

S&P Quality Indices Consultation

NEW YORK, JUNE 22, 2022: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P Quality Indices.

In order to better align S&P DJI’s computation of the “Quality” factor with industry practice, S&P DJI is considering four proposed changes to its Quality Score calculation:

1. If the underlying earnings per share (“EPS”) or book value per share (“BVPS”) for a given stock’s return on equity (“ROE”) is negative, its ROE value will be excluded and the stock’s ROE Z-score will be set equal to the lowest component stock ROE Z-score.
2. If the underlying EPS or BVPS for a given stock’s ROE is negative, the stock’s Quality Score will be calculated, but it will be ineligible for index inclusion. For the S&P Quality, Value & Momentum Top 90% Multi-Factor Indices and S&P Quality – Lowest Quintile Indices, if the underlying EPS or BVPS for a given stock’s ROE is negative, the stock’s Quality Score will be calculated, and it will be eligible for index inclusion.
3. The denominator of the Accrual Ratio calculation will use Average Total Asset instead of Average Net Operating Assets.
4. For stocks classified in the Financials (GICS 40) or Real Estate (GICS 50) sectors, the Accrual Ratio calculation will not be applied. Only the ROE and Financial Leverage Ratio will be used to calculate the stock’s Quality Score.

For additional information about the S&P Quality Indices, S&P Quality, Value & Momentum Top 90% Multi-Factor Indices, and S&P Quality – Lowest Quintile Indices, please refer to the [S&P Quality Indices Methodology](#), [S&P Quality, Value & Momentum Multi-factor Indices Methodology](#), and [S&P Factor-Based Quintile Indices Methodology](#), respectively.

IMPACT ANALYSIS

A list of indices potentially impacted by these proposed changes is available [here](#).

For details of the potential impact of the proposed changes, please refer to the supplementary analysis file available [here](#).

IMPLEMENTATION TIMING

The indices potentially impacted by these proposed changes rebalance at various times throughout the year. Therefore, S&P DJI is proposing to implement the previously described changes, if adopted, starting with the September 2022 rebalancing period. If adopted, these changes will first be visible to clients in pro-forma files beginning on September 9, 2022.

For index-specific implementation dates, please refer to the list of impacted indices noted above in the Impact Analysis section.

QUESTIONS

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

1. Do you agree with the proposal to modify the Quality Score computation?
2. Do you agree with proposed change number 1, whereby if the underlying EPS or BVPS for a given stock's ROE is negative, then its ROE value will be excluded and the stock's ROE Z-score will be set equal to the lowest component stock ROE Z-score?
3. If you answered "no" in question 2 above, please provide details, including your rationale.
4. Do you agree with proposed change number 2, whereby if the underlying EPS or BVPS for a given stock's ROE is negative, the stock's Quality Score will be calculated, but it will be ineligible for index inclusion apart from the S&P Quality, Value & Momentum Top 90% Multi-Factor Indices and S&P Quality – Lowest Quintile Indices where it will be eligible for index inclusion?
5. If you answered "no" in question 4 above, please provide details, including your rationale.
6. Do you agree with proposed change number 3, whereby the denominator of the Accrual Ratio calculation will use Average Total Asset instead of Average Net Operating Assets?
7. If you answered "no" in question 6 above, please provide details, including your rationale.
8. Do you agree with proposed change number 4, whereby the Accrual Ratio calculation will not be applied to the Quality Score computation for stocks classified in the Financials (GICS 40) or Real Estate (GICS 60) sectors?
9. If you answered "no" in question 8 above, please provide details, including your rationale.
10. If any of the proposed changes are adopted, do you agree with the proposed implementation date?
11. 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. Please respond to this survey by **July 22, 2022**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

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 SPDJI_Index_Governance@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.spglobal.com/spdji.

CONSULTATION

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[®] and the Dow Jones Industrial Average[®]. 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.spglobal.com/spdji.

FOR MORE INFORMATION:

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