

## S&P Composite 1500 Index Consultation on Market Capitalization and Liquidity Eligibility Criteria — Updated

**NEW YORK, SEPTEMBER 20, 2022:** S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on the S&P Composite 1500 index family, which includes the S&P 500, S&P MidCap 400, and S&P SmallCap 600 indices. The consultation is evaluating whether to increase the available full market capitalization universe of the S&P SmallCap 600 and to recalibrate the small and mid-cap segments of the U.S. stock market by modifying the S&P Composite 1500 market capitalization guidelines and float adjusted liquidity ratio (“FALR”) criteria.

**Market Capitalization Guidelines:** Although S&P DJI will continue using dollar ranges to quantify the appropriate market capitalization ranges for each component index of the S&P Composite 1500 Index, S&P DJI is proposing to also consider cumulative market capitalization coverage in determining these dollar ranges. S&P DJI is proposing the S&P 500 index market capitalization guideline captures approximately 85% of the three-month average cumulative market capitalization of the S&P Total Market Index (“TMI”) universe, the S&P MidCap 400 index captures approximately the 85th-93rd percentile of the three-month average cumulative market capitalization of the TMI universe, and the S&P SmallCap 600 index captures approximately the 93rd-99th percentile of the three-month average cumulative market capitalization of the TMI universe. The market capitalization ranges would continue to be reviewed quarterly, updated as needed, and expressed in dollar ranges.

These proposed adjustments to the market capitalization guidelines may result in added turnover in the S&P Composite 1500 indices as the indices gradually reflect shifts in the market capitalization guideline ranges for the underlying indices over time. For context, historical annual turnover is provided in an appendix at the end of this document.

**Float Adjusted Liquidity:** Past client feedback and internal analysis have shown that float-adjusted liquidity above the current threshold has no discernable cost impact on outside additions to the Composite 1500. Therefore, loosening the FALR requirement from its current requirement of 1.0 to a revised 0.75 will likely modestly increase the available number of eligible candidates for the S&P Composite 1500, without necessarily adversely affecting market impact costs.

The table below summarizes the proposed changes.

Proposed Change	Methodology	
	Current	Proposed
Market Capitalization Guidelines	<p><b>S&amp;P Composite 1500.</b> Total company market capitalizations of US\$ 14.6 billion or more for the S&amp;P 500, US\$ 3.7 billion to US\$ 14.6 billion for the S&amp;P MidCap 400, and US\$ 850 million to US\$ 3.7 billion for the S&amp;P SmallCap 600 are required. These ranges are reviewed quarterly and updated as needed to ensure they reflect current market conditions. A company meeting the total company market capitalization criteria must also have a security level float-adjusted market capitalization (“FMC”) that is at least 50% of the respective index’s total company level minimum market capitalization threshold.</p>	<p><b>S&amp;P Composite 1500.</b> Total company market capitalizations in US\$ <b>representing approximately 85% of the three-month average cumulative market capitalization of the S&amp;P Total Market Index (“TMI”) universe for the S&amp;P 500, approximately the 85th-93rd percentile of the three-month average cumulative market capitalization of the TMI universe for the S&amp;P MidCap 400 index, and approximately the 93rd-99th percentile of the three-month average cumulative market capitalization of the TMI universe for the S&amp;P SmallCap 600 index**.</b></p> <p><b>The market capitalization ranges will be reviewed quarterly, updated as needed, and expressed in dollar ranges.</b></p> <p>A company meeting the total company market capitalization criteria must also have a security level float-adjusted market capitalization (“FMC”) that is at least 50% of the respective index’s total company level minimum market capitalization threshold.</p> <p>These cumulative market capitalization range percentages are approximations as of the market capitalization guidelines update announcement date.</p> <p><i>**Please see table below for hypothetical and current actual dollar and % thresholds</i></p>
Liquidity	<p>Float adjusted liquidity ratio (“FALR”) must be greater than or equal to 1.0 at the time of addition to the S&amp;P Composite 1500.</p>	<p>Float adjusted liquidity ratio (“FALR”) must be greater than or equal to <b>0.75</b> at the time of addition to the S&amp;P Composite 1500.</p>

For additional information about the indices, please refer to the [S&P U.S. Indices Methodology](#).

## IMPACT ANALYSIS

Based on the impact analysis referenced in the below link, it is expected that these combined changes will result in expanding the full market capitalization universe for the S&P SmallCap 600 by up to 15% while having a modest reduction in the S&P MidCap 400 universe. Impact for the S&P 500 is expected to be immaterial as a result of any market capitalization range change and difficult to quantify, but quite limited, as a result of any FALR change.

For an analysis of the impact of the proposed change, please refer to the file available [here](#).

## CONSULTATION

The below table indicates the back-tested historical dollar ranges for each index since 2019 if the new cumulative criteria for the market capitalization ranges as proposed had been in effect. **Please note the table is intended for illustrative purposes only.**

Market Capitalization Guidelines (US\$)				
Effective Date	S&P MidCap 400 Index		S&P SmallCap 600 Index	
	Current	Proposed	Current	Proposed
3/18/2022	\$3.7 billion to \$14.6 billion	\$5 billion to \$14.6 billion	\$850 million to \$3.7 billion	\$850 million to \$5 billion
12/17/2021	\$3.6 billion to \$13.1 billion	\$5 billion to \$13.1 billion	\$850 million to \$3.6 billion	\$850 million to \$5 billion
9/17/2021	\$3.6 billion to \$13.1 billion	\$5 billion to \$13.1 billion	\$850 million to \$3.6 billion	\$850 million to \$5 billion
6/18/2021	\$3.6 billion to \$13.1 billion	\$5 billion to \$13.1 billion	\$850 million to \$3.6 billion	\$850 million to \$5 billion
3/19/2021	\$3.3 billion to \$11.8 billion	\$4.5 billion to \$11.8 billion	\$750 million to \$3.3 billion	\$750 million to \$4.5 billion
12/18/2020	\$3.2 billion to \$9.8 billion	\$4.5 billion to \$9.8 billion	\$700 million to \$3.2 billion	\$700 million to \$4.5 billion
9/18/2020	\$2.4 billion to \$8.2 billion	\$3.2 billion to \$8.2 billion	\$600 million to \$2.4 billion	\$600 million to \$3.2 billion
6/19/2020	\$2.4 billion to \$8.2 billion	\$3.2 billion to \$8.2 billion	\$600 million to \$2.4 billion	\$600 million to \$3.2 billion
3/20/2020	\$2.4 billion to \$8.2 billion	\$3.2 billion to \$8.2 billion	\$600 million to \$2.4 billion	\$600 million to \$3.2 billion
12/20/2019	\$2.4 billion to \$8.2 billion	\$3.2 billion to \$8.2 billion	\$600 million to \$2.4 billion	\$600 million to \$3.2 billion
9/20/2019	\$2.4 billion to \$8.2 billion	\$3.2 billion to \$8.2 billion	\$600 million to \$2.4 billion	\$600 million to \$3.2 billion
6/21/2019	\$2.4 billion to \$8.2 billion	\$3.2 billion to \$8.2 billion	\$600 million to \$2.4 billion	\$600 million to \$3.2 billion
3/15/2019	\$2.4 billion to \$8.2 billion	\$3.2 billion to \$8.2 billion	\$600 million to \$2.4 billion	\$600 million to \$3.2 billion

Source: S&P Dow Jones Indices LLC. Past performance is not indicative of future results. Back-tested data is hypothetical and created with the benefit of hindsight.

## QUESTIONS

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

1. Do you agree with the proposal that S&P DJI should consider cumulative market capitalization coverage in determining the market capitalization dollar ranges such that the S&P 500 market capitalization guideline captures approximately 85% of the three-month average cumulative market capitalization of the TMI universe, the S&P MidCap 400 index captures the 85-93rd percentile of the average three-month cumulative mkt cap of the TMI universe, and the SmallCap 600 captures the 93rd-99 percentile the three-month average cumulative market capitalization of the TMI universe?
2. Over the past 5 years (2017-2021), the average annual turnover for the S&P 500, MidCap 400, and SmallCap 600 were approximately 3.96%, 20.36% and 20.50% respectively (see table in Appendix C for additional annual turnover data). How much additional annual turnover would be acceptable to ensure that the S&P Composite 1500 indices continue to reflect the updated market capitalization guidelines more closely?
3. Do you agree with the proposal to loosen the FALR criteria (see FALR definition in Appendix A) from 1.00 to 0.75 which will increase the available number of eligible candidates?
4. Are there other liquidity measures that should supplement or even replace FALR as an eligibility criteria?
5. Do you have any other comments or feedback on the proposed changes outlined above?

## CONSULTATION

Your participation in this consultation is important as we gather information from various market participants to properly evaluate your views and preferences. Please respond to this survey by **November 30, 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 take part 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](mailto:SPDJI_Index_Governance@spglobal.com).

*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](http://www.spglobal.com/spdji).

## Appendix A

### Current Market Capitalization Guidelines and Liquidity definitions as per U.S. Indices Methodology document:

**Market Capitalization.** Eligibility differs depending on the index:

- **S&P Total Market Index.** There is no minimum market capitalization requirement for index eligibility.
- **S&P Composite 1500.** Total company market capitalizations of US\$ 14.6 billion or more for the S&P 500, US\$ 3.7 billion to US\$ 14.6 billion for the S&P MidCap 400, and US\$ 850 million to US\$ 3.7 billion for the S&P SmallCap 600 are required. These ranges are reviewed quarterly and updated as needed to ensure they reflect current market conditions. A company meeting the total company market capitalization criteria is also required to have a security level float-adjusted market capitalization (FMC) that is at least 50% of the respective index's total company level minimum market capitalization threshold.

**Liquidity.** A float-adjusted liquidity ratio (FALR), defined as the annual dollar value traded divided by the float-adjusted market capitalization (FMC), is used to measure liquidity. Using composite pricing and consolidated volume (excluding dark pools) across all venues (including historical values), annual dollar value traded is defined as the average closing price multiplied by the historical volume over the 365 calendar days prior to the evaluation date. This is reduced to the available trading period for IPOs or spin-offs that do not have 365 calendar days of trading history. In these cases, the dollar value traded available as of the evaluation date is annualized. Eligibility differs depending on the index:

- **S&P Total Market Index.**
  - Liquidity requirements are reviewed during the quarterly rebalancings.
  - The price (corporate action adjusted) as of the evaluation date, and the shares outstanding and investible weight factor (IWF) as of the rebalancing effective date are used to calculate the FMC.
  - The evaluation date is five weeks prior to the rebalancing effective date.
  - FALR must be greater than or equal to 0.1.
  - Current constituents have no minimum requirement.
- **S&P Composite 1500.**
  - Liquidity requirements are reviewed anytime index membership is reviewed.
  - The price, shares outstanding, and investible weight factor (IWF) as of the evaluation date are used to calculate the FMC.
  - The evaluation date is the open of trading on the day prior to the announcement date.
  - The stock should trade a minimum of 250,000 shares in each of the six months leading up to the evaluation date.
  - FALR must be greater than or equal to 1.0.
  - Current constituents have no minimum requirement.

## Appendix B

### Historical Market Capitalization Guidelines

Market capitalization guidelines since July 18, 2007, for the component indices of the S&P Composite 1500 are as follows:

Effective Date (After Close) <sup>1</sup>	Market Capitalization Guidelines (US\$)		
	S&P 500	S&P MidCap 400	S&P SmallCap 600
<b>Current -3/4/2022</b>	At least \$14.6 billion	\$3.7 billion to \$14.6 billion	\$850 million to \$3.7 billion
6/3/2021	At least \$13.1 billion	\$3.6 billion to \$13.1 billion	\$850 million to \$3.6 billion
3/17/2021	At least \$11.8 billion	\$3.3 billion to \$11.8 billion	\$750 million to \$3.3 billion
12/8/2020	At least \$9.8 billion	\$3.2 billion to \$9.8 billion	\$700 million to \$3.2 billion
<b>02/20/2019</b>	At least \$8.2 billion	\$2.4 billion to \$8.2 billion	\$600 million to \$2.4 billion
3/10/2017	At least \$6.1 billion	\$1.6 billion to \$6.8 billion	\$450 million to \$2.1 billion
7/16/2014	At least \$5.3 billion	\$1.4 billion to \$5.9 billion	\$400 million to \$1.8 billion
6/19/2013	At least \$4.6 billion	\$1.2 billion to \$5.1 billion	\$350 million to \$1.6 billion
2/16/2011	At least \$4.0 billion	\$1.0 billion to \$4.4 billion	\$300 million to \$1.4 billion
12/9/2009	At least \$3.5 billion	\$850 million to \$3.8 billion	\$250 million to \$1.2 billion
12/18/2008	At least \$3.0 billion	\$750 million to \$3.3 billion	\$200 million to \$1.0 billion
9/25/2008	At least \$4.0 billion	\$1.0 billion to \$4.5 billion	\$250 million to \$1.5 billion
7/18/2007	At least \$5.0 billion	\$1.5 billion to \$5.5 billion	\$300 million to \$2.0 billion

Source: S&P Dow Jones Indices LLC.

<sup>1</sup> Effective May 1, 2019, security level float-adjusted market capitalization must be at least 50% of the respective index's full company level minimum market capitalization threshold.

## Appendix C

### Historical Composite 1500 Turnover

S&P Capitalization Weighted Turnover (One Way)												
	S&P 500	S&P MidCap 400	S&P SmallCap 600	S&P 900*	S&P 1000*	S&P Composite 1500*	S&P 500 Growth	S&P 500 Value	S&P MidCap 400 Growth	S&P MidCap 400 Value	S&P SmallCap 600 Growth	S&P SmallCap 600 Value
2021	2.81%	21.95%	19.11%	2.86%	16.63%	2.86%	16.67%	18.88%	56.02%	42.45%	50.42%	47.31%
2020	4.17%	18.00%	19.79%	4.31%	14.27%	4.29%	18.25%	22.18%	46.77%	38.10%	47.06%	48.32%
2019	4.30%	20.06%	22.12%	4.40%	15.84%	4.37%	28.60%	32.10%	54.47%	49.25%	63.66%	54.76%
2018	4.77%	20.35%	21.69%	5.28%	19.27%	5.39%	30.02%	34.02%	58.03%	49.06%	64.02%	50.47%
2017	3.75%	21.43%	19.78%	4.30%	18.14%	4.51%	20.43%	23.53%	54.70%	45.37%	54.27%	46.27%
2016	4.69%	22.76%	25.25%	4.70%	19.04%	4.79%	24.16%	23.89%	59.73%	47.12%	59.59%	54.33%
2015	3.64%	16.27%	15.68%	3.68%	11.71%	3.56%	25.67%	24.84%	50.05%	40.70%	56.08%	46.95%
2014	3.05%	12.31%	13.44%	2.90%	9.50%	2.86%	24.85%	23.79%	48.93%	45.20%	54.34%	45.82%
2013	3.27%	10.82%	12.63%	3.07%	8.54%	3.07%	24.59%	25.12%	43.78%	36.52%	50.76%	40.37%
2012	4.37%	8.71%	10.14%	4.36%	8.24%	4.46%	30.10%	33.30%	43.51%	40.38%	48.74%	45.77%
2011	3.64%	14.33%	15.16%	3.98%	10.70%	3.94%	23.50%	26.29%	41.33%	34.24%	47.04%	39.49%
2010	3.73%	8.76%	13.06%	4.21%	9.37%	4.01%	22.37%	22.79%	35.32%	22.99%	42.58%	30.64%
2009	4.48%	13.93%	13.75%	4.40%	10.13%	4.50%	30.25%	36.63%	51.24%	45.69%	53.89%	50.95%
2008	3.87%	18.20%	20.94%	5.05%	19.07%	5.63%	18.03%	20.68%	58.43%	37.93%	62.48%	42.29%
2007	5.21%	19.89%	18.97%	6.41%	19.58%	6.90%	25.49%	29.09%	48.35%	44.70%	49.19%	41.44%
2006	4.54%	12.18%	12.94%	5.68%	12.43%	5.51%	22.64%	20.04%	40.14%	25.77%	35.69%	34.23%
2005	5.73%	14.49%	13.83%	5.93%	13.47%	6.08%	12.38%	12.11%	34.60%	34.37%	37.60%	36.29%
2004	3.10%	13.11%	12.95%	3.63%	9.79%	3.13%	18.28%	22.80%	42.95%	37.94%	56.49%	44.73%
2003	1.45%	8.60%	10.98%	1.62%	6.30%	1.79%	14.95%	13.92%	38.27%	29.10%	48.00%	36.10%
2002	3.82%	10.72%	10.99%	3.74%	8.12%	3.69%	17.95%	22.24%	52.73%	37.95%	49.91%	40.56%
2001	4.43%	16.98%	15.63%	4.51%	14.79%	4.25%	29.87%	33.43%	59.28%	43.86%	60.65%	52.19%
2000	8.91%	37.14%	36.41%	8.15%	31.66%	7.67%	11.46%	14.85%	51.12%	21.07%	30.17%	34.74%
1999	6.16%	28.87%	24.39%	6.00%	24.41%	5.47%	N/A	N/A	N/A	N/A	N/A	N/A
1998	9.46%	31.38%	24.38%	8.68%	25.58%	8.81%	N/A	N/A	N/A	N/A	N/A	N/A
1997	4.92%	17.91%	21.84%	5.29%	16.15%	5.36%	N/A	N/A	N/A	N/A	N/A	N/A
1996	4.58%	14.36%	16.37%	4.21%	13.68%	5.34%	N/A	N/A	N/A	N/A	N/A	N/A
1995	5.00%	15.57%	13.73%	5.10%	13.58%	5.97%	N/A	N/A	N/A	N/A	N/A	N/A
1994	3.78%	9.89%	N/A	3.64%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1993	2.64%	10.32%	N/A	2.35%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1992	1.18%	5.84%	N/A	1.27%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: S&P Dow Jones Indices LLC. Please refer to S&P Dow Jones Indices: [Index Mathematics Methodology](#), for further information on how index turnover is calculated.

\* On March 10, 2020, the turnover values were updated for the years 2019 and 2020 only to reflect that no turnover is created when a constituent migrates within the S&P SmallCap 600, S&P MidCap 400, and S&P 500 Indices.

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