

# **NIFTY AAA Corporate Bond Index**

## **Methodology Document**

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# **NIFTY AAA Corporate Bond Index**

## **Introduction:**

NIFTY AAA Corporate Bond Index measures the performance of AAA rated corporate bonds across maturities. The index consists of up to 70 AAA rated bonds that represent five distinct maturity buckets with up to 14 bonds within each maturity bucket.

## **Highlights**

- The Index has a base date of December 31, 2013 and a base value of 1000
- The Index seeks to measure the performance of AAA rated bonds market in India
- With up to 70 most liquid AAA rated bonds, the index is well-diversified, broad based and investible
- Covering 5 distinct maturity buckets (ultra-short term, short-term, medium term, long term and ultra-long term), the index adequately represents the dynamics of entire yield curve
- Based on a well-defined, market relevant and rules-based framework, the index is a transparent and objective indicator of Indian corporate bond market performance
- With unique threshold mechanism that lays down stringent criteria for bond inclusion and exclusion, the index seeks to minimize degree of churning and replication cost
- The index is computed using the total returns methodology capturing price return and coupon return
- The index is rebalanced and reconstituted on quarterly basis

## **Index Methodology:**

### INDEX STRUCTURE:

- Index consists of AAA rated corporate bonds from 5 distinct maturity buckets
- The 5 buckets covering the entire yield curve are as below
  - Ultra Short Term: 6 months to 2 years
  - Short Term: 2 to 3 years
  - Medium Term: 3 to 5 years
  - Long Term: 5 to 10 years
  - Ultra Long Term: Above 10 years
- From each maturity bucket, up to 14 bonds from most liquid 14 issuers are selected

### ISSUER SELECTION:

- Within each maturity bucket, up to 14 issuers are selected based on composite liquidity score derived from aggregate trading value, number of days traded and number of trades of all the eligible bonds of issuers during the previous quarter
- The composite liquidity score is calculated by allocating 80% weights to trading value and 10% weights to number of days traded and 10% to number of trades

### BOND SELECTION:

- Within each maturity bucket, for every selected issuer, the most liquid bond during the previous one month forms part of the index

### WEIGHT ASSIGNMENT:

- Weights to selected bonds are assigned based on composite liquidity score of issuers
- Within each maturity bucket, weight of each issuer is capped at 10% (15% prior to April 2016) in line with SEBI's prudential norms of capping the investment limit in bonds of a single issuer

## **Index Rebalancing and Reconstitution:**

The NIFTY AAA Corporate Bond Index is rebalanced and reconstituted on a quarterly basis.

## **Index Governance**

IISL Board has constituted the Index Policy Committee (IPC) to formulate policies governing IISL indices. In addition to IPC, two committees viz. Index Maintenance Sub-Committee (IMSC) and Debt Index Management Committee (DIMC) have been constituted. The IMSC is responsible for periodic review of equity indices based on the policies/ guidelines formulated by the IPC. DIMC takes decisions on the debt indices at IISL.

Each of these committees is represented by the industry experts. None of the member in the above committee except the exchange representative(s) (who co-ordinates between IPC and IMSC) represent more than one committee and thereby the independence of each of the committees is maintained. The Committees comprises representatives from financial market such as asset management company, insurance company, academicians, rating agency etc. In order to maintain transparency, the names of the committee member are publicly displayed on the website.

## **Index Policy**

The NIFTY indices uses transparent, researched and publicly documented rules for index maintenance. These rules are applied regularly to manage changes to the index. Index reviews are carried out semi-annually to ensure that each security in the index fulfils eligibility criteria.

## **Announcements**

All index-related announcements are posted on the websites of IISL and NSE. Changes impacting the constituent list are also posted on the Web site. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

## **Holiday Schedule**

For the calculation of indices, the IISL follows the official holiday schedule. A complete holiday schedule for the year is available on the IISL and NSE website. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

## **Index Precision**

Index values are disseminated up to two decimal places.

## **Index Recalculations**

All NIFTY family of indices are recalculated whenever errors occur. Users of the NIFTY indices are notified through appropriate channel of communication.

## **Market Feedback & Index Methodology Review**

IISL is committed to ensure that all NIFTY indices are relevant for the market participants. In order to ensure this, IISL on an on-going basis interacts with the stakeholders inviting the feedback through various channels of communication. The feedback received from the market participants forms a key input for all index related aspects.

Review of methodology of NIFTY indices is carried out on an annual basis. Additionally, IISL also considers any feedback that it may receive with regards to index methodology as part of on-going market interactions. Any changes to the index methodology is approved by the Committee and the same is announced through a press release.

### **Other**

In case of a market stress or disruption, IISL will review and deal with the situation on consultative basis with the respective source of price data for computation of these indices.

All indices are expected to reflect the performance of a basket of stocks selected based on the defined guidelines and theme. Every index user is advised to evaluate the benefits of index and take an informed decision before using the index for self or creation of index-linked products. IISL does not accept any liability for any losses, claims, expenses etc. that may be incurred by any person as a result of usage of NIFTY family of indices as a result of reliance of the ground rules, any errors or inaccuracies.

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