

# FTSE Russell Policy for Benchmark Methodology Changes

v2.3



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## Section 1

# Overview

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## 1. 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 Russell<sup>1</sup> 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.

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<sup>1</sup> 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 FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.

## Section 2

# Standard indices

## 2. Standard indices

### 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 or relevant legislation.

### 2.2 Consultation policy

2.2.1 FTSE Russell seeks the views of its external advisory committees and, in certain instances, the broader market 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 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 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 are considered by FTSE Russell to understand the impact of a proposed change on 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. On occasion, the FTSE Russell Index Governance Board 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).

2.2.4 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.

2.2.5 The following table summarises the type of topics for which a consultation is generally 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"> <li>– corporate action treatment,</li> <li>– free float definitions,</li> <li>– investability weight adjustments for stocks nearing their foreign ownership limits.</li> </ul>	<p>Changes to rules that might significantly affect index composition including:</p> <ul style="list-style-type: none"> <li>– eligibility criteria,</li> <li>– construction rules,</li> <li>– reconstitution frequency,</li> <li>– reflection of market structure changes.</li> </ul>

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

#### 2.2.6 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.

#### 2.2.7 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 1) 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.

#### 2.2.8 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 will review the merits of undertaking a public consultation based on the guidelines in the previous section. If the FTSE Russell Index 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 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.

The final approval of an index methodology change is made by the FTSE Russell Index 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 Index Governance Board and external advisory committees as part of the on-going consideration of the management and development of index methodologies

## Section 3

# Custom indices

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## 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.

# Bespoke indices

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## 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

FTSE Italia 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 Sustainable Investment Advisory Committee

FTSE Russell Sustainable Investment Technical Advisory Committee

### **Country Classification**

FTSE Equity Country Classification Advisory Committee

### **Partnerships**

FTSE Bursa Malaysia Index Advisory Committee

FTSE EPRA Nareit Regional Advisory Committees

FTSE JSE Index Series Advisory Committee

FTSE Nareit Index Series Advisory Committee

STI and FTSE ST Index Advisory Committee

### **Digital Assets**

FTSE Russell Digital Assets Advisory Committee

# Further information

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

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