



FTSE Russell Policy for Benchmark Methodology Changes

v1.7



Contents

1.0	Overview	3
1.1	Policy for Benchmark Methodology Changes.....	3
2.0	Standard Indexes	4
2.1	Regular Review.....	4
2.2	Consultation Policy.....	4
2.3	Public Consultation Process.....	6
2.4	Ongoing Methodology Oversight.....	6
3.0	Custom Indexes	7
4.0	Bespoke Indexes	8
4.2	Proposals for Methodology Changes.....	8
4.3	Ongoing Methodology Oversight.....	8
5.0	External Advisory Committees	9
	Further Information	10



Section 1

Overview

1.0 Overview

1.1 Policy for Benchmark Methodology Changes

1.1.1 FTSE International Limited is the benchmark administrator for benchmarks that are operated under the FTSE Russell¹ brand.

1.1.2 This document outlines the procedure which is followed when FTSE International Limited considers making changes to an index methodology for one of its index families.

¹ FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.



Section 2

Standard Indexes

2.0 Standard Indexes

2.1 Regular Review

2.1.1 FTSE Russell index methodologies are subject to regular review 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, feedback from external advisory committees and clients or in response to changes in the underlying market structure.

2.2 Consultation Policy

2.2.1 Indexes Overseen by an External Advisory Committee:

The majority of FTSE Russell standard indexes are overseen by an external advisory committee. Examples of indexes overseen by external advisory committees include the FTSE Global Equity Index Series, the Russell US Index Series, the FTSE World Government Bond Index Series and the FTSE Canada Bond Index Series. A full list of external advisory committees and links to their terms of reference is provided in the Appendix 1.

2.2.2 For these indexes, any proposals for amendments to an index methodology will be subject to consultation with the relevant FTSE Russell external advisory committees and where significant changes to construction are considered with other stakeholders. 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 indexes, a wider consultation which includes all relevant stakeholders may also be undertaken.

2.2.3 The following table summarises the type of topics for which a consultation is undertaken:

Consultation with External Advisory Committees	Broad Stakeholder Consultation
<p>Consult on changes to the ground rules that dictate how we manage the index, for example:</p> <ul style="list-style-type: none"> • corporate action treatment, • free float definitions, • investability weight adjustments for stocks nearing their foreign ownership limits. 	<p>Changes to rules that might significantly affect index composition including:</p> <ul style="list-style-type: none"> • eligibility criteria, • construction rules, • reconstitution frequency, • reflection of market structure changes.

Current and previous consultations are available on the FTSE Russell website using the following link: [Market Consultations](#)

2.2.4 Partner Indexes

Several FTSE Russell indexes 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 partner indexes are usually overseen by external advisory committees that are constituted with users of those indexes who are local to the region. Both the partner and the local committees are consulted on potential changes to the construction of the partner indexes.

2.2.5 Screened Indexes

The standard FTSE Russell indexes 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 indexes are overseen by external advisory committees (see Appendix 1). Because such indexes derive from an underlying index, methodology changes made 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 indexes and not contingent on any changes to the underlying index.

2.2.6 Alternatively Weighted Indexes

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

Because alternatively weighted indexes 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 indexes 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 indexes. If the indexes 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 Product Governance Board will review the merits of undertaking a public consultation based on the guidelines in the previous section. If the FTSE Russell Product Governance Board determines to proceed with a public consultation, it will approve the contents of the consultation 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 will be presented to the external advisory committee (if any) that provides external oversight 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 Product Governance Board.

The final approval of an index methodology change is made by the FTSE Russell Product Governance Board. Following FTSE Russell Governance Board approval of a methodology change, index users and other stakeholders are notified through the publication of a notice. Such notices can be found on the FTSE Russell website at [Index Announcements](#).

2.4 Ongoing Methodology Oversight

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



Section 3

Custom Indexes

3.0 Custom Indexes

3.1.1 Custom indexes 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 WM/Reuters fixing rates (for example, indexes calculated using mid-day snapshots of real time equity prices and/or FX rates)

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



Section 4

Bespoke Indexes

4.0 Bespoke Indexes

4.1.1 Bespoke indexes are defined as those indexes 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 indexes do not necessarily flow through to the bespoke index.

4.1.2 Depending on the agreement with the client, bespoke indexes 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 indexes 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 Product Governance Board for consideration. Should the proposed change be approved by the FTSE Russell Product Governance Board licensees of the indexes are informed via a client notice.

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 Product Governance Board as part of the on-going consideration of the management and development of index methodologies.



Appendix 1

External Advisory Committees

5.0 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

FTSE Italia Index Series Technical 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

Sustainable Investment

FTSE Russell ESG Advisory Committee

FTSE Russell Green Industries Advisory Committee

Classification

FTSE Russell Industry Classification Advisory Committee

FTSE Country Classification Advisory Committee

Partnerships

FTSE Athex Index Series Advisory Committee

FTSE Bursa Malaysia Index Advisory Committee

FTSE EPRA Nareit Global Real Estate Index Series Supervisory Committee

FTSE EPRA Nareit Regional Advisory Committee

FTSE JSE Index Series Advisory Committee

FTSE Nareit Index Series Advisory Committee

FTSE SET Index Advisory Committee

STI and FTSE ST Index Advisory Committee



Further Information

For further information on FTSE Russell Indexes please visit www.ftserussell.com or e-mail info@ftserussell.com.

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