

NIFTY AAA Medium-Term Corporate Bond Index

Methodology Document

CONTENTS

Introduction:	3
Highlights	3
Index Methodology:	4
Index Structure:.....	4
Issuer Selection:	4
Bond Selection:.....	4
Weight Assignment:	4
Index Rebalancing and Reconstitution:	4

NIFTY AAA Medium-Term Corporate Bond Index

Introduction:

NIFTY AAA Medium-Term Corporate Bond Index measures the performance of AAA rated corporate bonds with residual maturity from 3 years to 5 years.

Highlights

- With up to 14 most liquid AAA rated bonds, the index adequately represents the dynamics of the medium-term maturity bucket.
- Based on a well-defined, market relevant and rules-based framework, the index is a transparent and objective indicator of AAA rated medium-term corporate bonds 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 with residual maturity from 3 to 5 years
- Up to 14 bonds from most liquid issuers within the maturity bucket are selected.

ISSUER SELECTION:

- 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 within the maturity bucket.
- 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:

- For every selected issuer, the most liquid bond based on liquidity score 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 Medium-Term 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 and 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 and 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.

Contact Details

Analytical contact

Aman Singhania, CFA, FRM

Head – Products (IISL)

+91-22-26598214

asinghania@nse.co.in

Business Development contact

Rohit Kumar, FRM

Chief Manager – Business Development

+91-22- 26598386

rohitk@nse.co.in

Contact:

Email: iisl@nse.co.in

Tel: +91 22 26598386

Address: Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai– 400 051(India)