

CRISIL Indices – Annual Criteria Review - 2019

CRISIL Funds and Fixed Income Research

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Background

CRISIL presently maintains 91 standard indices that track various aspects of fixed income market in India. CRISIL Indices are used as performance benchmarks by asset managers including mutual funds, insurance companies, wealth advisors, banks and corporate entities.

In our endeavour to keep the indices representative and replicable, we do an annual review of criteria for index construction and have completed the review for 2019. We have reviewed and changed the weights to the sub-indices of the CRISIL composite indices as well as stated a fixed duration range that few composite indices will stick to. Also for Government Securities and Corporate Bond Indices, we have introduced buffers in the security selection criteria.

Please refer to the section below for the proposed changes. These changes will be incorporated with effect from 2nd April 2019.

For more details on these indices, kindly visit the below web-link

<http://www.crisil.com/capital-markets/indices.html>

Introduction of Buffers in Government Security Indices

Presently for portfolio based government security indices, top n (defined in the table below) liquid securities are selected every month in each index by looking at the traded data for the previous month. The liquidity is evaluated based on liquidity score assigned to each security. For the purpose of calculation of liquidity score the following parameters are considered in the weights given below:

- Volume Traded/ Maximum volume traded of all securities in a category: 70%
- Number of trades/ Maximum number of trades of all securities in a category: 15%
- Number of days traded/ Maximum number of days traded of all securities in a category: 15%

The number of securities and residual maturity criteria for each index is as stated below:

Index	No of securities (n)	Residual maturity criteria
CRISIL Long Term Gilt Index	8	Greater than 10 years
CRISIL Medium Term Gilt Index	8	5 to 10 year
CRISIL Short Term Gilt Index	8	Up to 5 years
CRISIL Composite Gilt Index	9	Top 3 securities each from long, medium and short term bucket
CRISIL Dynamic Gilt Index	12	NA

To ascertain the consistency in the liquidity, the security rebalancing would happen every month using the previous quarter's traded data (instead of the monthly data) and applying the buffers as mentioned below:

A buffer is the rank up to which a security which was a part of the index for the previous month but has a liquidity score lower than the top n securities in the current month would continue to be the part of the index. This means that even if the rank of a particular security deteriorates to the buffer rank it will not be sold from the index.

The buffers to be used for each index would be as follows:

Index	No of securities (n)	Buffer
CRISIL Long Term Gilt Index	8	11
CRISIL Medium Term Gilt Index	8	11
CRISIL Short Term Gilt Index	8	11
CRISIL Composite Gilt Index	3 each from long, medium and short term bucket	6 each from long, medium and short term bucket

Apart from applying buffers, the following conditions will always be met:

- The security with Rank 1 would compulsorily form a part of the index.
- If a security is a part of top n securities but ignored due to buffers for 3 consecutive months, the same will be considered if it appears in top n for the 4th month

Buffers would not be added to CRISIL Dynamic Gilt Index and the same can remain dynamic based on liquidity.

Introduction of Buffers in Credit indices

Presently for portfolio based indices, top 12 issuers are identified using the traded data for the previous quarter. The most liquid security of the selected issuer forms the part of the index. The issuer rebalancing happens every quarter. Further, any issuer that gets downgraded below the eligible rating criteria of the index is excluded during monthly security rebalancing. Parameters used for evaluation of liquidity are similar to the practice followed for gilt indices

Similar to gilt indices buffers will also be added to credit indices. The details are mentioned below:

- A buffer of rank 15 would be used for all the indices having 12 securities and rank 9 as the buffer for indices having 6 securities, during issuer selection
- The issuers with Ranks 1 to 3 would compulsorily form a part of the index
- If an issuer is a part of top n issuers but ignored due to buffers for 3 consecutive quarters, the same will be considered if it appears in top n for the 4th quarter

Review of Asset Allocation for composite indices

The table below summarises the weights to sub-indices that shall be effective from April 02, 2019:

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) [§]	Sub-indices Weights (New) [§]
		Oct-2018	Apr-2019
CRISIL Composite Bond Fund Index	CRISIL Composite Gilt Index	45%	45%
	CRISIL AAA Long Term Bond Index	12%	16%
	CRISIL AA and AA+ Long Term Bond Index	10%	3%
	CRISIL AAA Medium Term Bond Index	15%	10%
	CRISIL AA and AA+ Medium Term Bond Index	4%	3%
	CRISIL AAA Short Term Bond Index	11%	18%
	CRISIL AA and AA+ Short Term Bond Index	3%	5%
CRISIL Short Term Bond Fund Index	CRISIL Short Term Gilt Index	15%	15%
	CRISIL AAA up to 1 Year Short Term Bond Index	13%	12%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) ^s	Sub-indices Weights (New) ^s
		Oct-2018	Apr-2019
	CRISIL AAA 1 to 3 Year Short Term Bond Index	19%	18%
	CRISIL AA and AA+ up to 1 Year Short Term Bond Index	3%	4%
	CRISIL AA and AA+ 1 to 3 Year Short Term Bond Index	5%	6%
	CRISIL AAA Medium Term Bond Index	20%	23%
	CRISIL AA and AA+ Medium Term Bond Index	5%	7%
	CRISIL Composite CD Index	6%	5%
	CRISIL Composite CP Index	14%	10%
CRISIL Liquid Fund Index	CRISIL Overnight Index	15%	No change
	CRISIL 3 Month CD Index	5%	
	CRISIL 2 Month CD Index	16%	
	CRISIL 1 Month CD Index	5%	

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Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) ^s	Sub-indices Weights (New) ^s
		Oct-2018	Apr-2019
	CRISIL 3 Month CP Index	12%	
	CRISIL 2 Month CP Index	37%	
	CRISIL 1 Month CP Index	10%	
CRISIL Ultra Short Term Debt Index	CRISIL Composite CD Index	25%	23%
	CRISIL Composite CP Index	60%	55%
	CRISIL Composite T-Bill Index	10%	10%
	CRISIL AAA Short Term Bond Index	4%	9%
	CRISIL AA and AA+ Short Term Bond Index	1%	3%
CRISIL Money Market Index	CRISIL Composite CD Index	24%	25%
	CRISIL Composite CP Index	56%	57%
	CRISIL Composite T-Bill Index	20%	18%
CRISIL Low Duration Debt Index	CRISIL AAA up to 1 Year Short Term Bond Index	7%	8%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) [§]	Sub-indices Weights (New) [§]
		Oct-2018	Apr-2019
	CRISIL AAA 1 to 3 Year Short Term Bond Index	21%	23%
	CRISIL AA and AA+ up to 1 Year Short Term Bond Index	2%	2%
	CRISIL AA and AA+ 1 to 3 Year Short Term Bond Index	5%	7%
	CRISIL Composite CD Index	20%	18%
	CRISIL Composite CP Index	45%	42%
CRISIL Medium Term Debt Index	CRISIL Short Term Gilt Index	15%	10%
	CRISIL AAA Long Term Bond Index	0%	4%
	CRISIL AA and AA+ Long Term Bond Index	0%	1%
	CRISIL AAA Medium Term Bond Index	68%	66%

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Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) ^s	Sub-indices Weights (New) ^s
		Oct-2018	Apr-2019
	CRISIL AA and AA+ Medium Term Bond Index	17%	19%
CRISIL Medium To Long Term Debt Index	CRISIL Medium Term Gilt Index	40%	50%
	CRISIL AAA Long Term Bond Index	13%	30%
	CRISIL AA and AA+ Long Term Bond Index	12%	5%
	CRISIL AAA Medium Term Bond Index	28%	12%
	CRISIL AA and AA+ Medium Term Bond Index	7%	3%
CRISIL Long Term Debt Index	CRISIL Long Term Gilt Index	45%	45%
	CRISIL AAA Long Term Bond Index	30%	47%
	CRISIL AA and AA+ Long Term Bond Index	25%	8%
CRISIL Composite CD Index	CRISIL 2 Month CD Index	21%	40%
	CRISIL 3 Month CD Index	58%	47%
	CRISIL 6 Month CD Index	7%	8%
	CRISIL 1 Year CD Index	14%	5%
CRISIL Composite CP Index	CRISIL 2 Month CP Index	37%	40%
	CRISIL 3 Month CP Index	53%	47%
	CRISIL 6 Month CP Index	7%	8%
	CRISIL 1 Year CP Index	3%	5%
CRISIL Composite T-Bill Index	CRISIL 91 Day T-Bill Index	60%	44%
	CRISIL 182 Day T-Bill Index	21%	28%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) ^s	Sub-indices Weights (New) ^s
		Oct-2018	Apr-2019
	CRISIL 1 Year T-Bill Index	19%	28%
CRISIL Corporate Bond Composite Index	CRISIL AAA Long Term Bond Index	22%	27%
	CRISIL AAA Medium Term Bond Index	28%	17%
	CRISIL AAA Short Term Bond Index	21%	29%
	CRISIL AA+ Long Term Bond Index	7%	4%
	CRISIL AA+ Medium Term Bond Index	4%	2%
	CRISIL AA+ Short Term Bond Index	3%	6%
	CRISIL AA Long Term Bond Index	8%	1%
	CRISIL AA Medium Term Bond Index	2%	4%
	CRISIL AA Short Term Bond Index	2%	4%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) ^s	Sub-indices Weights (New) ^s
		Oct-2018	Apr-2019
	CRISIL AA- Long Term Bond Index	1%	1%
	CRISIL AA- Medium Term Bond Index	1%	2%
	CRISIL AA- Short Term Bond Index	1%	3%
CRISIL Long Term Corporate Bond Index	CRISIL AAA Long Term Bond Index	64%	75%
	CRISIL AA+ Long Term Bond Index	21%	10%
	CRISIL AA Long Term Bond Index	13%	7%
	CRISIL AA- Long Term Bond Index	2%	8%
CRISIL Medium Term Corporate Bond Index	CRISIL AAA Medium Term Bond Index	76%	77%
	CRISIL AA+ Medium Term Bond Index	9%	8%
	CRISIL AA Medium Term Bond Index	14%	11%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) ^s	Sub-indices Weights (New) ^s
		Oct-2018	Apr-2019
	CRISIL AA- Medium Term Bond Index	1%	4%
CRISIL Short Term Corporate Bond Index	CRISIL AAA Short Term Bond Index	75%	70%
	CRISIL AA+ Short Term Bond Index	10%	15%
	CRISIL AA Short Term Bond Index	10%	9%
	CRISIL AA- Short Term Bond Index	5%	6%
CRISIL Composite Credit Risk Index	CRISIL AAA Long Term Bond Index	8%	10%
	CRISIL AAA Medium Term Bond Index	10%	6%
	CRISIL AAA Short Term Bond Index	8%	10%
	CRISIL AA+ Long Term Bond Index	2%	1%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) [§]	Sub-indices Weights (New) [§]
		Oct-2018	Apr-2019
	CRISIL AA+ Medium Term Bond Index	1%	1%
	CRISIL AA+ Short Term Bond Index	1%	2%
	CRISIL AA Long Term Bond Index	32%	5%
	CRISIL AA Medium Term Bond Index	10%	16%
	CRISIL AA Short Term Bond Index	9%	16%
	CRISIL AA- Long Term Bond Index	4%	6%
	CRISIL AA- Medium Term Bond Index	1%	6%
	CRISIL AA- Short Term Bond Index	4%	11%
	CRISIL A Medium to Long Term Bond Index	7%	6%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) ^{\$}	Sub-indices Weights (New) ^{\$}
		Oct-2018	Apr-2019
	CRISIL A Short Term Bond Index	3%	4%
CRISIL Short Term Credit Risk Index	CRISIL AAA Short Term Bond Index	27%	25%
	CRISIL AA+ Short Term Bond Index	3%	5%
	CRISIL AA Short Term Bond Index	41%	36%
	CRISIL AA- Short Term Bond Index	19%	24%
	CRISIL A Short Term Bond Index	10%	10%
CRISIL Banking and PSU Debt Index	CRISIL Medium to Long Term PSU Debt Index	25%	No change
	CRISIL Medium to Long Term Banking Debt Index	25%	
	CRISIL Short Term PSU Debt Index	25%	

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) [§]	Sub-indices Weights (New) [§]
		Oct-2018	Apr-2019
	CRISIL Composite CD Index	25%	
CRISIL Dynamic Debt Index	CRISIL Dynamic Gilt Index	45%	45%
	CRISIL AAA Long Term Bond Index	12%	16%
	CRISIL AA and AA+ Long Term Bond Index	10%	3%
	CRISIL AAA Medium Term Bond Index	15%	10%
	CRISIL AA and AA+ Medium Term Bond Index	4%	3%
	CRISIL AAA Short Term Bond Index	11%	18%
	CRISIL AA and AA+ Short Term Bond Index	3%	5%
CRISIL Composite AA Long Term Bond Index	CRISIL AA+ Long Term Bond Index	36%	64%
	CRISIL AA Long Term Bond Index	56%	17%
	CRISIL AA- Long Term Bond Index	8%	19%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Old) [§]	Sub-indices Weights (New) [§]
		Oct-2018	Apr-2019
CRISIL Composite AA Medium Term Bond Index	CRISIL AA+ Medium Term Bond Index	48%	30%
	CRISIL AA Medium Term Bond Index	47%	51%
	CRISIL AA- Medium Term Bond Index	5%	19%
CRISIL Composite AA Short Term Bond Index	CRISIL AA+ Short Term Bond Index	39%	55%
	CRISIL AA Short Term Bond Index	42%	27%
	CRISIL AA- Short Term Bond Index	19%	18%

§ Rounded off to nearest integer

Based on changes in asset allocation and back-testing, it is expected that the duration of these indices will be in a narrow range. In order to obviate a drift in the duration profile, we have introduced fixed duration bands for a few indices. If in a particular month the duration of any of these indices drifts beyond the mentioned range, rule-based intervention would be made.

These indices and their relevant duration bands are as follows:

Index	Fixed Macaulay Duration Range
CRISIL Ultra Short Term Debt Index	0.28 – 0.48
CRISIL Low Duration Debt Index	0.58 – 0.90
CRISIL Short Term Bond Fund Index	1.60 – 2.40
CRISIL Medium Term Debt Index	3.30 – 3.80
CRISIL Medium To Long Term Debt Index	4.60 - 6.30

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