

⁶ Detailed capping methodology can be found in Appendix A.

⁷ Prior to 1 November 2022, reinvestment income was included in the total return calculation.

⁸ Trading calendar for Israel is Sunday-Thursday. Since index performance is calculated based on a Monday-Friday calendar, Friday pricing will be rolled from Thursday's closes. If Israel's last trading day of the month is a Sunday, the end-of-month pricing will be rolled from Thursday's closes.

| WGBI-DM markets | Security type |
|-----------------|--|
| Netherlands | N/A |
| New Zealand | N/A |
| Norway | Includes benchmark bonds Excludes loans and lottery loans issued before 1991 |
| Singapore | N/A |
| Spain | Includes Bonos and Obligaciones del Estado Excludes discount bonds (Letras and Pagares del Tesoro) |
| Sweden | Includes Riksobligationer |
| United Kingdom | Includes callable, partly paid, and convertible (into other gilt issues) bonds Excludes rump gilts and perpetuals (undated) |

Figure 1. Pricing sources and snap times

| Country | Source | Snap Time |
|----------------|-------------------------|----------------------|
| Australia | Refinitiv | 4:00 p.m. (Tokyo) |
| Canada | Refinitiv | 3:00 p.m. (New York) |
| Denmark | Refinitiv | 4:15 p.m. (London) |
| Eurozone | Refinitiv | 4:15 p.m. (London) |
| Israel | Tel Aviv Stock Exchange | 5:25 p.m. (Tel Aviv) |
| Japan | Refinitiv | 3:00 p.m. (Tokyo) |
| Norway | Refinitiv | 4:15 p.m. (London) |
| Sweden | Refinitiv | 4:15 p.m. (London) |
| United Kingdom | Refinitiv | 4:15 p.m. (London) |

4.1 Holiday calendar

4.1.1 The index is calculated Monday through Friday except Christmas Day (observed) and New Year's Day (observed). Each local market will observe its own holiday calendar; if a local market is on holiday, the closing prices used for that day will be the closing prices from the previous day.

4.2 Index quality

4.2.1 An index quality is assigned to each index bond as of profile fixing. The quality is first mapped to the Standard & Poor's Financial Services LLC ("S&P") rating. If a bond is not rated by S&P but it is rated by Moody's Investors Service, Inc ("Moody's"), the S&P equivalent of the Moody's rating is assigned to the index quality. If a bond is rated by neither S&P nor Moody's, the bond is not assigned an index quality. If a bond is rated as investment-grade by one rating agency and high-yield by the other, the S&P equivalent of the investment-grade rating is assigned to the index quality. These ratings remain unchanged for the entire performance month.

4.3 Return Computation

4.3.1 Total returns are computed on the assumption that each security is purchased at the beginning of the period and sold at the end of the period. An issue's total rate of return is the percentage change in its total value over the measurement period. The components of total return for each security are price change, principal payments, coupon payments and accrued interest. The total returns are market capitalisation-weighted using the security's beginning-of-period market value (see Figure 2).

Figure 2. Total rate of return calculation methodology

| | | |
|---------------------------|---|--|
| Beginning-of-period value | - | (Beginning price + Beginning accrued) x Beginning par amount outstanding |
| End-of-period value | - | [(Ending price + Ending accrued) x (Beginning par amount outstanding – Principal payments)] + Coupon payments + Principal payments |
| Total rate of return (%) | - | [(End-of-period value/Beginning-of-period value) – 1] x 100 |

A note on precision: Returns are computed to at least six decimal places but reported to a maximum of four. In addition, owing to rounding inaccuracies inherent in computer floating-point arithmetic, the last digit in any reported value may sometimes be off by one from its true value.

Ticker for the FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index

| Ticker | Index |
|----------|--|
| CFIIWCS1 | FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index, in USD terms |

4.4 Chronological summary of events

4.4.1 The construction of World Government Bond Index - Developed Markets 1-3 Years Capped Select Index is driven by the same events that mark the WGBI-DM, for more information, please see the FTSE Fixed Income Index Guide.

FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index summary of event

| Year | Monthly highlights |
|-------------|---|
| 2022 | November: Intra-month cash flows from interest and principal payments are not reinvested as part of monthly index total return calculations. November: New Zealand is added to the FTSE World Government Bond Index. |
| 2020 | March: The FTSE World Government Bond Index – Developed Markets 1-3 Years Capped Select Index is introduced. May: Israel is added to the Index |

Appendix A

Capping methodology

| Level | Frequency |
|--------|-----------|
| Issuer | Monthly |

Overview

- The weight of any issuer cannot exceed 21% of the overall market weight of the index
- There will be an Individual Country Cap applied to the market weights of all countries except those in the Upper Group. The sum of country weights of the Upper Group cannot exceed the Upper Group Cap.
- The number of countries in the Upper Group can be no less than 5. If the total number of countries in the index drops below 16, then the number of countries in the Upper Group will decrease by the same amount.
- If there are 17 or more countries in the index, the Individual Country Cap will be 4.6% and the Upper Group Cap will be 47%.
- If there are 14 to 16 countries in the index, the Individual Country Cap will increase to 4.8% and the Upper Group Cap will increase to 48%.
- The total number of countries in the index should not be less than 14.

Methodology

1. Remove all bonds issued by the US in the starting universe (WGBI-DM).
2. Calculate the new weight of each country in the universe and sort largest to smallest. These are the starting weights.
3. Calculate the Upper Group multiplier, which is the ratio of the Upper Group Cap to the sum of n country weights. n is determined by starting with the largest country, and adding one additional country in each successive calculation. For example, the first calculation is the Upper Group Cap/the starting weight of the largest country. The next calculation is the Upper Group Cap/the sum of the two largest countries, etc.
4. Calculate the Lower Group multiplier, which is the Individual Country Cap, divided by each country's starting weight.
5. Based on the multipliers, countries will be assigned to the Upper and Lower Groups. If the Upper Group multiplier is larger than the Lower Group multiplier, the country will be placed in the Upper Group. If the Upper Group multiplier is smaller than the Lower Group multiplier, the country will be in the Lower Group. The minimum number of countries in the Upper Group is 5. If placing the fifth country in the Upper Group causes the Upper Group Cap to be breached, the weight of the fifth largest country will be floored at the Individual Country Cap.
6. In applying the Upper Group Cap, market weights of countries in the Upper Group are scaled down on a pro-rata basis until the Upper Group Cap threshold is achieved. Excess weight from the application of the cap is re-distributed pro-rata to the Lower Group countries.
7. Next, apply the Individual Country Cap to the Lower Group countries. Excess weight from the application of the cap is re-distributed pro-rata to the uncapped Lower Group countries.
8. The weights after the capping is complete will be applied at index fixing.

Appendix B

Further information

A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:

[Fixed Income Glossary of Terms.pdf](#)

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at fi.index@lseg.com.

Website: www.lseg.com/en/ftse-russell/

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