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# FTSE Russell Policy for Benchmark Methodology Changes

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FTSE RUSSELL
An LSEG Business

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Section 1

# Overview

## 1. Overview

### 1.1 Policy for benchmark methodology changes

1.1.1 FTSE Russell's[1] authorised benchmark administrators are FTSE International Limited ("FIL") which is authorised in the UK by the Financial Conduct Authority (FCA) under the UK Benchmark Regulation ("UK BMR"), and FTSE EU SAS[2] ("FES") which is authorised in France by Autorité des marchés financiers (AMF) and supervised by the European Securities and Markets Authority ("ESMA") under the EU Benchmark Regulation.

1.1.2 This document outlines the process which is followed when FTSE Russell considers making changes to a benchmark or index methodology. Additional methodology change procedures are required for Critical Benchmarks, which apply to the WMR Closing ( 4pm UK time) Spot Benchmark Rates– a link to this is included in this document for reference: Critical Benchmark Methodology Change and Cessation Policy.

1.1.3 The main requirements for any proposed change are:

- The reasons for any change are considered by internal stakeholders in order to evaluate the impact and how it could be accommodated (e.g. any new requirements for additional data/technology capability).
- Any change specific to a benchmark or index administered by FIL or FES is considered and approved by the FTSE Russell Index Governance Board and FTSE EU Governance Forum respectively.
- Sufficient notice of the intended change is provided to index and benchmark users and opportunity for them to provide feedback is given. Records will be retained of any feedback received.

[1] FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, WOFE, FES and other LSEG entities providing LSEG Benchmark and Index services. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "Refinitiv" , "Beyond Ratings®", "WMR™" , "FR™" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors.

[2] For the purpose of clarity, FTSE EU Governance Forum is stated when the policy applies to an index or benchmark administered by this entity.

Section 2

# Standard benchmarks and indices

## 2. Standard benchmarks and indices [3]

### 2.1 Regular review

2.1.1 FTSE Russell index methodologies are subject to regular review (at least once a year) to ensure that they continue to meet the current and future requirements of investors and other index users and lead global standards in indexing. Changes to an index methodology may originate as a result of recommendations from internal governance bodies; results of back testing assessments; feedback from external advisory committees and clients or in response to changes in the underlying market structure or relevant legislation.

2.1.2 If FTSE Russell determines that the change is beneficial to the quality and representativeness of the index with respect to the underlying market or reality that it represents but does not constitute a material change to the methodology, the updated methodology shall be published, with a notice being issued which confirms when the change will become effective from.

2.1.3 Confirmation of the regular review having been conducted, and any recommendations arising from it, is provided to the FTSE Russell Index Governance Board or FTSE EU Governance Forum annually or more often if conducted more frequently.

### 2.2 Consultation policy

2.2.1 FTSE Russell seeks the views of external stakeholders through its external advisory committees and, in certain instances, relevant Oversight Committees, the broader market and users as part of public consultations for proposed updates to FTSE Russell standard indices, for example the FTSE Global Equity Index Series, the FTSE UK Index Series, the Russell US Index Series, the FTSE World Government Bond Index Series ,the FTSE Canada Bond Index Series, the WMR FX and Metals benchmarks, the FTSE Term SONIA benchmarks and the FTSE CRB Core Commodity Index. A full list of external advisory committees and oversight committees and links to their terms of reference is provided in the Appendix A.

2.2.2 For these indices, as a general principle, advisory committees are consulted on changes to the rules that dictate how we manage the index. In the case of fundamental modifications, for example, those with the potential to change the composition of indices, FTSE Russell may launch a public market consultation to solicit feedback from all relevant index stakeholders. In such instances, all comments received through a public market consultation are considered by FTSE Russell to understand the impact of a proposed change on all users, the markets and the wider investment management ecosystem.

2.2.3 Advisory committee feedback may also extend to the timetable for the application of updated methodologies and eligibility criteria. For example, on occasion, the FTSE Russell Index Governance Board or FTSE EU Governance Forum may decide to provide existing constituents with a temporary grandfathering period (up to a maximum of five years) in order to meet eligibility criteria in accordance with the updated rules (subject to passing all other eligibility criteria).

[3] Unless where specified, the term benchmark and indices should apply interchangeably throughout this Policy

2.2.4 Input from relevant Oversight Committees is sought prior to a consultation being published which relates to WMR Closing Spot Rate Benchmarks and other interest rate benchmarks. A list of Oversight Committees and links to their terms of reference is provided in the Appendix B.

2.2.5 For standard indices with few users (which may not be supported by external advisory committees), FTSE Russell reserves the right to consult those users for feedback on potential changes to index methodology. These discussions should not be viewed as confirmation that will ultimately result in a rule change. The final approval of an index methodology change is made by the FTSE Russell Index Governance Board or FTSE EU Governance Forum as applicable.

2.2.6 The following table summarises the type of topics for which a consultation is generally undertaken, these are defined as material changes:

| Consultation with External Advisory Committees | Broad Stakeholder Consultation |
|---|---|
| Consult on changes to the Ground Rules that dictate how we manage the index, for example:<br>– corporate action treatment,<br>– free float definitions,<br>– investability weight adjustments for stocks nearing their foreign ownership limits. | Changes to rules that might significantly affect index composition including:<br>– eligibility criteria,<br>– construction rules,<br>– reconstitution frequency,<br>– reflection of market structure changes.<br><br>For WMR FX Benchmarks and Reference Rates Products any fundamental change to:<br>- the process by which the Benchmark is determined;<br>- the underlying market or reality represented by the Benchmark or any significant change to how that underlying market or reality is represented;<br>– where applicable, whether any change to the panel of Contributors would adversely and materially affect the representativeness of the input data used<br>– Change to data inputs or data sources<br>- whether the change would significantly alter a Benchmark value after the usual rounding is applied to that Benchmark |

Current and previous consultations are available on the FTSE Russell website using the following link: Market Consultations

2.2.7 Partner indexes

Several FTSE Russell indices are produced in partnership with other bodies and are branded accordingly. Examples include index series administered by FTSE International Limited in partnership with a national stock exchange, and series produced in partnership with firms that provide proprietary weighting schemes.

Stock exchange partnership indices usually have an associated external advisory committee that is constituted with users of those indices. Both the partner and the committees are consulted on potential changes to the construction of the partnership indices.

2.2.8 Screened indices

The standard FTSE Russell indices are used as the basis for other index series where membership is additionally determined by the application of an eligibility screen. Examples include the FTSE4Good Index Series (which applies ESG screens to potential constituents) and the FTSE EPRA Nareit Index Series (which screens potential constituents for the percentage of EBITDA that arises from eligible real estate activities).

Many screened indices have associated external advisory committees (see Appendix A) that provide advice and guidance to FTSE Russell on the indices referenced in the relevant Terms of Reference. As such indices are derived from an underlying index, methodology changes applied to the underlying index

generally will flow through to the screened index. For this reason, the external advisory committees are primarily consulted on potential changes to the eligibility screens. There may however be circumstances where the external advisory committees will be consulted on methodology changes that are specific to the screened indices and not contingent on any changes to the underlying index.

2.2.9 Alternatively weighted indices

The standard FTSE Russell indices are also used as the basis for other index series that are derived from the standard indices by the application of alternative weighting schemes. Examples include the FTSE and Russell RAFI indices, indices where the constituents are weighted in proportion to some risk measure, and indices weighted according to their exposure to some factor characteristic.

As alternatively weighted indices are derived from a standard index, and methodology changes to the standard index will usually flow through to the alternatively weighted index, separate external advisory committees for these indices are generally not constituted. In cases where there is a proposal to change the construction of an alternatively weighted index, for example a change to the underlying universe of the index or to the frequency of its reconstitution, a targeted consultation will be undertaken with known users of the indices. If the indices are produced in partnership, the partner will be consulted ahead of the user consultation.

## 2.3 Public consultation process

2.3.1 The FTSE Russell Index Governance Board or FTSE EU Governance Forum will review the merits of undertaking a public consultation based on the guidelines in the previous section. If the FTSE Russell Index Governance Board or FTSE EU Governance Forum determines to proceed with a public consultation, it will approve the contents of the consultation which should detail the key elements of the methodology that may be changed; the intended outcome of the change; the benchmarks affected; and the set of users and other stakeholders to which it should be distributed. The consultation will be announced and distributed to those whose input is sought. It will also be made available through appropriate media and be published via the FTSE Russell website. Consultations will typically be open for feedback for a period of no less than four weeks. However, FTSE Russell reserves the right to determine the most appropriate consultation period (including a shorter window for feedback) taking into consideration such factors as the complexity of the subject matter and the desirable timetable for implementing any proposed methodology changes.

2.3.2 Once the consultation period has closed, the results of a consultation may be presented to the external advisory committee (if any) that provides an external perspective of the index series. The feedback from the consultation and, where applicable, from the committees is analysed. Recommendations arising from the analysis are presented to subsequent meetings of the external advisory committees where applicable, and to the FTSE Russell Index Governance Board or FTSE EU Governance Forum.

The final approval of an index methodology change is made by the FTSE Russell Index Governance Board or FTSE EU Governance Forum. Following FTSE Russell Governance Board or FTSE EU Governance Forum approval of a methodology change, users and other stakeholders are notified through the publication of a notice. Users will be given at least one month's notice of any material change (this may vary for custom indices). Such notices can be found on the FTSE Russell website at Index Announcements. FTSE Russell will publish a summary of the consultation results, but no individual responses will be published.

2.3.3 Exceptional events may necessitate an immediate change to a Benchmark Methodology. In such exceptional circumstances, FTSE Russell may elect not to follow this Public Consultation Process but will provide as much notice as is practicable.

## 2.4 Ongoing methodology oversight

2.4.1 Any feedback following the implementation of a methodology change is considered by the FTSE Russell Index Governance Board or FTSE EU Governance Forum, and external advisory committees as part of the on-going consideration of the management and development of benchmark and index methodologies

Section 3

# Custom indices

## 3. Custom indices

3.1.1 Custom indices are defined as those that are derived from a standard index through customisation including, but not limited to:

- Additional inclusion or exclusion rules for a list of constituents, either named individually or selected by virtue of their membership of a particular sub-categorisation, such as by industry classification, maturity or credit rating;
- The application of a custom set of withholding tax rates to calculate a net-of-tax total return index;
- The application of a custom capping methodology;
- The application of a custom hedging methodology;
- Application of a specific weight to sectors or other index sub-components within an overall index;
- Calculation using prices or FX rates other than the official end-of-day closing prices or WMR FX benchmark rates (for example, indices calculated using mid-day snapshots of real time equity prices and/or FX rates)

3.1.2 For such indices, methodology changes made to the underlying index will generally flow through to the custom index.

3.1.3 For custom indices with few users, FTSE Russell reserves the right to consult those users for feedback on potential changes to index methodology. These discussions should not be viewed as confirmation that will ultimately result in a rule change. The final approval of an index methodology change is made by the FTSE Russell Index Governance Board.

Section 4

# Bespoke indices

## 4. Bespoke indices

4.1.1 Bespoke indices are defined as those indices which are constructed according to a methodology that differs from that applied to any standard FTSE Russell index. There may not be a standard index underlying the construction of the bespoke index, and changes to the methodology of standard indices do not necessarily flow through to the bespoke index.

4.1.2 Depending on the agreement with the client, bespoke indices may be administered by FTSE International Limited or by the client. Where the index is administered by the client, FTSE International Limited acts as the calculation agent. The rest of this section applies only to those indices where FTSE International has been appointed as administrator.

**4.2 Proposals for methodology changes**

4.2.1 Proposals for amendments to the methodology of a particular bespoke index administered by FTSE International Limited, such as changes to the index eligibility criteria, rebalance frequency and construction rules, are presented to the FTSE Russell Index Governance Board for consideration. Should the proposed change be approved by the FTSE Russell Index Governance Board licensees of the indices are informed via a client notice.

4.2.2 Proposals for amendments to the methodology of a bespoke index may be initiated by either the client or FTSE International Limited.

**4.3 Ongoing methodology oversight**

4.3.1 Any feedback following the implementation of a methodology change to a bespoke index is considered by the FTSE Russell Index Governance Board as part of the on-going consideration of the management and development of index methodologies.

Appendix A

# External Advisory Committees

## 1. External Advisory Committees

Terms of Reference for the following external advisory committees can be found using the following link: terms-of-reference

**External Committees**

FTSE Russell Policy Advisory Board

**Equity**

FTSE Russell Americas Regional Equity Advisory Committee

FTSE Russell Asia Pacific Regional Equity Advisory Committee

FTSE Russell EMEA Regional Equity Advisory Committee

FTSE Gold Mines Index Series Advisory Committee

**Fixed Income**

FTSE Asia Pacific Regional Fixed Income Advisory Committee

FTSE Canada Regional Fixed Income Advisory Committee

FTSE EMEA Regional Fixed Income Advisory Committee

FTSE US Regional Fixed Income Advisory Committee

**Convertible Bonds**

Convertible Bonds Index Advisory Committee

**Sustainable Investment**

FTSE Russell Sustainable Investment Advisory Committee

**Classification**

FTSE Equity Country Classification Advisory Committee

FTSE Russell Industry Classification Advisory Committee

**Partnerships**

FTSE EPRA Nareit Regional Advisory Committees

FTSE JSE Index Series Advisory Committee

FTSE Nareit Index Series Advisory Committee

**Private Markets**

FTSE Russell Private Markets Advisory Committee

**Digital Assets**

FTSE Russell Digital Assets Advisory Committee

Appendix B

# Oversight Committees

## Oversight Committees

**Equity and Fixed Income Indices**

FTSE Russell Oversight Committee — Terms of Reference

**WMR FX Benchmarks**

WMR Benchmarks Oversight Committee — Terms of Reference

**Reference Rates and FTSE Convertibles Bond Indices**

FTSE Russell Benchmarks Oversight Committee — Terms of Reference

**FTSE/CoreCommodity CRB® Indices**

FTSE/CoreCommodity CRB® Indices Oversight Committee — Terms of Reference

# Further information

For further information on FTSE Russell Benchmarks and Indices please visit www.lseg.com/en/ftse-russell/ or e-mail info@ftserussell.com.

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