



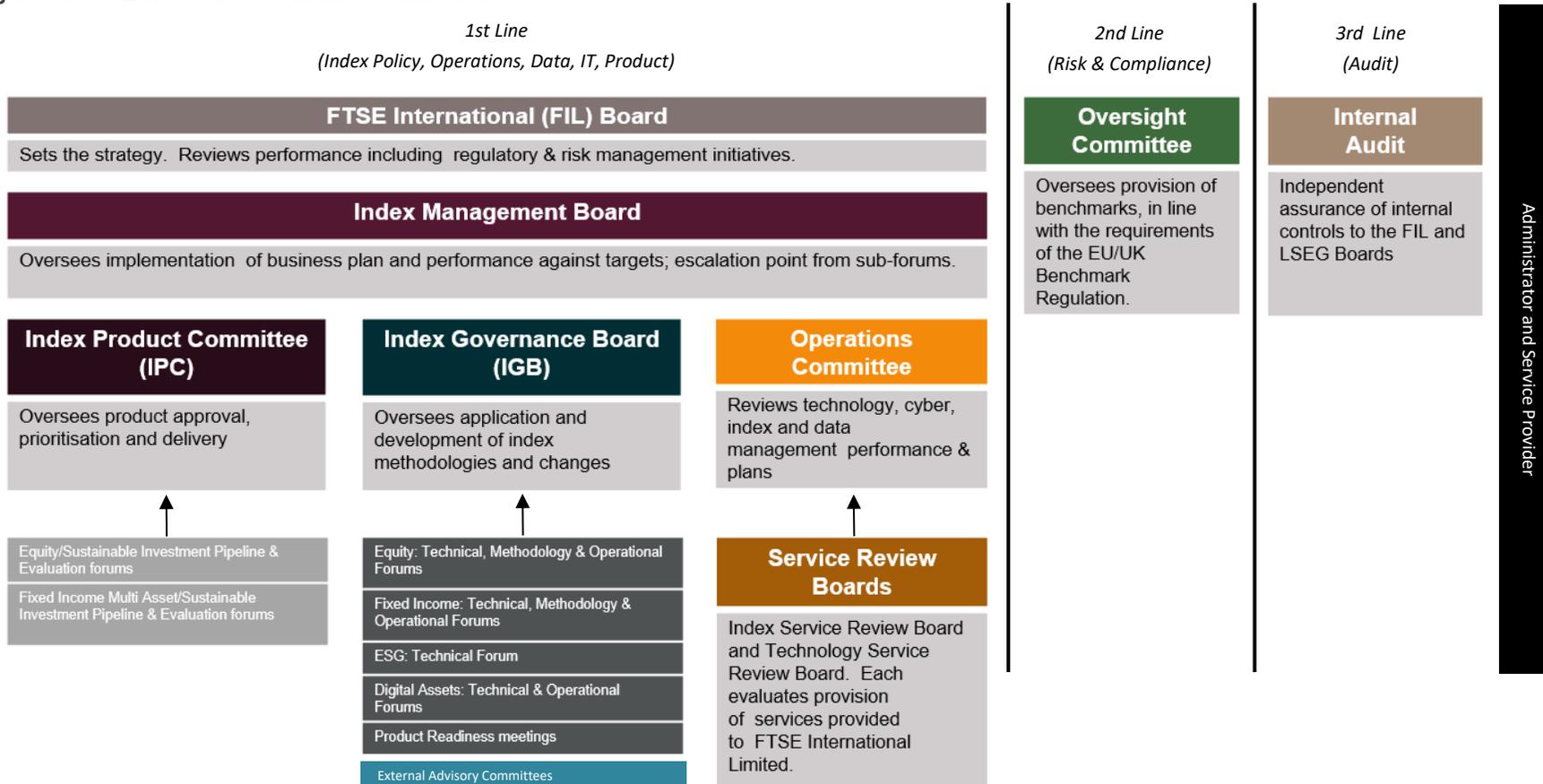
# FTSE Russell Governance Framework

v2.7

# 1. FTSE Russell Governance Framework

To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group’s three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks<sup>1</sup>, the European Benchmark Regulation<sup>2</sup> and the UK Benchmark Regulation<sup>3</sup>. The bodies involved in the framework are shown in figure 1 and their respective roles are summarised below.

**Figure 1: FTSE Russell Governance Framework**



<sup>1</sup> [IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013](#)

<sup>2</sup> [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#)

<sup>3</sup> [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#).

## 2. First Line of Defence

The first line bodies are operated by FTSE Russell executive management. They act within the risk appetite set by the second line Oversight Committee to ensure that new Indices and other FTSE Russell products can be operated and maintained to satisfactory standards, and that changes and enhancements to existing Indices are made with the support of index users and other stakeholders. Further details of their roles are provided below.

### 2.1 Index Governance Board (IGB)

The methodologies for all new FTSE Russell Indices are approved by the FTSE Russell Index Governance Board to ensure that they meet appropriate technical standards before the Indices are launched or released to clients. The Index Governance Board will also approve changes to the methodologies of existing Indices where these have been proposed by the Index Policy team as a result of suggestions made by members of the external advisory committees, by FTSE Russell staff or arise from the results of market consultations. The Index Governance Board is also responsible for approving benchmark policies and authorising consultations.

To assist with its work, the FTSE Russell Index Governance Board requests assessments and approvals from specialist internal bodies to ensure that a proposed new index methodology will adequately meet the perceived demand, is suitable for the FTSE Russell brand, and can be calculated and maintained to the high standards of accuracy demanded by FTSE Russell. The following bodies contribute to the assessment:

### 2.2 Technical Forums

The Technical Forums considers the technical elements of a new or existing index, with a view to ensuring that the appropriate standards are met and are within the delegated risk appetite. The Technical Forums will ascertain whether the index is capable of meeting its stated objectives, that the proposed constituent weighting mechanisms are soundly grounded, and that the index will continue to measure the underlying economic reality in times of economic stress.

### 2.3 Operational Forums

The Operational Forums assess whether a proposed or changed index can be maintained. The Operational Forums allow those who will maintain the index on a day to day basis and those that will periodically conduct the reviews or reconstitutions of the index to discuss the feasibility of implementing the proposed methodology and, if appropriate, suggest alternative approaches.

### 2.4 Methodology Forums

The Methodology Forums ensure that the methodology documentation, including ground rules, calculation guides and pricing guides, for a new or modified index is written to the standards required by FTSE Russell. Specifically, methodology documentation should be clear and unambiguous in order to ensure that the implementation of the index matches the expectations of index users and other stakeholders. Where a new index makes use of contributed input data (as defined in the European Benchmark Regulation), the Methodology Forum will ensure that a code of conduct is agreed with the contributor. Once assessed, recommendations for new or amended methodologies are put forward to the Index Governance Board for approval.

### 2.5 External Advisory Committees

For the majority of standard index families, FTSE Russell retains a roster of external advisory committees whose members are independent experts drawn from asset managers, asset owners, consultants and other stakeholders. The relevant external advisory committees are consulted on prospective changes to index methodologies to ensure that any proposals are acceptable to index users. For significant methodology changes that have the potential to change the composition of an index, the external advisory committee may recommend that changes are put to wider consultation. In such circumstances, the external advisory committees will provide feedback on the construction of the consultation and on the responses received. Further information on the FTSE Russell external advisory committees is provided [here](#).

## 2.6 Index Product Committee (IPC)

The Index Product Committee oversees and manages the approval process for new index products, changes to existing products and approves index decommissions in line with the *FTSE Russell Index Series Decommissioning Statement*. Evaluation and product readiness meetings are held to support the management of the product delivery process.

## 2.7 Index Management Board (IMB)

The Index Management Board oversees and drives implementation of the FTSE Russell Index Business Plan and manages day to day financial, commercial, operational and service performance of the Index Business.

## 2.8 Operations Committee

The Operations Committee is a sub-committee of the IMB and considers key performance metrics and associated updates on operational, technology, cyber and service related items. The IMB receives updates on the main topics considered at the Operations Committee and any points requiring escalation.

## 2.9 Service Review Boards

Reporting into the Operations Committee, the Service Review Board considers the performance of services against agreed metrics, reviews the services of third-party suppliers and considers planned service improvements and risk remediations.

# 3. Second Line of Defence

## 3.1 Oversight Committee

The oversight of all aspects of the provision of benchmarks is the responsibility of staff drawn from the second line of defence and the relevant oversight body is the FTSE Russell Oversight Committee. Voting members of the Oversight Committee include the Head of Regulatory Compliance (chair) and the Head of Risk and Compliance. Relevant first line managers who are invited to attend and provide reports include the Chair of the Index Governance Board, the Head of Index Management, the Chief Data Officer and the Head of Index Policy.

The Oversight Committee, together with the external advisory committees, forms the essential part of the oversight function required by the European Benchmark Regulation and the UK Benchmark Regulation. The duties of the Oversight Committee include receiving assurance from the first line of defence (the Index Governance Board) that it has adhered to the firm's control framework and risk appetite, and that product governance has operated in compliance with the European Benchmark Regulation and the UK Benchmark Regulation. Specifically, the Oversight Committee requires assurance from the Index Governance Board: that it has reviewed benchmark methodology documents and statements; that changes to benchmark methodologies have been conducted in accordance with the [FTSE Russell Policy for Benchmark Methodology Changes](#); that the quality and suitability of input data has been periodically assessed; that where input data has been contributed, the relevant code of conduct has been adhered to; that the measurement of the underlying economic reality has not been impaired by a lack of transactions; and that outsourced services have been properly overseen and their continued quality confirmed.

In addition to receiving assurance from the Index Governance Board on these points, the Oversight Committee is able to request independent reports from LSEG internal audit and from firms that offer external assurance services to test whether the control framework for the administration of benchmarks has been adhered to.

To ensure the propriety of the benchmarks administered by FTSE Russell, the Oversight Committee evaluates any client complaints with respect to the determination of a benchmark and assesses whether the [FTSE Russell Benchmark Determination Complaints-Handling Policy](#) has been properly followed.

The Oversight Committee investigates reports, if any, received via the whistleblowing hotline. It also reviews the conflicts of interest schedule and ensures that appropriate action is taken to manage and disclose conflicts of interest effectively. Should one of the chairs of an advisory committee have concerns that FTSE Russell is not administering an index in the best interest of the index users and other stakeholders, they are invited to make independent representation to the Oversight Committee to that effect.

In the event that through its responsibilities, the Oversight Committee becomes aware of any attempt, or potential attempt, to manipulate a benchmark, either through misconduct of the administrator or a contributor, the chair of the Oversight Committee, or another voting member of the Committee, will report the event to the Financial Conduct Authority.

## **4. Third Line of Defence**

### **4.1 Internal Audit**

The Internal Audit function provides reasonable independent assurance to the Board and other key stakeholders over the adequacy and effectiveness of the Group's system of internal controls, the governance model and the Enterprise wide Risk Management Framework. The function is the third line of defence in the Group's risk control structure and has no operational responsibilities over the entities or processes which it reviews.

## Appendix - Terms of Reference

Links to the terms of reference for the internal governance bodies are published on the FTSE Russell website at [governance](#).

Links to the terms of reference for the external advisory bodies, a template member appointment letter, copies of the public minutes, summaries of committee discussions and the committee meeting schedule are published on the FTSE Russell website at [index-standards](#)

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# Further Information

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For further information on FTSE Russell Indices please visit [www.ftserussell.com](http://www.ftserussell.com) or e-mail [info@ftserussell.com](mailto:info@ftserussell.com).

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