



iBoxx Tadawul SAR Government Sukuk & Bond Index Guide

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1 iBoxx Tadawul SAR Government Sukuk & Bond Index

The iBoxx Tadawul SAR Government Sukuk & Bond Index is designed to reflect the performance of Saudi Arabian Riyal (SAR) denominated government bonds including Sukuk issued by Saudi Arabia. The index has been created in partnership between Saudi Stock Exchange Tadawul and IHS Markit. The index rules aim to offer a broad coverage of the SAR Sukuk government bond universe, whilst upholding minimum standards of investability and liquidity. The index is an integral part of global Markit iBoxx index families, which provides the marketplace with an accurate and objective reference index to assess the performance of Saudi Arabia's government Islamic bond markets and investments.

The bonds in the index must meet all the criteria described below as of the close of business three business days prior to the rebalancing date provided that the relevant bond data can be verified, at IHS Markit's sole discretion, as of such date ("bond selection cut-off date"). The new index composition becomes effective on the first business day of the next month.

All iBoxx indices are priced based on multiple data inputs. The Index uses multi-source prices as described in the document *Markit iBoxx Pricing Rules* publicly available on www.ihsmarkit.com.

This document covers the index rules and calculation methodology.

1.1 Index governance

In order to ensure the independence and the objectivity of the iBoxx Tadawul SAR Government Sukuk & Bond Index, the index rules and their enforcement will be governed by two distinct Index Advisory Committees, in line with the governance structure for the main iBoxx index families.

1.1.1 Technical Committee

The Technical Committee comprises representatives from market makers/banks. The main purpose of this group is to provide assistance in the identification of eligible constituents, especially in the instance where the eligibility or the classification of a bond is unclear or contentious. Additionally, the Technical Committee discusses any market developments which may warrant index rule changes, and provide recommendations on changes to the rules or additional indices. It also reviews the impact of financial sanctions on the eligibility of countries or specific index constituents.

1.1.2 Oversight Committee

The Oversight Committee comprises representatives from a broad range of asset managers, consultants and industry bodies. The purpose of this committee is to review the recommendations made by the Technical Committee and also to provide consultation on any market developments which may warrant rule changes.

1.2 Publication of the iBoxx Tadawul SAR Government Sukuk & Bond Index

iBoxx Tadawul SAR Government Sukuk & Bond Index is calculated as end-of-day and distributed once daily after close of market from Monday to Friday¹. Friday values will be calculated using Thursday prices and adding the accrued interest up to Friday. The index is calculated every day except common holidays of Saudi Arabian market. In addition, the index is calculated with the previous trading day's closing price on the last calendar day of each month if that day is not a trading day.

IHS Markit publishes an index calculation calendar, which is available on www.ihsmarket.com under *iBoxx Calendars*. Index data and bond price information is also available from the main information vendors.

Bond and index analytical values are calculated each trading day using the daily closing prices. Closing index values and key statistics are published at the end of each business day in the indices section on www.ihsmarket.com for registered users.

1 Sunday calculations are planned for a later stage. Once available, the Sunday index calculations will be published before the Saudi market opening on the following Monday.

2 Bonds selection rules

The following selection criteria are used to determine the index constituents from the SAR denominated bond universe:

- Bond type
- Issuer
- Amount outstanding
- Credit Rating

2.1 Bond type

The iBoxx Tadawul SAR Government Sukuk & Bond Index includes only SAR denominated fixed coupon bonds.

The following bond types are specifically excluded:

- 144A bonds
- Zero coupon bonds and zero-coupon step-up bonds
- Financial non-hybrid perpetual and fixed to floater bonds
- Fixed-to-floater, non-hybrid bonds from non-financial issuers
- Convertibles
- Inflation- and other index-linked bonds
- Bonds cum or ex-warrant
- Bonds whose complete coupons are paid at maturity, as they are similar to zero-coupon bonds with only one cash flow
- New bonds entering the index that have already been called prior to rebalancing
- Optionally and mandatory convertible bonds
- Defaulted bonds
- Retail bonds
- Private placements

For retail bonds and private placements, publicly available information is not always conclusive and the classification of a bond as a retail bond or a private placement will be made at IHS Markit's discretion based on the information available at the time of determination. IHS Markit may consult with the specific Index Advisory Committees to review potential retail bonds or private placements. Any bond classified as retail or private placement is added to the list of excluded private placements and retail bonds. The list is published on www.ihsmarkit.com under *Indices News* for future reference and to ensure decision's consistency.

In instances where a new bond type is not specifically excluded or included according to the published index rules, IHS Markit will analyse the features of such securities in line with the principles set out in section 2.1 of the guide. IHS Markit may consult the specific Index Advisory Committees. Any

decision as to the eligibility or ineligibility of a new bond type will be published and the index rules will be updated accordingly.

2.2 Issuer type

Only sovereign debt issued by the central government or the central bank are eligible for the index.

2.3 Amount outstanding

Eligible bonds must be denominated in SAR, with an amount outstanding of at least SAR 100 million.

2.4 Credit Rating

Both rated and unrated bonds are eligible for the index.

3 Bond classification

All bonds are classified based on the principal activities of the issuer and the main sources of the cash flows used to pay coupons and redemptions. In addition, a bond's specific collateral type or legal provisions are evaluated. Hence, it is possible that bonds issued from different subsidiaries of the same issuer carry different classifications.

The issuer classification is reviewed regularly based on updated information received by IHS Markit, and status changes are included in the index at the next rebalancing if necessary.

Where the sector classification of a specific entity is not very clear due to the diversified business of the entity, decision will be made at IHS Markit's discretion. IHS Markit will assign the IHS Markit classification according to its evaluation of the business risk presented in the security prospectus and annual reports, if available. IHS Markit will also compare the classification to peers in the potential sectors and may consult with the Index Advisory Committees. Membership lists including classification are published on the FTP server and in the *Indices* section on www.ihsmarkit.com for registered users.

4 Index calculation

4.1 Static data

Information used in the index calculation is sourced from offering circulars and checked against reference data provided by Tadawul.

4.2 Bond prices

The bond prices used to calculate the index will be provided by *Markit Evaluated Bond Pricing Service (EVB)*. To make sure that illiquid bonds are being priced constantly on a daily basis, EVB will use its independent and proprietary evaluated pricing methodology and the following are the primary inputs into the evaluation process:

- Trades, including real-time trades
- Primary dealer quotes which are buy and sell quotes for Sukuks
- Yield curve pricing
 - > Yield curve will be derived from liquid traded bonds across the term structure using trades and dealer quotes
 - > Less liquid bonds will be plotted on the yield curve in respect to their maturity and their yield will be derived
 - > Derived yields will be converted to cash prices

In this methodology, the more liquid bonds data points (trades, dealer quotes) are available, the more accurate the yield curve will be.

4.3 Rebalancing process

The iBoxx Tadawul SAR Government Sukuk & Bond Index is rebalanced monthly on the last calendar day.

Two business days before the end of each rebalancing month, the rating and amount information for the constituents is updated and the list is adjusted for all rating and amount changes which are known to have taken place three business days before the end of the month which could also result in exclusion of the bond. However, if bonds become eligible into the index two business days prior to rebalancing because of rating and/or amount changes, they will be included.

Two business days before the end of the month the final index membership list for the following month is published at the close of business.

On the last business day of each month, IHS Markit publishes the membership list with the capped amount outstanding and closing prices of all bonds at the close of business.

4.4 Index data

The calculation of the index is based on bid prices. New securities are included in the index at their respective ask prices when they enter the index family. In the event that no price can be established for a particular security, the index continues to be calculated based on the last available price. This might be the case in periods of market stress, or disruption as well as in illiquid or fragmented markets. If the required inputs become impossible to obtain, IHS Markit may consult the specific Index Advisory Committees at the following rebalancing date. Decisions are made publicly available on a timely basis and IHS Markit may refer back to previous cases.

On the last trading day of a rebalancing month, the rebalancing takes place after close of market.

4.5 Index calculus

For specific index formulas please refer to the *Markit iBoxx Bond Index Calculus* document, available in the *Methodology* section of the iBoxx Documentation page on www.ihsmarkit.com.

4.6 Treatment of the special intra-month events

Data for the application of corporate actions in the index may not be fully or timely available at all times, e.g. the final call prices for make-whole calls or the actual pay-in-kind percentage for PIK-payment options. In such cases, IHS Markit will estimate the approximate value based on the available data at the time of calculation.

4.6.1 Index and analytics weights

The iBoxx Tadawul SAR Government Sukuk & Bond Index is market-value-weighted. The amount outstanding of a bond is only adjusted within the rebalancing process.

All calculations are based on the adjusted amount outstanding that reflects the outstanding bond notional at the last rebalancing. The bond prices relate to the nominal value of 100.

4.6.2 Funged bonds

Bonds may be issued in several tranches. The different tranches are initially legally separate and therefore trade independently for a certain period. On and after the funge date, the tranches will be combined into one bond, i.e. the parent tranche will contain the original security, as well as the additional notional(s) from the new tranche(s). After the funge date, the prices for both the securities are the same, because they constitute one uniform bond. This is reflected in the indices as follows:

4.6.2.1 Parent and new tranche are both index constituents

- After the funge date, the price from the parent tranche is used for the funged tranche; no price for the funged bond
- Funged tranche leaves the index at the next rebalancing and parent amount outstanding increases accordingly

4.6.2.2 Parent is an index constituent, but the new tranche is not

- No special intra-month treatment necessary
- Parent amount outstanding increases at the next rebalancing

4.6.2.3 Parent is not an index constituent but the new tranche is

- No special intra-month treatment necessary
- Funged tranche leaves the index; parent tranche enters the index at the next rebalancing

4.6.3 Full redemptions: exercised calls, puts and buybacks

If a bond is fully redeemed intra-month, the bond effectively ceases to exist. In all calculations, the redeemed bond is treated as cash based on the last price, the call price or repurchase price, as applicable. The redemption factor, redemption and the redemption price are used to treat these events in the index and analytics calculation. In addition, the clean price of the bond is set to the redemption price, and the interest accrued until the redemption date is treated as an irregular coupon payment.

4.6.4 Bonds trading flat of accrued

If a bond is identified as trading flat of accrued, the accrued interest of the bond is set to 0 in the total return index calculation and is excluded from the calculation of all bond and index analytical values.

Bonds will be considered trading flat of accrued in any of the following situations:

- a bond has been assigned a default rating and/or
- issuer has announced a failure to pay a coupon and/or
- issuer has announced an intention not to make a payment on an upcoming coupon (grace period).

4.6.5 Multi-coupon bonds

Some bonds have pre-defined coupon changes that lead to a change in the annual coupon over the life of the bond. In all instances, the coupon change must be a fixed amount on top of a fixed coupon, i.e. floating coupon bonds are not eligible for the indices. The two main categories of bonds are step-up bonds and event-driven bonds.

- **Step-up bonds:** These are bonds with a pre-defined coupon schedule that cannot change during the life of the bond. The coupon schedule is used in all bond calculations.
- **Event-driven bonds:** These are bonds whose coupon may change upon occurrence (or non-occurrence) of pre-specified events, such as rating changes, e.g. rating-driven bonds, failure to register a bond (register-driven bonds), or failure to complete a merger, (merger-driven bonds).

In the calculation of the indices and the analytics, the coupon schedule as of the calculation date is used. That is to say, any events occurring after the calculation date are ignored in the determination of the applicable coupon schedule. *Example of an event-driven bond:* A bond's rating changes on 31 December 2003 from A- to BBB+, and the coupon steps up from 6% to 6.25% from 1 March 2004 onward. The coupon dates are 1 October and 1 April each year. The correct coupon schedule for the bond and index calculations is date dependent. The index calculation on 20 December 2003 uses the 6% coupon for the whole life of the bond, while the calculation on 31 January 2004 uses a 6% coupon for the current coupon period to 29 February 2004, and a 6.25% coupon for all later interest payments. The index calculation on 20 March uses a 6% coupon until 29 February, a 6.25% coupon for the remainder of the current coupon period and a 6.25% coupon for all future coupon payments. The index calculation after 1 April uses a 6.25% coupon.

4.6.6 Ex-dividend conventions

Some markets have ex-dividend conventions. Ex-dividend means that the next coupon is detached from the bond several days in advance of the coupon payment date. The date on which the next coupon is detached is the ex-dividend date and the period between the ex-dividend date and the coupon payment date is the ex-dividend period. If a bond is in the ex-dividend period, the next coupon payment will not be paid to a buyer of this bond, but will be paid to the original bond holder.

The indices and analytics calculations take ex-dividend conventions into account. During the ex-dividend period, the accrued interest of the bond is negative, while the next coupon payment is held separate in the variable coupon adjustment. If the bond enters the index during the ex-dividend period, then the next coupon payment and the coupon adjustment will not accrue to the index. However, if the bond was already in the index, the next coupon payment needs to be included in the total return calculations. This is controlled via the ex-dividend indicator which is 0 if the bond enters the index during the current ex-dividend period and 1 if not. The same treatment is also applied to all analytics calculation, i.e. the first cash flow is excluded from the calculations if the bond enters during the current ex-dividend period.

4.7 Index history

The Index history starts on 31 January 2020. The index has a base value of 100 on that date.

4.8 Settlement conventions

All iBoxx indices are calculated using the assumption of T+0 settlement days.

4.9 Calendar

IHS Markit publishes an index calculation calendar in the *iBoxx Calendars* section of the iBoxx Documentation page on www.ihsmarkit.com. This calendar provides an overview of the index calculation holidays of the iBoxx bond index families in a given year.

4.10 Data publication and access

The table below summarizes the publication of the iBoxx Tadawul SAR Government Sukuk & Bond Index in the *Indices* section of the IHS Markit website www.ihsmarkit.com for registered users and on the FTP server.

Table 1: Publication types and access

Frequency	File Type	Access
Daily	Underlying files – Bond level	IHS Markit FTP Server
	Indices files – Index level	IHS Markit FTP Server / IHS Markit website/ Bloomberg for index levels only
Daily from the 12 th calendar day of the month (or the next business day in case of holiday/weekend)	Forwards files	IHS Markit FTP Server
Monthly	End of Month Components	IHS Markit FTP Server / IHS Markit website
	XREF files	IHS Markit FTP Server

Below is a summary of the identifiers for each publication channel:

Table 2: Summary of the available index identifiers

Indexname	Return type	ISIN	Ticker	RIC
iBoxx Tadawul SAR Government Sukuk & Bond	CPI	GB00BL08V079	IBXXSNB1	.IBXXSNB1
iBoxx Tadawul SAR Government Sukuk & Bond	TRI	GB00BL08V186	IBXXSNB2	.IBXXSNB2

4.11 Index restatement

Index restatement follows the policy described in the *Markit iBoxx Index Restatement Policy* document, available in the *Methodology* section of the Markit iBoxx Documentation page on www.ihsmarkit.com.

4.12 Index review

The rules for the Index are reviewed on a periodic basis to ensure that the index provides a balanced representation of the respective debt market. Decisions made following such a review will be

published on www.ihsmarket.com. The publication will contain a detailed overview and timelines for implementation of the rules changes.

5 Further information

Glossary of key terms

The Markit iBoxx Glossary document of key terms is available in the *Methodology* section of the iBoxx *Documentation* page on www.ihsmarkit.com.

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Formal complaints

Formal complaints can be sent electronically to our dedicated e-mail address complaints_indices@ihsmarkit.com.

For any general index enquiries, please contact iBoxx indices support group at indices@ihsmarkit.com.

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