FTSE Russell Statements on ESMA Guidelines on ETFs and other UCITS issues

Contents

Summary

On February 18, 2013, the European Securities and Markets Authority (ESMA)'s consolidated Guidelines on ETFs and other UCITS issues (Original Guidelines) came into force. The Original Guidelines were updated on August 1, 2014 (Revised Guidelines). The rules apply to UCITS ETFs and index-tracking UCITS, as well as UCITS investing in financial indices. This document summarizes FTSE Russell's statement for all FTSE Russell indexes in relation to the Original Guidelines and the Revised Guidelines clarified in the consolidated Questions and Answers document published on February 1, 2016 and updated on March 29, 2019 (the Guidelines).

FTSE Russell's statements are confined to the relevant sections of the Guidelines, specifically Section V, Guideline 9(a), and Section XIII on Financial Indices. Where FTSE Russell believes the duty for compliance lies with the UCITS provider rather than the index administrator, this is noted.

FTSE Russell has endeavoured to provide accurate policy statements relating to the ESMA Guidelines, however, nothing in this document constitutes advice, whether legal or otherwise and users of FTSE Russell indexes should seek their own expert and legal advice regarding guideline compliance specific to their individual circumstances. This document may be changed at any time without notice.

Please address any questions or comments on this document to regulation@ftserussell.com.

Section V

Index-Tracking UCITS

Guideline 9 (a):

The prospectus of an index-tracking UCITS should include:

(a) a clear description of the indices including information on their underlying constituents. In order to avoid the need to update the document frequently, the prospectus can direct investors to a web site where the exact compositions of the indices are published;

FTSE Russell Statement:

FTSE Russell index methodologies are publicly available on www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml. All methodologies include a clear description of the relevant FTSE Russell index family. Further index descriptions are included in index factsheets which are publicly available at www.ftse.com/analytics/factsheets/Home/Search and https://www.yieldbook.com/m/indexes/fund/ for FFI indexes.

FTSE Russell will publish the names of the previous period's constituents and constituent weights that are used as the basis of UCITS exchange traded funds (UCITS ETFs) and index tracking UCITS on http://www.ftse.com/Analytics/factsheets/Home/ConstituentsWeights and https://www.yieldbook.com/m/indexes/fund/ for FFI indexes.

Any omissions from the list of indexes for UCITS ETFs and index-tracking UCITS products should be notified to regulation@ftserussell.com.

Section XIII

Financial Indices

Guideline 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.

FTSE Russell Statement:

FTSE Russell regularly creates indexes that by construction are designed to comply with UCITS diversification rules, for example those set out in the UCITS IV Directive, Article 52. Where a UCITS wishes to take advantage of the enhanced diversification limits set out in Article 53, FTSE Russell is willing to participate in discussions with competent authorities in Member States to determine whether an index is sufficiently diversified and whether it represents an adequate benchmark for the market to which it refers. However, it is for the UCITS to indicate whether it believes an index meets these criteria in a particular Member State.

Guideline 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.

FTSE Russell Statement:

FTSE Russell publishes constituent weighting information to assist clients in determining their compliance with this Guideline. The information is accessible at
http://www.ftse.com/Analytics/factsheets/Home/ConstituentsWeights and
https://www.yieldbook.com/m/indexes/fund/ for FFI indexes.

Guideline 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). Subcategories 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.

FTSE Russell Statement:

FTSE Russell indexes can be tailored to meet the appropriate diversification requirements, for example by constraining the commodity contracts within the diversification limits.

Guideline 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.

FTSE Russell Statement:

Guideline 52(a): The objective of any FTSE Russell index is outlined in the relevant index methodology and its relevant factsheet; these are publicly available on www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml for FFI indexes.

Guideline 52(b): The construction of the universe of index components is specified in the relevant FTSE Russell index methodology; these are publicly available on www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml for FFI indexes.

Guideline 52(c): Where cash management is included as part of the index strategy, this is described in the index's objective, rules-based methodology.

Guideline 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.

FTSE Russell Statement:

Standard FTSE Russell indexes, listed at www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml for FFI indexes, are available for license to all market participants on request. FTSE Russell is willing to provide information on request on the origin of specific indexes.

Guideline 54:

The UCITS' prospectus should disclose the rebalancing frequency and its effects on the costs within the strategy.

FTSE Russell Statement:

The rebalancing frequencies of FTSE Russell indexes are stated in the relevant index methodologies and are publicly available on www.ftse.com/Indices/index.jsp and https://www.yieldbook.com/m/indexes/fund/

The UCITS provider should estimate and disclose the likely costs arising from rebalancing in the light of the size of the UCITS and the trading strategies employed.

Guideline 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 daily basis do not satisfy this criterion. For the purpose 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.

FTSE Russell Statement:

The rebalancing[1] frequencies of FTSE Russell indexes are stated in the relevant index methodologies and are publicly available on www.ftse.com/Indices/index.jsp or https://www.yieldbook.com/m/indexes/fund/

Relatively few FTSE Russell indexes are rebalanced daily. Examples include the FTSE Daily Short and Leveraged Indexes. These rebalances are based solely on algorithmic, non-subjective rules described in the relevant FTSE Russell index methodology, and may be considered "technical adjustments" as set out in Guideline 54 of the Original Guidelines and clarified in the Q&A issued on July 11, 2013. Relevant data are published on an ex-ante basis at http://www.ftse.com/products/indices/Short-and-Leveraged.

[1] For purposes of these statements, FTSE Russell has assumed that "rebalance" means a reconstitution or review of an index whereby issues are ranke
tested, rather than a rebalance of an index where daily actions, such as new issues, excluding maturing issues and reinvestment of cash arising from co
repayments, are implemented. Certain fixed income index methodologies refer to implementing daily action updates as a "rebalance," but they are not pe
reconstituted.

Guideline 56:

A 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.

FTSE Russell Statement:

FTSE Russell index methodologies are publicly available on www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml. All FTSE Russell methodologies include a clear description of the relevant index family or index. Further index descriptions and information on the performance of the index are included in index factsheets which are publicly available at www.ftse.com/analytics/factsheets/Home/Search and https://www.yieldbook.com/m/indexes/fund/. FTSE Russell will publish the names of the previous period's constituents and constituent weights on http://www.ftse.com/analytics/factsheets/Home/ConstituentsWeights and https://www.yieldbook.com/m/indexes/fund/.

Any omissions from the list of indexes for UCITS ETFs and index-tracking UCITS products should be notified to regulation@ftserussell.com

Guideline 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. This information should cover the previous period since the last rebalancing and include all levels of the index.

FTSE Russell Statement:

FTSE Russell will publish, free of charge, the names of the constituents and constituent weights on http://www.ftse.com/analytics/factsheets/Home/ConstituentsWeights or in the relevant index factsheets on https://www.yieldbook.com/m/indexes/fund/. This information will be provided as at the effective date of the previous rebalance in advance of the next index rebalancing. Where an index does not have a regular rebalance schedule, for example for the FTSE Actuaries UK Gilts Index Series, end of month constituent weights will be published one month in arrears. Any omissions from the list of indexes for UCITS ETFs and index-tracking UCITS products should be notified to regulation@ftserussell.com.

Guideline 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.

FTSE Russell Statement:

FTSE Russell indexes are calculated in accordance with objective rules-based methodologies. All index methodologies are publicly available on www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml.

Guideline 59:

A UCITS should not invest in financial indices whose index provider accepts payments from potential index components for inclusion in the index.

FTSE Russell Statement:

The inclusion of a financial instrument in any FTSE Russell index is based solely upon whether it meets the requirements of the rules-based index methodologies publicly available on www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml. FTSE Russell does not accept payments from potential index components for inclusion in the index.

Guideline 60:

A UCITS should not invest in financial indices whose methodology permits retrospective changes to previously published index values ('backfilling').

FTSE Russell Statement:

It is FTSE Russell policy not to overwrite historic index values in the event of a change of calculation methodology. However, in the event of a material index calculation error, FTSE Russell may restate the affected index values in accordance with its recalculation policies for equity, fixed income and multi-asset indexes, which can be accessed at https://www.ftse.com/products/indices/index-support-guides. .

Guideline 61:

The 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 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 an audit;

(c) the frequency of index publication and whether this will affect the ability of the UCITS to calculate its net asset value.

FTSE Russell Statement:

FTSE Russell will assist the UCITS in its due diligence to make available all relevant documentation with respect to index methodologies and weightings. With respect to availability of information on the index:

Guideline 61(a): FTSE Russell index methodologies are publicly available on www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml, which include a clear description of the relevant FTSE Russell index families.

Guideline 61(b): All FTSE Russell indexes are calculated according to specified procedures and controls as set out in the relevant index methodologies which are published under www.ftse.com/Indices/index.jsp and http://yieldbook.com/m/indices/search.shtml for FFI indexes.

Guideline 61(c): FTSE Russell indexes are published daily according to a specified schedule. Such schedule is published under www.ftse.com/Indices/index.jsp using relevant exchange rates which are described within index methodologies. This information is available on http://yieldbook.com/m/indices/search.shtml.

Guideline 62:

The UCITS should ensure that the financial index is subject to independent valuation.

FTSE Russell Statement:

Answer 7h in the Q&A published by ESMA on July 11, 2013 clarifies that index valuation is considered to be independent if the unit that performs the valuation is functionally independent from the unit responsible for the design of the index. The valuation methodology for individual constituents is set out in the publicly available methodology document or pricing guide. FTSE Russell confirms that all of its standard indexes are valued by teams that are separate and independent from teams undertaking index design. Answer 7h further requires that the remuneration of the staff undertaking the valuation is not linked to the performance of the index. FTSE Russell confirms that no FTSE Russell affiliated employee has their remuneration attached to the performance of an index.

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FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

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