

Upcoming Potential Release of Moody’s Sovereign Credit Rating Action for South Africa

Given the potential release of a sovereign credit rating action by Moody’s for South African domestic sovereign debt on Friday March 27, 2020, FTSE Russell would like to highlight the exit criteria for countries in the FTSE World Government Bond Index (WGBI) and FTSE World Inflation-Linked Securities Index (WorldILSI).

For a country to exit the WGBI and WorldILSI, its credit quality must be below BBB- by S&P and below Baa3 by Moody's. South Africa has been rated below investment-grade by S&P since November 2017. If Moody’s were to downgrade South African sovereign debt to below investment-grade, it would exit the indexes.

Each month, the upcoming month's index constituents are "fixed" on the profile fixing date. Under existing index rules, a market will be removed from the index after the fixing date if it becomes rated below investment-grade by both S&P and Moody's. This exception window is kept open until 5:00 p.m. New York time on the second-to-last business day of the month, which is Monday March 30, 2020 for April 2020 profiles, for removal only.

As of February 2020 month-end, thirteen ZAR-denominated bonds (\$106.9 billion in market value) are eligible for the WGBI and comprise 0.44% of the index on a market value weighted basis; and ten ZAR-denominated bonds (\$36.8 billion in market value) are eligible for the WorldILSI and comprise 1.08% of the index on a market value weighted basis. Please contact us with any questions related to the projected impact to custom indexes.

In the event that South Africa were to be downgraded and therefore removed from the WGBI and WorldILSI, FTSE Russell will target regenerating the April 2020 “Monthly Prelim Profile” files¹ for these flagship indexes as a priority. Any change in index membership would be reflected for these indexes, as well as any indexes that derive their membership from them, for the official April 2020 profiles which are published on month-end.

Any other questions or comments can be directed to fi.index@ftserussell.com.

FTSE Russell

¹ Monthly Prelim Profile files are produced on the day after Fixing Day, which is March 26, 2019 for April 2020 profiles and are generally not regenerated between fixing day and month-end.

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