

CRISIL Indices Annual Criteria Review - 2020

CRISIL Funds and Fixed Income Research

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Background

CRISIL currently maintains 96 standard indices that track various aspects of the fixed-income market in India. These 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 undertake an annual review of the criteria for index construction, and have completed the review for 2020.

We have reviewed and changed the weights to the sub-indices of our composite indices.

To reduce churn in our credit indices and increase the replicability further, we will be shifting to quarterly rebalancing for securities in our corporate bond indices.

We have introduced impact cost for incoming and outgoing securities from the indices. Also, additional notice for high-spread issuers will be given to account for higher illiquidity.

We have modified the methodology of CRISIL Liquid Fund Index to follow a roll-down strategy. Also, we have increased the number of issuers for selected corporate bond indices.

Please refer to the section below for the changes, which will be incorporated with effect from April 3, 2020.

For more details on our indices, kindly visit <http://www.crisil.com/capital-markets/indices.html>

Shift to quarterly rebalancing of credit indices

Currently, as part of our rebalancing methodology for credit indices, we select the top liquid issuers, which remain constant for a quarter. The most liquid securities of these issuers form a part of the index for a month.

The securities are rebalanced every month based on the liquidity observed the previous month.

We will now shift the rebalancing frequency for all securities as well from monthly to quarterly. Both issuers and securities will be rebalanced at the beginning of the quarter and the portfolio will continue to hold the same securities for the entire quarter.

Rating changes, too, will be reviewed on a quarterly basis.

However, monthly review will be done for high-spread issuers.. The cash flows generated from coupon payments/ part redemptions would be re-invested at the month end.

Our corporate bond Indices:

Corporate Bond Indices
CRISIL AAA Long Term Bond index
CRISIL AAA Medium Term Bond index
CRISIL AAA Short Term Bond index
CRISIL AA and AA+ Long Term Bond Index
CRISIL AA and AA+ Medium Term Bond Index
CRISIL AA and AA+ Short Term Bond Index
CRISIL AA+ Long Term Bond Index
CRISIL AA+ Medium Term Bond Index
CRISIL AA+ Short Term Bond Index
CRISIL AA Long Term Bond Index
CRISIL AA Medium Term Bond Index
CRISIL AA Short Term Bond Index
CRISIL AA- Long Term Bond Index
CRISIL AA- Medium Term Bond Index
CRISIL AA- Short Term Bond Index
CRISIL A Medium to Long Term Bond Index
CRISIL A Short Term Bond Index
CRISIL AA and AA+ up to 1 Year Short Term Bond Index
CRISIL AA and AA+ 1 to 3 Year Short Term Bond Index
CRISIL AAA up to 1 Year Short Term Bond Index
CRISIL AAA 1 to 3 Year Short Term Bond Index
CRISIL Medium To Long Term Banking Debt Index
CRISIL Short Term Banking Debt Index

Corporate Bond Indices
CRISIL Medium To Long Term PSU Debt Index
CRISIL Short Term PSU Debt Index

Impact cost for incoming and outgoing securities in an index

Currently, securities getting in and out of any index are valued using security level valuations (SLV).

In order to make indices more representative and replicable from a market standpoint, we are incorporating impact cost at each reconstitution.

The impact cost applicable would differ from liquidity of the underlying security class and will range between 3 basis points (bps) and 20 bps. The impact cost would be applied consistently for given security class based on its liquidity classification by CRISIL.

Treatment of high-spread and downgraded issuers/ securities in an index

As a part of our rebalancing methodology for corporate bond indices, issuers and securities are selected based on rating/ maturity and liquidity criteria. When a change in the portfolio constituent occurs, the issuers are excluded in the month-end rebalancing after publishing a notice of 7 days

Issuers/ securities that have seen downgrades will now be removed from the index with at least 1 month additional notice (from the quarter end). At the same time, issuers/ securities that have seen considerable increase in spreads will be held in the index for a longer time. An issuer/ security will be classified as a high-spread issuer/ security if there is an increase in spread by 2% over the rolling 1 month period.

The table below summarises the number of months the issuer/ security will remain in the index post various events:

Event for exclusion	No of additional months to be retained in the index
Rating downgrade	1
Increase in spread	2
Both rating downgrade and increase in same month	2
Increase in spread followed by rating downgrade in following months	2
Rating downgrade followed by increase in spread	2

Examples:

- Any issuer that undergoes a rating downgrade in the first two months of a quarter (outside the rating criteria of the index) while it is a part of an index, will be removed from the index at the end of the quarter. However, if the downgrade happens in the third month of the quarter, the security will remain in the index for an additional month.

For instance, if there is a rating downgrade in January or February, it will be removed at the end of March, whereas if there is a rating downgrade in March, it will be removed at the end of April. However, such an issuer will be considered to be a part of the index that represents the rating bucket to which it is downgraded in the April rebalancing (next quarter rebalancing)

- For any issuer, if there is a 2% increase in spread of a security over the benchmark over a rolling one-month period, it will be removed from the index after two months.

For instance, if the said increase in spread happens in January, the security will be removed at the end of March.

- If both rating downgrade and a 2% increase in spread over benchmark happen in the same month, the issuer will be removed from the index after two months.

For instance, if both happen in January, the security will be removed at the end of March.

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- If a rating downgrade and a 2% increase in spread happen in consecutive months, in that order, the issuer will be removed after two months.

E.g.: There is a rating downgrade in the month of January. Additionally there is a 2% change in spread over benchmark over a month in February; it will be retained till March end.

This will give increased visibility and more time for exit of high spread issuers/security from the index.

Inclusion criteria:

Issuers/security that have seen an increase in spread of 2% over rolling last 1 month period will not be eligible for inclusion in the index during quarterly rebalancing.

Treatment of issuers excluded from indices and indices universe:

An issuer, once identified as high-spread, will not form a part of any index for next 6 months.

After 6 months, the issuer will be checked for spread reversal and will be made a part of the selection universe, subject to liquidity and other issuer selection criteria.

If the issuer does not qualify for inclusion even after 6 months of its high-spread identification, it will be reviewed again on all successive rebalancing review periods.

Change in methodology for CP/CD component in CRISIL Liquid Fund Index

Currently, CRISIL Liquid Fund Index consists of the following sub-indices:

- CRISIL Overnight Index
- CRISIL 1 Month CP Index
- CRISIL 1 Month CD Index
- CRISIL 2 Month CP Index
- CRISIL 2 Month CD Index
- CRISIL 3 Month CD Index
- CRISIL 3 Month CP Index

CP/CD indices are rebalanced on a fortnightly basis. Every fortnight, the securities are selected using Primary, Secondary and Holdings/Outstanding data, in that priority, within each residual maturity bucket as stated below:

Index	Residual maturity (Days) as on effective date
CRISIL 1 Month CP Index	15 to 30
CRISIL 2 Month CP Index	35 to 60
CRISIL 3 Month CP Index	67 to 91
CRISIL 1 Month CD Index	15 to 30
CRISIL 2 Month CD Index	35 to 60
CRISIL 3 Month CD Index	67 to 91

The securities do not roll down from one bucket to another and all the securities in each bucket are entirely churned to include new securities based on issuance, trades and holdings/ outstanding.

With effect from April 3, 2020, there will be a single index each for CP and CD in CRISIL Liquid Fund Index which will have up to 91 days of residual maturity security.

The index will follow a buy and hold strategy where the securities will be added every fortnight in various maturity buckets like 17-30, 31-60 and 61-91. However, each security in the index will be held till maturity and not sold during each rebalancing

In every bucket, up to 20 securities will be added every fortnight. The weights to the ISINs, existing and new, will be based on their respective outstanding. The securities in CRISIL Up to 91 Day CD Index will

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be weighed equally subject to the sub-segment maturity level weights. The weight to up to 30 days and TREPS will be 50% (20% weight to TREPS) and weight to rest of the maturity buckets will be 50%.

Increase in number of issuers in selected corporate bond indices

Currently, four corporate bond indices select up to 6 issuers every quarter. We will be increasing this limit from 6 to 12 issuers, which is the standard number of issuers for all other corporate bond indices.

Indices	Max number of issuers selected currently	Proposed maximum number of issuers
CRISIL AA and AA+ up to 1 Year Short Term Bond Index	6	12
CRISIL AA and AA+ 1 to 3 Year Short Term Bond Index	6	12
CRISIL AAA up to 1 Year Short Term Bond Index	6	12
CRISIL AAA 1 to 3 Year Short Term Bond Index	6	12

Review of asset allocation for composite indices

The table below summarises the changes in weights to sub-indices with effect from April 3, 2020:

Index	Sub- Index/ Asset Class	Sub-indices Weights (Existing)	Sub-indices Weights (New)
		October 2019	April 2020
CRISIL Composite Bond Fund Index	CRISIL Composite Gilt Index	45%	45%*
	CRISIL AAA Long Term Bond Index	16%	18%
	CRISIL AAA Medium Term Bond Index	10%	12%
	CRISIL AAA Short Term Bond Index	18%	21%
	CRISIL AA and AA+ Long Term Bond Index	3%	1%
	CRISIL AA and AA+ Medium Term Bond Index	3%	1%
	CRISIL AA and AA+ Short Term Bond Index	5%	2%
CRISIL Short Term Bond Fund Index	CRISIL Short Term Gilt Index	15%	15%
	CRISIL AAA up to 1 Year Short Term Bond Index	12%	13%
	CRISIL AAA 1 to 3 Year Short Term Bond Index	18%	19%
	CRISIL AA and AA+ Short Term Bond Index(0to1)	4%	3%
	CRISIL AA and AA+ Short Term Bond Index(1to3)	6%	5%
	CRISIL AAA Medium Term Bond Index	23%	29%
	CRISIL AA and AA+ Medium Term Bond Index	7%	1%
	CRISIL Composite CD Index	5%	5%
	CRISIL Composite CP Index	10%	10%
CRISIL Liquid Fund Index	CRISIL Overnight Index	-	20%
	CRISIL Upto 91 Day CD Index	-	26%
	CRISIL Upto 91 Day CP Index	-	54%
CRISIL Low Duration Debt Index	CRISIL AAA up to 1 Year Short Term Bond Index	8%	8%
	CRISIL AAA 1 to 3 Year Short Term Bond Index	23%	24%
	CRISIL AA and AA+ Short Term Bond Index(0to1)	2%	2%
	CRISIL AA and AA+ Short Term Bond Index(1to3)	7%	6%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Existing)	Sub-indices Weights (New)
		October 2019	April 2020
	CRISIL Composite CD Index	18%	18%
	CRISIL Composite CP Index	42%	42%
CRISIL Ultra Short Term Debt Index	CRISIL Composite CD Index	23%	23%
	CRISIL Composite CP Index	55%	55%
	CRISIL Composite T-Bill Index	10%	10%
	CRISIL AAA Short Term Bond Index	9%	9%
	CRISIL AA and AA+ Short Term Bond Index	3%	3%
CRISIL Money Market Index	CRISIL Composite CD Index	25%	23%
	CRISIL Composite CP Index	57%	55%
	CRISIL Composite T-Bill Index	18%	22%
CRISIL Medium Term Debt Index	CRISIL Short Term Gilt Index	10%	10%
	CRISIL AAA Long Term Bond Index	4%	4%
	CRISIL AA and AA+ Long Term Bond Index	1%	1%
	CRISIL AAA Medium Term Bond Index	66%	81%
	CRISIL AA and AA+ Medium Term Bond Index	19%	4%
CRISIL Medium To Long Term Debt Index	CRISIL Medium Term Gilt Index	50%	50%
	CRISIL AAA Long Term Bond Index	30%	32%
	CRISIL AA and AA+ Long Term Bond Index	5%	3%
	CRISIL AAA Medium Term Bond Index	12%	14%
	CRISIL AA and AA+ Medium Term Bond Index	3%	1%
CRISIL Long Term Debt Index	CRISIL Long Term Gilt Index	45%	45%
	CRISIL AAA Long Term Bond Index	47%	51%
	CRISIL AA and AA+ Long Term Bond Index	8%	4%
CRISIL Corporate Bond Composite Index	CRISIL AAA Long Term Bond Index	27%	30%
	CRISIL AAA Medium Term Bond Index	17%	19%
	CRISIL AAA Short Term Bond Index	29%	33%
	CRISIL AA+ Long Term Bond Index	4%	1%
	CRISIL AA+ Medium Term Bond Index	2%	1%
	CRISIL AA+ Short Term Bond Index	6%	1%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Existing)	Sub-indices Weights (New)
		October 2019	April 2020
	CRISIL AA- Long Term Bond Index	1%	1%
	CRISIL AA- Medium Term Bond Index	2%	2%
	CRISIL AA- Short Term Bond Index	3%	2%
	CRISIL AA Long Term Bond Index	1%	1%
	CRISIL AA Medium Term Bond Index	4%	4%
	CRISIL AA Short Term Bond Index	4%	5%
CRISIL Long Term Corporate Bond Index	CRISIL AAA Long Term Bond Index	75%	84%
	CRISIL AA+ Long Term Bond Index	10%	1%
	CRISIL AA- Long Term Bond Index	8%	3%
	CRISIL AA Long Term Bond Index	7%	12%
CRISIL Medium Term Corporate Bond Index	CRISIL AAA Medium Term Bond Index	77%	84%
	CRISIL AA+ Medium Term Bond Index	8%	1%
	CRISIL AA- Medium Term Bond Index	4%	7%
	CRISIL AA Medium Term Bond Index	11%	8%
CRISIL Short Term Corporate Bond Index	CRISIL AAA Short Term Bond Index	70%	74%
	CRISIL AA+ Short Term Bond Index	15%	11%
	CRISIL AA- Short Term Bond Index	6%	6%
	CRISIL AA Short Term Bond Index	9%	9%
CRISIL Composite Credit Risk Index	CRISIL AAA Long Term Bond Index	10%	10%
	CRISIL AAA Medium Term Bond Index	6%	7%
	CRISIL AAA Short Term Bond Index	10%	10%
	CRISIL AA+ Long Term Bond Index	1%	1%
	CRISIL AA+ Medium Term Bond Index	1%	1%
	CRISIL AA+ Short Term Bond Index	2%	1%
	CRISIL AA- Long Term Bond Index	6%	5%
	CRISIL AA- Medium Term Bond Index	6%	5%
	CRISIL AA- Short Term Bond Index	11%	9%
	CRISIL AA Long Term Bond Index	5%	5%
	CRISIL AA Medium Term Bond	16%	18%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Existing)	Sub-indices Weights (New)
		October 2019	April 2020
	Index		
	CRISIL AA Short Term Bond Index	16%	18%
	CRISIL A Medium to Long Term Bond Index	6%	6%
	CRISIL A Short Term Bond Index	4%	4%
CRISIL Composite CD Index	CRISIL 2 Month CD Index	40%	36%
	CRISIL 3 Month CD Index	47%	33%
	CRISIL 6 Month CD Index	8%	9%
	CRISIL 1 Year CD Index	5%	22%
CRISIL Composite CP Index	CRISIL 2 Month CP Index	40%	32%
	CRISIL 3 Month CP Index	47%	59%
	CRISIL 6 Month CP Index	8%	4%
	CRISIL 1 Year CP Index	5%	5%
CRISIL Composite T-Bill Index	CRISIL 91 Day T-Bill Index	44%	47%
	CRISIL 182 Day T-Bill Index	28%	31%
	CRISIL 1 Year T-Bill Index	28%	22%
CRISIL Banking and PSU Debt Index	CRISIL Medium to Long Term PSU Debt Index	25%	25%
	CRISIL Short Term PSU Debt Index	25%	25%
	CRISIL Medium To Long Term Banking Debt Index	25%	25%
	CRISIL Composite CD Index	25%	25%
CRISIL Short Term Credit Risk Index	CRISIL AAA Short Term Bond Index	25%	26%
	CRISIL AA+ Short Term Bond Index	5%	4%
	CRISIL AA- Short Term Bond Index	24%	23%
	CRISIL AA Short Term Bond Index	36%	37%
	CRISIL A Short Term Bond Index	10%	10%
CRISIL Arbitrage Index	S&P BSE Arbitrage Rate Index	70%	70%
	CRISIL Liquid Fund Index	30%	30%
CRISIL Equity Savings Index	S&P BSE Arbitrage Rate Index	35%	35%
	S&P BSE Sensex 50 TR	35%	35%
	CRISIL Short Term Bond Fund Index	30%	30%
CRISIL Dynamic Debt Index	CRISIL Dynamic Gilt Index	45%	45%
	CRISIL AAA Long Term Bond Index	16%	28%
	CRISIL AAA Medium Term Bond Index	10%	15%
	CRISIL AAA Short Term Bond	18%	7%

Index	Sub- Index/ Asset Class	Sub-indices Weights (Existing)	Sub-indices Weights (New)
		October 2019	April 2020
	Index		
	CRISIL AA and AA+ Long Term Bond Index	3%	2%
	CRISIL AA and AA+ Medium Term Bond Index	3%	1%
	CRISIL AA and AA+ Short Term Bond Index	5%	2%
CRISIL Composite AA Long Term Bond Index	CRISIL AA+ Long Term Bond Index	64%	17%
	CRISIL AA Long Term Bond Index	17%	67%
	CRISIL AA- Long Term Bond Index	19%	16%
CRISIL Composite AA Medium Term Bond Index	CRISIL AA+ Medium Term Bond Index	30%	15%
	CRISIL AA Medium Term Bond Index	51%	43%
	CRISIL AA- Medium Term Bond Index	19%	42%
CRISIL Composite AA Short Term Bond Index	CRISIL AA+ Short Term Bond Index	55%	41%
	CRISIL AA Short Term Bond Index	27%	36%
	CRISIL AA- Short Term Bond Index	18%	23%

*Composite Gilt Index comprises of top 3 Liquid securities from Long(more than 10 years residual maturity), Medium(residual maturity between 5-10 years) and, Short(less than 5 years residual maturity)buckets having weights in the ratio 4: 4:1 in that order..

\$ Rounded off to nearest integer

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