

## S&P Dow Jones Indices Statements in Respect to ESMA's Guidelines on ETFs and Other UCITS Issues

On Dec. 18, 2012, the European Securities and Market Authority ("**ESMA**") published guidelines on exchange-traded funds (ETFs) and other Undertakings for the Collective Investment in Transferable Securities (UCITS) issues. Those guidelines went into effect Feb. 18, 2013, and were subsequently revised and updated by ESMA and published on Aug. 1, 2014—[ESMA/2014/937](#) (the "**Guidelines**"). The Guidelines apply to competent authorities, UCITS management companies and UCITS taking the form of self-managed investment companies. The purpose of the Guidelines is to provide guidance on the information that should be made available to investors with respect to index-tracking UCITS and UCITS ETFs.

This document is intended to help communicate S&P Dow Jones Indices' ("**S&P DJI**") response to frequently asked questions with respect to certain S&P DJI indices (meaning indices administered by S&P DJI or its affiliates and identified with the following trademarks: "S&P", "Dow Jones", "CDX", "iBoxx" or "iTraxx"), including applicable subindices (collectively the "**S&P DJI Indices**"). The information contained in this document is confined to the relevant sections of the Guidelines, specifically Section V, Guideline 9(a), and Section XIII on financial indices. For clarity, S&P DJI's indices that measure exchange-traded commodity futures contracts (including, by way of example, the S&P GSCI) do not constitute commodity indices for the purposes of the ESMA Guidelines.

Please note that while the Guidelines do not apply to S&P DJI, this document shares S&P DJI's evaluation of S&P DJI Indices in light of the Guidelines, specifically in relation to the use of financial indices in UCITS funds.

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## SECTION V. INDEX-TRACKING UCITS

**Guideline No. 9(a):** The prospectus of an index-tracking UCITS should include a clear description of the indices including information on their underlying components. In order to avoid the need to update the document frequently, the prospectus can direct investors to a website where the exact compositions of the indices are published.

### S&P DJI Response

S&P DJI publishes a methodology for each S&P DJI Index and supplemental methodologies (such as the Equity Indices Policies & Practices). The methodology and supplemental methodologies provide a clear description of the relevant S&P DJI Index series and the full calculation methodology, detailed information on the selection of index constituents, and rebalancing methodologies. Each methodology is freely available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

## SECTION XIII. FINANCIAL INDICES

**Guideline No. 49:** When a UCITS intends to make use of the increased diversification limits referred to in Article 53 of the UCITS Directive, this should be disclosed clearly in the prospectus together with a description of the exceptional market conditions which justify this investment.

### S&P DJI Response

It is the UCITS' responsibility to ensure that the use of the increased diversification limits and the description of exceptional market conditions are disclosed clearly in the prospectus. The onus is also on the UCITS to confirm that the S&P DJI Index it is replicating fulfils the criteria set out in Article 53 of the UCITS Directive. S&P DJI shall cooperate with the relevant competent authority in each member state in relation to any assessment undertaken by such competent authority as to whether or not the S&P DJI Equity Index does in fact fulfil such criteria.

**Guideline No. 50:** A UCITS should not invest in a financial index which has a single component that has an impact on the overall index return which exceeds the relevant diversification requirements i.e. 20%/35%. In the case of a leveraged index, the impact of one component on the overall return of the index, after having taken into account the leverage, should respect the same limits.

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## S&P DJI Response

The applicable S&P DJI Index methodology describes the rules for weighting index constituents. All S&P DJI Index methodologies are published on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

In addition, S&P DJI makes available the constituents and their percentage weightings for certain S&P DJI Indices on a delayed basis; such information can be found on the following websites: <https://www.spglobal.com/spdji/en/governance/regulatory-information> (under Supplemental Data) and <https://www.markit.com/Documentation/Product/Indices>. Clients should review such information to assess their compliance with Guideline No. 50.

**Guideline No. 51:** A UCITS should not invest in commodity indices that do not consist of different commodities. Sub-categories of the same commodity (for instance, from different regions or markets or derived from the same primary products by an industrialised process) should be considered as being the same commodity for the calculation of the diversification limits. For example, WTI Crude Oil, Brent Crude Oil, Gasoline or Heating Oil contracts should be considered as being all sub-categories of the same commodity (i.e. oil). Sub-categories of a commodity should not be considered as being the same commodity if they are not highly correlated. With respect to the correlation factor, two components of a commodity index that are sub-categories of the same commodity should not be considered as highly correlated if 75% of the correlation observations are below 0.8. For that purpose the correlation observations should be calculated (i) on the basis of equally-weighted daily returns of the corresponding commodity prices and (ii) from a 250-day rolling time window over a 5-year period.

## S&P DJI Response

The applicable S&P DJI Index methodology describes the rules for weighting index constituents. All S&P DJI Index methodologies are published on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

In addition, S&P DJI makes available the constituents and their percentage weightings for certain S&P DJI Indices on a delayed basis; such information can be found on our website <https://www.spglobal.com/spdji/en/governance/regulatory-information> (under Supplemental Data) and here: <https://www.markit.com/Documentation/Product/Indices>. Clients should review such information to assess their compliance with Guideline No. 51. Note, S&P DJI's indices that measure exchange-traded commodity futures contracts (including, by way of example, the S&P GSCI) do not constitute commodity indices for the purposes of the ESMA Guidelines.

**Guideline No. 52:** A UCITS should be able to demonstrate that an index satisfies the index criteria in Article 53 of the UCITS Directive and Article 9 of the Eligible Assets Directive, including that of being a benchmark for the market to which it refers. For that purpose:

- a) an index should have a clear, single objective in order to represent an adequate benchmark for the market;
- b) the universe of the index components and the basis on which these components are selected for the strategy should be clear to investors and competent authorities;
- c) if cash management is included as part of the index strategy, the UCITS should be able to demonstrate that this does not affect the objective nature of the index calculation methodology.

## S&P DJI Response

**In relation to Guideline No. 52(a).** The methodology document and factsheet for each S&P DJI Index clearly state the objective of the relevant index. These documents are freely available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

**In relation to Guideline No. 52(b).** The universe of index components and the basis on which those components are selected are clearly stated in S&P DJI's methodology documents. These documents are freely available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

**In relation to Guideline No. 52(c).** If a cash management component is included within an S&P DJI Index, then this is stated in the relevant index methodology. A cash management component may be used within an index in order to meet its stated objective; for example, risk control indices consist of a cash position and an underlying position in an index, such as an equity index, where allocations to cash and the underlying index change dynamically based on the volatility of the underlying index, and for total return fixed income indices, coupons received are reinvested in the relevant indices.

**Guideline No. 53:** An index should not be considered as being an adequate benchmark of a market if it has been created and calculated on the request of one, or a very limited number of, market participants and according to the specifications of those market participants.

## S&P DJI Response

The majority of S&P DJI Indices are developed as a result of research, demand and/or feedback from market participants and are available for use by all clients, subject to S&P DJI's standard licensing terms. From time to time, S&P DJI will develop an index as a result of a specific request from a client. If you require further information in respect to a specific S&P DJI Index, please notify S&P DJI by sending an email to S&P DJI's client services at [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

**Guideline No. 54:** The UCITS' prospectus should disclose the rebalancing frequency and its effects on the costs within the strategy.

## S&P DJI Response

The rebalancing frequency is disclosed within the methodology for the applicable S&P DJI Index, available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

There are no specific costs associated with the rebalancing of an S&P DJI Index. However, S&P DJI is not in a position to comment on the effect that the rebalancing may have on the cost of a UCITS.

**Guideline No. 55:** A UCITS should not invest in a financial index whose rebalancing frequency prevents investors from being able to replicate the financial index. Indices which rebalance on an intra-day or a daily basis do not satisfy this criterion. For the purposes of these guidelines, technical adjustments made to financial indices (such as leveraged indices or volatility target indices according to publicly available criteria) should not be considered as rebalancing in the context of this paragraph.

## S&P DJI Response

The rebalancing frequency is disclosed within the methodology document for the applicable S&P DJI Index, available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

Most S&P DJI Indices are rebalanced quarterly; however, some S&P DJI Indices are rebalanced on a more frequent basis.

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**Guideline No. 56:** UCITS should not invest in financial indices for which the full calculation methodology to, inter alia, enable investors to replicate the financial index is not disclosed by the index provider. This includes providing detailed information on index constituents, index calculation (including effect of leverage within the index), re-balancing methodologies, index changes and information on any operational difficulties in providing timely or accurate information. Calculation methodologies should not omit important parameters or elements to be taken into account by investors to replicate the financial index. This information should be easily accessible, free of charge, by investors and prospective investors, for example, via the internet. Information on the performance of the index should be freely available to investors.

## S&P DJI Response

S&P DJI publishes the methodology for each S&P DJI Index. The methodology (including the supplemental methodologies) provides a clear description of the relevant S&P DJI Index series and the full calculation methodology, detailed information on index constituents (including the effect of leverage within an S&P DJI Index), and rebalancing methodologies. Each methodology is freely available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

The methodology documents enable users to calculate the index. However, it should be noted that these documents will not necessarily allow a user to independently replicate an index following rebalance. This is due to a few reasons, such as the discretion afforded to the index committee when selecting constituents that meet the eligibility criteria, source data discrepancies and any optimization process that may apply.

**Guideline No. 57:** A UCITS should not invest in financial indices that do not publish their constituents together with their respective weightings. This information should be easily accessible, free of charge, by investors and prospective investors, for example, via the internet. Weightings may be published after each rebalancing on a retrospective basis. The information should cover the previous period since the last rebalancing and include all levels of the index.

## S&P DJI Response

S&P DJI publishes index levels on an end-of-day basis (and in some instances on an intraday basis). In advance of the next index rebalancing, S&P DJI will publish the names of the constituents and constituent percentage weights for the previous period for those S&P DJI Indices that are the basis of UCITS ETFs. The data will be updated following each rebalancing and are available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>

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**Guideline No. 58:** A UCITS should not invest in financial indices whose methodology for the selection and the rebalancing of the components is not based on a set of pre-determined rules and objective criteria.

## S&P DJI Response

The selection of the components of the S&P DJI Indices is based on objective documented criteria that are publicly available. The methodology documents and other related documents are designed to show the users how the S&P DJI Indices are run. Discretion, often necessary in implementing the index in the marketplace, is exercised within pre-defined parameters.

**Guideline No. 59:** A UCITS should not invest in financial indices whose index provider accepts payments from potential index components for inclusion in the index.

## S&P DJI Response

The composition of each S&P DJI Index is based solely on whether a company or security meets the criteria and rules set down in the index methodology and related documents. S&P DJI does not accept payments from potential index components for inclusion in an S&P DJI Index.

**Guideline No. 60:** A UCITS should not invest in financial indices whose methodology permits retrospective changes to previously published index values ('backfilling').

## S&P DJI Response

It is common industry practice to correct certain types of errors or lagged data, generally related to errors in prices or corporate actions. S&P DJI does not view these actions as backfilling and does not interpret Guideline No. 60 as covering these sorts of actions. We interpret backfilling to mean retroactive constituent changes in the indices, which is not a practice in which S&P DJI engages. For more information, please refer to the Error Correction section of the Policies & Practices methodology documents for Equity and Fixed Income, available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

**Guideline No. 61:** A UCITS should carry out appropriate documented due diligence on the quality of the index. This due diligence should take into account whether the index methodology contains an adequate explanation of the weightings and classification of the components on the basis of the investment strategy and whether the index represents an adequate benchmark. The



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due diligence should also cover matters relating to the index components. The UCITS should also assess the availability of information on the index including:

- a) whether there is a clear narrative description of the benchmark;
- b) whether there is an independent audit and the scope of such audit;
- c) the frequency of index publication and whether this will affect the ability of the UCITS to calculate its net asset value.

## S&P DJI Response

**In relation to Guideline No. 61(a).** The S&P DJI Index methodologies provide a clear description of the index. S&P DJI Index methodologies are available on the following websites:

<https://www.spglobal.com/spdji/en/governance/methodologies/#methodology-information>  
<https://www.markit.com/Documentation/Product/Indices>

**In relation to Guideline No. 61(b).** There is no external independent review of the S&P DJI Indices. S&P DJI is an independent index provider and does not issue, trade, underwrite, promote, endorse or place any securities or financial products. S&P DJI does undertake an annual external audit of its index governance and operations in order to assess and confirm our alignment with the IOSCO Principles for Financial Benchmarks. Please click [here](#) for further details.

**In relation to Guideline No. 61(c).** S&P DJI Indices are published daily according to a specific schedule. For select indices, the index levels are available intraday at predefined intervals. The intervals vary by index but are generally between 1 second and 30 seconds.

**Guideline No. 62:** The UCITS should ensure that the financial index is subject to independent valuation.

## S&P DJI Response

S&P DJI does not have a vested interest in the numerical values of the S&P DJI Indices. S&P DJI is an independent index provider and does not issue, trade, underwrite, promote, endorse or place any securities or financial products. In addition, we generally receive prices from third-party data providers, perform checks on that data and then calculate our indices using that data. Moreover, S&P DJI has adopted and implemented policies and procedures to ensure the integrity and independence of S&P DJI Indices by providing for the identification, disclosure, management, mitigation and avoidance of actual or potential conflicts of interest.



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