

## S&P Dow Jones Indices Consultation on Changes to the Implementation Timing of Certain Non-Mandatory Corporate Actions – Updated

**NEW YORK, NOVEMBER 8, 2019:** S&P Dow Jones Indices (“S&P DJI”) is re-opening and revising a consultation with members of the investment community on potential changes to S&P DJI’s Equity Indices Policies and Practices Methodology in order to incorporate feedback received during the initial consultation.

S&P DJI is seeking market feedback on proposed changes to the implementation timing of certain non-mandatory corporate action events.

### Proposals

S&P DJI is proposing to modify the treatment of secondary offerings in the S&P Composite 1500 in order to enhance opportunities for index trackers to take advantage of non-mandatory material liquidity events and reduce turnover by only implementing material changes on an accelerated basis. The implementation effective date would be extended by one business day from current practice to align with S&P DJI’s global indices. For clarity, this proposal would only affect the S&P Composite 1500 indices, including the S&P 500, S&P MidCap 400, and S&P SmallCap 600.

The additional proposals listed below would affect all indices adhering to S&P DJI’s Equity Indices Policies and Practices Methodology including, but not limited to, the following major index families:

- Dow Jones Global Indices
- S&P Global BMI Indices
- S&P/IFCI Indices
- S&P U.S. Indices
- S&P/ASX Indices
- S&P/BMV Indices
- S&P/JPX Indices
- S&P/KRX Indices
- S&P/NZX Indices
- S&P/TSX Indices

The proposals are as follows:

- Accelerate the implementation of secondary offerings, Dutch auctions, split-off exchange offers, and self-tenders in all float-adjusted market capitalization (“FMC”) S&P and Dow Jones indices that currently implement such changes weekly.<sup>1</sup> The accelerated implementation effective date would be two business days’ following an announcement in files for non-U.S. domiciled secondary offerings, and one business days’ notice following an announcement in files for U.S. domiciled secondary offerings.
- Decrease the implementation frequency of all other non-mandatory maintenance type events from weekly to quarterly in order to reduce turnover.

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<sup>1</sup> Accelerated implementation of secondary offerings would be subject to a materiality threshold. Dutch auctions, split-off exchange offers, and self-tenders would not be subject to a materiality threshold for purposes of accelerated implementation.

## **Treatment of Secondary Offerings in the S&P Composite 1500**

S&P DJI is considering modifying the criteria for implementing share changes resulting from large public offerings (also known as follow-on offerings or secondary offerings) that equal 5% or more of the total shares outstanding in the S&P Composite 1500. In addition to the current criteria in place for secondaries, S&P DJI is considering incorporating the following changes:

- A minimum threshold of US\$ 250 million would be applied to ensure only large public offerings are being implemented under the accelerated timeframe. This minimum threshold may result in fewer S&P Composite 1500 secondary offerings being recognized at the accelerated rate than under current rules, and would push out the implementation date by one additional business day in order to allow global investors to participate.
- For accelerated implementation of secondary offerings, a review of a company's Investable Weight Factor ("IWF") would be limited to the offering and would not use the latest ownership information available. This is intended to ensure a closer alignment between shares offered and any index float-adjusted share increase. To minimize unnecessary turnover, accelerated secondary offering-driven IWF changes would no longer need to meet the 5% threshold for implementation. Similar to IWF changes resulting from M&A activity, any accelerated secondary offering-related IWF change resulting in an IWF of 0.96 or greater would be rounded up to 1.00 at the next annual IWF review.
- Block trades and spot secondaries that equal 5% or more of the total shares outstanding would no longer qualify for accelerated implementation because they are generally not widely available to most investors.

For clarity, the table on the following page summarizes the proposed changes.

| Proposed Changes   | Methodology   |   |
|--|---|---|
|  | Current   | Proposed  |
| Treatment of Secondary Offerings in the S&P Composite 1500 | <p><b>5% Rule.</b> S&amp;P Composite 1500 constituent share changes resulting from public offerings (also known as follow-on offerings or secondary offerings) that equal 5% or more of the total shares outstanding are eligible for next day implementation if they satisfy the following conditions:</p> <ul style="list-style-type: none"> <li>• Must be underwritten.</li> <li>• Must have a publicly available prospectus or prospectus summary filed with the SEC.</li> <li>• Must have a publicly available confirmation from an official source that the offering has been completed.</li> </ul> <p>Block trades and spot secondaries must meet the above criteria in order to be eligible for next day implementation.</p> <p>Next day implementation will include a review of the company's IWF using the latest publicly available ownership data. Any change in the IWF of at least five percentage points resulting from the review is implemented with the share update.</p> | <p><b>5% Rule.</b> S&amp;P Composite 1500 constituent share changes resulting from public offerings (also known as follow-on offerings or secondary offerings) that equal 5% or more of the total shares outstanding are eligible for accelerated implementation if they satisfy the following conditions:</p> <ul style="list-style-type: none"> <li>• Must be underwritten.</li> <li>• Must have a publicly available prospectus or prospectus summary filed with the SEC.</li> <li>• Must have a publicly available confirmation from an official source that the offering has been completed.</li> <li>• Offering must be at least US\$ 250 million, as calculated using the offering price per share and the number of shares offered (excluding any overallotment).</li> </ul> <p>Block trades and spot secondaries are not eligible for accelerated implementation.</p> <p>Accelerated implementation will include an adjustment to the company's IWF <b>only to the extent that such an IWF change helps the new float share total to mimic the shares available in the offering.</b> To minimize unnecessary turnover, accelerated secondary offering-driven IWF changes do not need to meet the 5% threshold requirement for implementation. Any accelerated secondary offering-related IWF change resulting in an IWF of 0.96 or greater is rounded up to 1.00 at the next annual IWF review.</p> <p>Secondary offering share changes are effective with one business days' notice after they are announced in end-of-day files.</p> |

Please refer to Appendix A for example of accelerated effective dates under current and proposed methodologies. In addition, Appendix B provides a secondary offering impact analysis for U.S. indices.

**Questions.** Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. **For secondary offerings, do you agree with the modified accelerated implementation schedule for S&P Composite 1500 constituents as written in the box above?**
  - Yes
  - No
2. **Do you have any other comments or feedback regarding the proposed changes outlined above?**

## **Implementation of Secondary Offerings, Dutch Auctions, and Self-Tender Offers in All FMC S&P and Dow Jones Indices that Currently Implement Such Changes Weekly**

In order to standardize S&P DJI's global policies and practices and allow all FMC index clients the opportunity to participate in additional liquidity events, S&P DJI is considering applying the accelerated implementation timing rules regarding secondary offerings proposed previously in Treatment of Secondary Offerings in the S&P Composite 1500 above to all global and U.S. S&P and Dow Jones FMC indices. This proposed change would impact all S&P and Dow Jones FMC indices currently recognizing shares outstanding and IWFs on a weekly basis as described in [S&P DJI's Equity Indices Policies & Practices Methodology](#). Subject to a US\$ 250 million materiality threshold, implementation would be effective with two (2) business days' notice from when the event is first announced in end-of-day files for all non-U.S. domiciled stocks, and one (1) business days' notice from when the event is first announced in end-of-day files for all U.S. domiciled stocks. Dutch auctions, split-off exchange offers, and self-tender offers that equal 5% or more of the total shares outstanding, which are currently implemented on a weekly basis, would be considered for accelerated implementation after preliminary results are announced with the same implementation schedule as secondary offerings as highlighted in the table found in Appendix A, but would not be subject to any materiality threshold. IWFs would generally not be reviewed for Dutch auctions, split-off exchange offers, and self-tender offers.

Please note that for accelerated secondary offerings, any total share change of 5% or more that involves a concurrent combination of new company shares and existing shares offered by selling shareholders would also be eligible for accelerated implementation treatment. Any concurrent share repurchase or share issuance by the affected company, even if less than 5%, would also be included in the treatment as long as the selling shareholder's stake equals at least 5% of the total shares of the company.

For clarity, the table on the following page summarizes the proposed changes.

| Proposed Changes  | Current  | Methodology  |
|---|--|--|
| <p>Treatment of Secondary Offerings, Dutch Auctions, and Self-Tenders</p> | <p><b>5% Rule.</b> Confirmed share changes that are at least 5% of the total shares outstanding are implemented weekly. Total shares outstanding (not float-adjusted shares) are used to determine whether the share change meets this 5% threshold. The 5% rule applies to share changes only. IWF changes are only considered if a share change meets the 5% threshold. Share changes of 5% or greater resulting from aggregated smaller share change events are implemented when S&amp;P DJI is able to validate the cumulative change.</p> <p>Share changes are applied weekly and are announced after the market close on Fridays for implementation after the close of trading the following Friday (i.e. one week later). Examples of such changes include, but are not limited to, public offerings (also known as secondary offerings or follow-on offerings), tender offers, Dutch auctions, exchange offers, bought deal equity offerings, prospectus offerings, company stock repurchases, private placements, redemptions, exercise of options, warrants, conversion of derivative securities, at-the-market stock offerings, and acquisitions of private companies or non-index companies that do not trade on a major exchange. If an exchange holiday/closure falls on a Friday, the weekly share change announcement will be made the day before the exchange holiday/closure, and the implementation date will remain after the close of trading the following Friday (i.e. one week later).</p> <p>If a change in total shares outstanding of at least 5% causes a company's IWF to change by at least five (5) percentage points, the IWF is updated at the same time as the share change. IWF changes resulting from partial tender offers are considered on a case-by- case basis.</p> | <p><b>5% Rule.</b> Share changes resulting from public offerings (also known as follow-on offerings or secondary offerings) that equal 5% or more of the total shares outstanding are eligible for accelerated implementation if they satisfy the following conditions:</p> <ul style="list-style-type: none"> <li>• Must be underwritten.</li> <li>• Must have a publicly available prospectus, offering document, or prospectus summary filed with the relevant authorities.</li> <li>• Must have a publicly available confirmation from an official source that the offering has been completed.</li> <li>• Offering must be at least US\$ 250 million, as calculated using the offering price per share and the number of shares offered (excluding any over-allotment).</li> </ul> <p>Block trades and spot secondaries are not eligible for next day implementation.</p> <p>Accelerated implementation will include an adjustment to the company's IWF <b>only to the extent that such an IWF change helps the new float share total to mimic the shares available in the offering.</b> To minimize unnecessary turnover, accelerated secondary offering-driven IWF changes do not need to meet any minimum threshold requirement for implementation. Any secondary offering-related IWF change resulting in an IWF of 0.96 or greater is rounded up to 1.00 at the next annual IWF review.</p> <p>Dutch auctions, split-off exchange offers, and self-tender offers that equal 5% or more of the total shares outstanding are considered for accelerated implementation after preliminary results are announced with the same implementation schedule as secondary offerings except that they would not be subject to any materiality threshold.</p> <p>IWFs are generally not reviewed for Dutch auctions, split-off exchange offers, and self-tender offers.</p> <p>Accelerated implementation will occur with two (2) business days' notice from when the event is first announced in end-of-day files for all non-U.S. domiciled stocks, and one (1) business days' notice from when the event is first announced in end-of-day files for all U.S. domiciled stocks.</p> <p>For accelerated secondary offerings, any total share change of 5% or more that involves a concurrent combination of new company shares and existing shares offered by selling shareholders are also eligible for accelerated implementation treatment. Any concurrent share repurchase or share issuance by the affected company, even if less than 5%, will also be included in the treatment as long the selling shareholder's stake equals at least 5% of the total shares of the company.</p> |

**Questions.** Please answer the following questions and provide S&P DJI with the reasoning behind your answers.

- 3. Do you agree with the accelerated implementation schedule proposal for global and U.S. stocks as written in the box above?**
  - Yes
  - No
- 4. Do you have any other comments or feedback regarding the proposed changes outlined above?**

### **Decrease in Implementation Frequency of Non-Mandatory Maintenance Type Shares Outstanding and IWF Changes that Follow the 5% Rule**

S&P DJI is proposing to change the frequency of changes currently following the 5% rule from a weekly to a quarterly basis. This will affect all indices that follow S&P DJI's standard weekly shares outstanding and IWF updates as described in [S&P DJI's Equity Indices Policies & Practices Methodology](#). The intention of this proposal is to:

- Reduce turnover
- Minimize market impact on index constituents
- Encourage changes to carry a higher significance relative to the index
- Move implementation frequency to a relatively more liquid date coinciding with the quarterly rebalance

S&P DJI's quarterly shares outstanding and annual IWF updates will continue to follow their respective rebalancing rules.

Please refer to Appendix C for additional information on the 5% rule.

**Questions.** Please answer the following questions and provide S&P DJI with the reasoning behind your answers.

- 5. Should S&P DJI revise the frequency of non-mandatory share and IWF maintenance type changes that follow the 5% Rule from their current weekly implementation schedule to a quarterly implementation schedule coinciding with the third Friday of the third month in each calendar quarter?**
  - Yes, change to the proposed quarterly implementation schedule
  - No, retain the current weekly implementation schedule
- 6. Do you have any other comments or feedback regarding the proposed changes outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. S&P DJI will make responses to consultations externally available upon request.<sup>2</sup> If you do not want your response to be made available, you must clearly state that in your response. Please respond to this survey by **December 9, 2019**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI will consider the issues and may request clarifications from respondents as part

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<sup>2</sup> Individual and company names as well as contact details will be redacted.

of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

*Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.*

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit [www.spdji.com](http://www.spdji.com).

**APPENDIX A**

The table below shows an example of the accelerated implementation schedule.

| <b>Day of the Week</b> | <b>Post-Close</b>   | <b>Pre-Open</b>  |
|------------------------|---|--|
| <b>Monday</b>          | Official source confirms secondary offering was priced/completed.   |  |
| <b>Tuesday</b>         | S&P DJI announces secondary share increase in files if it meets proposed accelerated implementation criteria. |  |
| <b>Wednesday</b>       |   | Under the <b>current methodology</b> , this is the effective date for share increase for S&P Composite 1500 constituents. Non-Composite 1500 constituent secondaries are announced with the weeklies each Friday effective one week later. |
| <b>Thursday</b>        |   | Under the <b>proposed methodology</b> , this is the effective date for share increase for all eligible U.S. domiciled stocks (including S&P Composite 1500 constituents) that meet the accelerated implementation criteria.                |
| <b>Friday</b>          |   | Under the <b>proposed methodology</b> , this is the effective date for share increase for non-U.S. domiciled stocks that meet the accelerated implementation criteria.   |

## APPENDIX B

The table below shows the total number of 2018 U.S. secondary offerings (“#”) and U.S. dollar FMC issued for the S&P Total Market Index (“S&P TMI”) and S&P Composite 1500 (“S&P 1500”).

| <b>U.S. Secondary Offerings (US\$)</b>   | <b>#</b>   | <b>FMC Issued</b>     |                    |                    |                    |
|--|------------|-----------------------|--------------------|--------------------|--------------------|
| Total offerings announced for 1500/TMI constituents                              | <b>457</b> | <b>\$95.6 billion</b> |                    |                    |                    |
| S&P TMI/1500 offerings >= \$250 million  | <b>100</b> | <b>\$68.9 billion</b> |                    |                    |                    |
| S&P TMI/1500 offerings >= \$250 million + 5% of total shares                     | <b>81</b>  | <b>\$52.1 billion</b> |                    |                    |                    |
|  |            |                       | <b>S&amp;P 500</b> | <b>S&amp;P 400</b> | <b>S&amp;P 600</b> |
| Actual 2018 next day secondaries implemented under current rules in the S&P 1500 | <b>37</b>  | <b>\$21.2 billion</b> | 6                  | 10                 | 21                 |
| <b>If proposed new rule was in place for 2018:</b>                               |            |                       |                    |                    |                    |
| S&P 1500 offerings only >= \$250 million + 5% of total shares                    | <b>18</b>  | <b>\$18.2 billion</b> | 6                  | 8                  | 4                  |

The table below details characteristics of 2018 next day secondaries for the S&P Composite 1500 component indices.

| <b>2018</b>                           | <b>Next Day Secondaries Characteristics</b> |                                 |                                 |
|---------------------------------------|---|---------------------------------|---------------------------------|
|                                       | <b>S&amp;P 500</b>                          | <b>S&amp;P MidCap 400</b>       | <b>S&amp;P SmallCap 600</b>     |
| Aggregate Size                        | US\$ 13.5 billion                           | US\$ 3.9 billion                | US\$ 3.7 billion                |
| Number of Next Day Eligible Offerings | 6   | 10                              | 21                              |
| Average Size                          | US\$ 2.2 billion                            | US\$ 393 million                | US\$ 176 million                |
| Maximum Size                          | US\$ 4.3 billion                            | US\$ 659 million                | US\$ 347 million                |
| Minimum Size                          | US\$ 963 million                            | US\$ 229 million                | US\$ 69 million                 |
| Other                                 | 1 offering < US\$ 1 billion                 | 2 offerings <= US\$ 250 million | 8 offerings <= US\$ 100 million |

## APPENDIX C

### 5% Rule – Current Methodology

Certain mandatory events such as M&A driven share/IWF changes, stock splits, and mandatory distributions are not subject to a minimum threshold for implementation. Non-mandatory share/IWF changes follow the 5% rule below which is standard across most S&P Dow Jones' branded indices. This rule is intended to reduce unnecessary turnover by aggregating smaller share changes and implementing them with the next quarterly rebalancing. In certain instances, local market practices may relax these rules, so please refer to the respective individual index methodology for any deviations from this policy.

Confirmed share changes that are at least 5% of the total shares outstanding are implemented weekly. Total shares outstanding (not float-adjusted shares) are used to determine whether the share change meets this 5% threshold. The 5% rule applies to share changes only. IWF changes are only considered if a share change meets the 5% threshold. Share changes of 5% or greater resulting from aggregated smaller share change events are implemented when S&P DJI is able to validate the cumulative change.

Share changes are applied weekly and are announced after the market close on Fridays for implementation after the close of trading the following Friday (i.e. one week later). Examples of such changes include, but are not limited to, public offerings (also known as secondary offerings or follow-on offerings), tender offers, Dutch auctions, exchange offers, bought deal equity offerings, prospectus offerings, company stock repurchases, private placements, redemptions, exercise of options, warrants, conversion of derivative securities, at-the-market stock offerings, and acquisitions of private companies or non-index companies that do not trade on a major exchange. If an exchange holiday/closure falls on a Friday, the weekly share change announcement will be made the day before the exchange holiday/closure, and the implementation date will remain after the close of trading the following Friday (i.e. one week later).

If a change in total shares outstanding of at least 5% causes a company's IWF to change by at least five (5) percentage points, the IWF is updated at the same time as the share change. IWF changes resulting from partial tender offers are considered on a case-by-case basis.

For further information on the 5% Rule and treatment of secondary offerings, please refer to the [S&P U.S. Indices Methodology](#) and [S&P DJI's Equity Indices Policies & Practices Methodology](#).

### U.S. Weekly Share Announcement Analysis

The table below shows the average number of U.S. weekly share announcements for 2018.

| <b>U.S. Weekly Share Announcement Analysis</b>                   |             |     |
|--|-------------|-----|
| <b>Total Number of 5% changes announced in weeklies for 2018</b> | <b>1461</b> |     |
| <b>Avg. number of changes per each weekly announcement</b>       | <b>33</b>   |     |
| <b>Changes by Type:</b>  |             |     |
| <i>Secondary offering</i>  | 457         | 31% |
| <i>Share issuance</i>  | 415         | 28% |
| <i>Conversion of shares/preferred/notes</i>                      | 149         | 10% |
| <i>Other</i>   | 114         | 8%  |
| <i>Acquisitions</i>  | 111         | 8%  |
| <i>Share repurchase</i>  | 102         | 7%  |
| <i>Private placements</i>  | 74          | 5%  |
| <i>Exercise of warrants</i>                                      | 29          | 2%  |
| <i>Dutch auctions</i>  | 10          | 1%  |

## CONSULTATION

## Global ex-U.S. Weekly Share Announcement Analysis

The table below shows the average number of S&P Global BMI ex-U.S. weekly share announcements for 2018.

| <b>S&amp;P Global BMI (ex- US exchanges) 5% Weekly Share Announcement Analysis</b> |            |     |
|--|------------|-----|
| <b>Total Number of 5% changes announced in weeklies for 2018</b>                   | <b>871</b> |     |
| <b>Avg. number of changes per each weekly announcement</b>                         | <b>20</b>  |     |
| <b>Changes by Type:</b>  |            |     |
| <i>Share issuance</i>  | 256        | 29% |
| <i>Other</i>   | 213        | 24% |
| <i>Private placements</i>  | 190        | 22% |
| <i>Conversion of shares/preferred/notes</i>  | 140        | 16% |
| <i>Share repurchase</i>  | 30         | 3%  |
| <i>Acquisitions</i>  | 17         | 2%  |
| <i>Exercise of warrants</i>  | 13         | 1%  |
| <i>Secondary offering</i>  | 12         | 1%  |

## ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500<sup>®</sup> and the Dow Jones Industrial Average<sup>®</sup>. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit [www.spdji.com](http://www.spdji.com).

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