

## Frequently Asked Questions

### S&P/ASX Franking Credit Adjusted Indices

- 1. Why have S&P Dow Jones Indices and the Australian Securities Exchange created versions of their Australian benchmarks that adjust for franking credits?** Traditionally, most Australian investment funds and portfolios have been measured against benchmarks that are calculated on a pre-tax basis. However, most investors typically care most about after-tax returns. As a result, there is significant market demand for tax-aware versions of the S&P/ASX benchmarks in order to more precisely measure after-tax investment performance.
- 2. Who are the primary users of franking credit adjusted indices?** Stakeholders in Australia's Post Retirement/Tax Exempt Sectors and Superannuation Funds (Financial Advisors, Investment Consultants, Trustees, Investment Managers, etc.) have expressed a significant need for tax-aware versions of the most widely used S&P/ASX Indices.
- 3. What are the main reasons to adopt the S&P/ASX Franking Credit Adjusted Indices?** The indices employ a simple, transparent approach to measuring the after-tax returns of the most widely used indices in Australia, thereby providing superannuation funds and tax-exempt investors with more precise tools to measure the after-tax performance of their investments.
- 4. Which indices are available in franking credit adjusted versions?** S&P Dow Jones Indices currently offers versions of the flagship S&P/ASX 200 and S&P/ASX 300 indices, the S&P/ASX 20, the S&P/ASX 50, and the S&P/ASX 100, with total returns adjusted for franking credits.
- 5. Which tax brackets are available?** Versions are available that incorporate tax rates relevant for superannuation funds (currently 15%) and tax-exempt investors (0%).
- 6. What is the difference between the Annual and Daily Total Return Indices?** The annual series accrues a pool of gross dividend points (adjusted for the net tax effect of franking credits) on a daily basis, but only reinvests them annually after the end of the financial year (i.e. at the close of the first business day, following June 30).

The daily series reinvests the gross dividend amount across the index at the close of the ex-date on a daily basis. So, the net tax effect of franking credits compounds on a daily basis throughout the year.

- 7. Why does S&P Dow Jones Indices offer two versions?** Market feedback indicated that the annual reinvestment process after the end of the fiscal year most closely replicates the actual cash flows of investors. Therefore, we expect these versions to serve as the primary performance benchmarks. However, there was a clear desire among market participants to have access to the daily version as well to serve as an additional source of information.

- 8. What types of dividends are included in the index calculation?** The franking credits attached to both regular and special cash dividends are included in the index calculation. Any tax effects from off-market buybacks are not included.
- 9. Why do the indices not make any tax adjustments relating to off-market buybacks?** Market feedback indicated that decisions relating to participation in off-market buybacks typically constitute an active decision by the investment/portfolio manager. As a result, benchmarks should not make assumptions about participation in these corporate events.
- 10. Why do the indices not take into account any impact from capital gains taxes?** Market feedback indicated that adjustments for capital gains taxes involve too many assumptions based on the timing of investments to accurately gauge the tax effect on investment portfolios and therefore are not appropriate for inclusion in standard indices.
- 11. What type of data is provided to index subscribers?** The data package includes daily index level files for all S&P/ASX Franking Credit Adjusted Indices as well as all daily underlying franking credit information, allowing a subscriber to replicate the franking credit adjusted total return index calculation if desired. Standard constituent, corporate action and index level files for the S&P/ASX 20, the S&P/ASX 50, the S&P/ASX 100, the S&P/ASX 200, and the S&P/ASX 300 are also included.
- 12. How much index history is available?** Daily index history is available from July 1, 2005 for all indices.

## **APPENDIX 1: EXPLANATION OF ANNUAL FRANKING CREDIT ADJUSTED INDEX CALCULATION**

First, the “grossed-up” dividend for each company dividend event is calculated on the dividend ex-date. Both regular and special cash dividends are included.

**Grossed-up Dividend = [As Reported Dividend\* (1-% Franked) + (As Reported Dividend\* % Franked)/(1 – Company Tax Rate)]**

Next, the Net Tax Effect of the franking credit is calculated based on the investor tax rate (i.e. 0% for tax-exempt investors and 15% for superannuation funds).

**Net Tax Effect = [Grossed-up Dividend \* (1 – Investor Tax Rate)] – As Reported Dividend**

The Net Tax Effect of each dividend is then multiplied by the index shares of that company to calculate the gross dividend market capitalization.

**Gross Dividend Market Cap = Net Tax Effect \* Index Shares**

These are then summed for all dividends going ex on that date and converted to dividend points by dividing by the index divisor

**Gross Dividend Points = Sum of Gross Dividend Market Caps / Index Divisor**

For the annual series, the gross dividend points are accumulated throughout the year in a separate pool and then reinvested across the index at the market close of the first day following June 30. For the daily series, the gross dividend points are reinvested across the index on a daily basis.

See the [S&P Dow Jones Index Mathematics Methodology](#) for further details on total return index calculations.

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