

S&P Dow Jones Indices Consultation on S&P 1500 Share Class Eligibility Rules

NEW YORK, OCTOBER 25, 2022: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on the multiple share class eligibility methodology requirement of the S&P Composite 1500 Index, to solicit feedback about whether this eligibility requirement should be retained in its current form, modified, or removed. Any changes to the S&P Composite 1500 Index methodology would affect constituents eligible for inclusion in indices derived therefrom including, without limitation, the S&P 500, S&P MidCap 400 and S&P SmallCap 600 Indices.

In July 2017, S&P Dow Jones announced that it will no longer admit companies with multiple-share class structures to the S&P Composite 1500 Index (also known as the S&P 1500 Index). Then current constituents with multiple share class structures at the time of the announcement were grandfathered in and remain in the indices. For more information regarding the current multiple share class restrictions, please see the US Indices Methodology [here](#).

Background

In response to S&P DJI’s 2017 consultation on the eligibility of non-voting share classes, over 80% of respondents were in favor of some form of eligibility restrictions for multiple share class companies in the S&P Composite 1500. Although there were several reasons why a large majority of respondents supported this decision, many respondents simply believed having voting rights is part of the definition of common stock.

Other respondents believed that a multiple share restriction was not in the best interest of the index because the goal of the S&P Composite 1500 index family is to measure the performance of the various investable U.S. market capitalization size segments that are available to all investors. Though non-voting share classes may present certain corporate governance issues, they are still a part of the investable universe.

While over 90% of publicly listed companies in the United States use a single share class structure, a growing number of companies entering the public markets over the past several years have chosen to go public using multiple share class structures including those with share classes with unequal voting rights.¹ This trend has been pronounced with information technology companies. Proponents of multi-share class structures often posit that these structures allow founders to maintain and grow their company yet insulate them from short-term market pressures. Founders typically hold most of the voting power within a given multiple share class structure.

Certain other multiple share class structures including some, but not all, so called “Up-REIT” and “Up-C” type structured companies are intended to provide a tax efficient way for private owners to gain access to the public markets. These multiple share class structures feature equal voting rights and economic rights for all share classes.

¹ Source: Council of Institutional Investors at https://www.cii.org/dualclass_stock.

Recently a growing percentage of companies that go public with multiple share class structures have incorporated time-based sunset provisions into their charters. These provisions sometimes feature eventual replacement, over a pre-determined timeframe, of the multi-share class structure with a traditional one-share/one-vote scheme or require all shareholder classes (including otherwise non-voting shares) to vote on those structures to retain the multiple share class structure for an additional limited time period.

Considering these recent developments, and in response to market feedback, S&P DJI has decided to issue this consultation.

Current Index Methodology

Below is current U.S. Indices Methodology language regarding the S&P Composite 1500 multi-share class restriction:

S&P Composite 1500. Tracking stocks and companies with multiple share class structures are **not** eligible for the S&P Composite 1500 and its component indices. All existing S&P Composite 1500 constituent companies with multiple share class structures are grandfathered in and will remain in the S&P Composite 1500.

Companies are considered to have multiple share class structures (and are therefore ineligible for the S&P Composite 1500) if they have more than one class of common stock on their balance sheet. This includes companies with listed and unlisted share class lines, so called “Up-C” organizational structured companies that have multiple share class lines, so called “UP-REIT” organizational structured companies that have multiple share class lines and companies where all multiple share classes have equal voting rights. Only common shares are considered when determining whether a company has a multiple share class structure. Operating Partnership (OP) units and preferred shares are not considered common shares in the multiple share class structure determination.

Non-S&P Composite 1500 companies with multiple share class structures that acquire S&P Composite 1500 constituents are not eligible for inclusion in the S&P Composite 1500. If an S&P Composite 1500 constituent reorganizes into a multiple share class structure, that company will be reviewed for continued inclusion in the S&P Composite 1500 at the discretion of the Index Committee.

QUESTIONS

Below are a range of options starting with no change to the current rule (see option #1) to an expansion of the multiple share class rule (see option #2) to various ways of narrowing the rule scope (options #3-5) to a complete removal of the rule (option #6). **Please provide your feedback by assigning a rank order of one to six for the following options, with one being the rule you would most like to see adopted and six being the rule you would least like to see adopted.** Please use the last question to include any rationale for your ranking choices.

With respect to the current S&P1500 multi-share class eligibility rule (see *methodology excerpt above*), S&P DJI should take the following action:

1. **No change to current rule:** The multiple share class structure eligibility rule should be maintained in its current form including maintaining the grandfathering of current S&P Composite 1500 multiple share class companies.

CONSULTATION

2. **Expand the scope of the rule further to exclude all companies whose only publicly available common share class is non-voting, even if that share class is the only common stock share class on the balance sheet.**
3. **Retain the current rule but allow companies with time-based sunset provisions to be eligible for the Index:** Multiple share class companies whose initial public offering (IPO) included a pre-determined “sunset clause” to eliminate the multiple share class structure and convert into a “one share one vote” structure within seven years or less should be eligible for the Index. Companies that had an IPO with a longer time-based sunset provision of more than seven years but are now within the seven-year window should also be eligible for the Index.
4. **Retain the current rule but allow multiple share class structures with equal voting rights to be eligible for the Index:** Multiple share class companies where all common share classes have equal voting rights should be eligible for the Index. Examples include certain so called “UP-C” and “UP-REIT” structures where class A and class B common stock have equivalent voting and economic rights.
5. **Replace current rule with one that only excludes companies whose only publicly available common stock share class is non-voting,** even if the company’s common equity capital structure contains only one share class.
6. **Eliminate the multiple share class rule completely.**
7. **Please explain your ranking rationale.**

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 **December 15, 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 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.

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:

S&P Dow Jones Indices

index_services@spglobal.com