

S&P Dow Jones Indices

A Division of **S&P Global**

Tuesday, March 31, 2020

S&P Dow Jones Indices (“S&P DJI”) is providing this FAQ to supplement previous communications regarding the postponement of the March 2020 rebalances that impacted most proprietary equity indices. The answers are generalized in terms of S&P DJI’s approach to managing and rebalancing our proprietary indices. For questions on a specific index, please refer to the appropriate Index Methodology and related documents published on our [website](#).

Background:

- S&P DJI announced on Thursday, March 12, 2020 that the rebalance for most proprietary equity indices scheduled to take effect prior to the open Monday, March 23, 2020 and Wednesday, April 1, 2020 were being postponed. S&P DJI made this decision following thorough consideration of how best to govern our indices and support our clients during this period of extreme global market volatility, market wide circuit breaker events, and exchange disruptions and closures.
- The decision to postpone most rebalances scheduled in March was communicated prior to the release of proforma data files on March 13, 2020.
- S&P DJI proceeded with scheduled index rebalances for multi-asset class indices using historical data and/or signals to reallocate weights across asset classes. In addition, S&P DJI rebalanced select indices governed by methodologies that include specific quarterly capping and diversification rules. The effective date of such index rebalances was delayed to March 30, 2020 to ensure capping rules were applied prior to month-end.

Has S&P DJI ever postponed a rebalance before?

S&P DJI has not postponed index rebalances impacting the same scope and breadth of indices in recent history. S&P DJI has previously modified rebalance effective dates and delayed index adjustments for specific index families and/or specific markets; however, these actions were primarily driven by market holidays.

When will S&P DJI implement the postponed March 2020 rebalances?

S&P DJI issued a market consultation on Monday, March 23, 2020 on the proposed new effective dates for the affected rebalances. On Tuesday, March 31, 2020, S&P DJI published updated rebalance effective dates for the impacted indices. For details on the consultation results, please visit our [website](#).

Will the revised schedule impact the timing or schedule of future rebalances?

No. While indices may rebalance in an off-cycle month as detailed in the postponement announcement, these indices will immediately thereafter revert to the schedule detailed in the index methodology. As an example, a semi-annual rebalance that is normally scheduled for March and September may, as a result of the postponement announcement, have an off-scheduled rebalance in June 2020. This index will undergo a rebalance in September 2020 as it reverts back to its normal rebalance cycle.

Will S&P DJI update the reference dates used to rebalance the postponed indices and what will be the approach?

Yes. With the exception detailed below for certain dividend-based indices, S&P DJI will update reference dates for impacted indices in an effort to incorporate updated market data into the rebalances. Based on the revised implementation date, S&P DJI will leverage the rules as outlined in the index methodology to determine the appropriate reference date. As an example, if the new rebalance date is June 22, 2020 and the index methodology states the reference date is the prior month-end, the reference date would be data from the end of May.

To ensure consistency for historic reporting periods, there will be no change to the reference date for dividend indices which leverage end of prior year data for historical dividend growth rates, coverage ratios and current year EPS. For point-in-time data such as market capitalization, liquidity, IAD, and pricing, S&P DJI will update the reference date as detailed above.

For postponed rebalances, will S&P DJI consider any additions/deletions that would have otherwise been included as part of the regularly scheduled rebalance?

S&P DJI will no longer use data as of the original rebalance reference date. All data used to determine constituent eligibility will be based on the modified rebalance reference date to determine constituent eligibility.

Why did S&P DJI choose April as the updated rebalance date for index families designed to measure factors, such as risk and volatility?

The Index Committee determined that, based on the nature of factors such as momentum and volatility, the delay in rebalancing should be minimized.

Why did S&P DJI choose June as the updated rebalance date for index families such as Global and Country Benchmarks, Sector and Industry Benchmarks, certain ESG and Carbon indices, and Thematic indices (i.e. ADR, Infrastructure, Internet, Real Estate/Property, Titans)?

These indices predominately depend on underlying data points that are not expected to change materially between March and June. The majority of these indices rebalance on a standard quarterly cycle and the Index Committee determined that it was most appropriate to move these actions to the next scheduled quarterly rebalance review date which, in this case, is June.

Why did S&P DJI choose June as the updated date for the quarterly shares outstanding and investable weight factor (IWF) updates?

Since these data are currently reviewed on a quarterly basis, the Index Committee determined that it was most appropriate to move these actions to the next scheduled quarterly review date which, in this case, is June.

Why did S&P DJI choose June as the updated rebalance date for Dividend Indices?

A variety of factors contributed to this decision, including but not limited to:

- the necessity to update critical reference data, including dividend yield and pricing data to best reflect current market conditions;
- the expectation that a significant number of companies will announce changes to their dividend policies over the next several months, which can more fully be accounted for by delaying the reconstitution until June;
- the desire to understand, where possible, the impact of market conditions on a company's earnings and its ability to sustain its latest reported dividend.

S&P DJI announced that it will continue to perform the Monthly Dividend Review. What is the purpose of this process (please refer to next question for additional information)?

The Monthly Dividend Review is designed to remove companies from certain dividend focused indices so that the indices meet their stated objective. While this process may vary across index methodologies, the general approach is to remove a company at month-end that meets either of the following conditions on the applicable reference date:

1. The constituent stock publicly announces a suspension or cancellation of its dividend program.
2. The constituent stock lowers but does not eliminate its dividend, and its new yield is significantly lower than the lowest yielding constituent.

Please refer to each index methodology for the specific details of the Monthly Dividend Review.

Based on market conditions, a significant number of components of S&P DJI dividend indices may eliminate, cut, postpone, or suspend their dividends. Will S&P DJI relax its rules to ensure indices maintain sufficient diversification?

S&P DJI will continue to reconstitute its dividend indices according to the published index methodology. Many of the indices have specified target constituent counts and additional weighting rules for diversification included in their rebalance processes documented in their applicable methodologies. In the event the rules as detailed in the index methodology cannot be met, the Index Committee will review the results and determine if discretion needs to be exercised to ensure the applicable Index continues to meet its stated objective.

Regarding the Monthly Dividend Review described above, considering current market conditions may have a material impact on dividend cuts, postponements, and yields, the Index Committee will be less likely to remove companies that have cut or postponed their dividends as long as they maintain a reasonable dividend yield. Instead, these companies will be retained and reviewed for continued inclusion as part of the subsequent scheduled rebalance.

The Index Committee will continue to review these situations, and for Dividend Aristocrat indices, will review constituents on a case-by-case basis to determine the appropriate course of action.

For the avoidance of doubt, any constituent stock that publicly announces a suspension or cancellation of its dividend program will be removed from any index subject to the Monthly Dividend Review process.

Will S&P DJI alter the eligibility rules for the Dividend Aristocrats family in the event a significant number of companies failed to increase their annual dividends?

S&P DJI will continue to reconstitute its Dividend Aristocrat indices in accordance with the index methodology. In addition to detailing the standard eligibility and selection rules, the index methodology may already provide a mechanism to relax certain criteria in the event the index is not sufficiently diversified. If the rebalance fails to meet the rules and rules to relax certain criteria are not captured in the index methodology, the Index Committee will review the results and determine the appropriate course of action.

What types of discretion might the Index Committee exercise in situations where an index rebalance cannot be successfully executed?

As stated in our [Equity Policies and Practices Methodology](#), S&P DJI's Index Committees may apply discretion to make decisions differing from the index methodology in certain circumstances, including to avoid unnecessary turnover, excessive index changes or adjustments, or possible market disruption. Some examples of discretion that the Index Committee may consider are:

1. Expand the universe of eligible securities; and
2. Relax selection constraints and inclusion rules

S&P DJI index methodologies governing indices with target counts or narrowly focused indices may currently include additional rules for dealing with exceptional cases. In the event these exceptional rules need to be executed during a rebalance, no discretion is required.

When would the Index Committee contemplate permanent changes to an index methodology?

Index Committees monitor indices and methodologies to ensure our indices continue to achieve their stated index objectives. In the event any market conditions adversely impact an index's ability to do so, the Index Committee will assess the methodology and determine any necessary

changes thereto. All material changes to an index methodology are publicly announced via S&P DJI's [website](#).

Can you describe the consultation process?

Details on S&P DJI's consultation process are located in the [Equity Policies & Practices Methodology](#) available on our [website](#).

Since most S&P DJI indices do not allow for replacements between rebalances, there is a chance that, due to constituent deletions, diversification may become a concern. How will S&P DJI handle these situations?

Per our [Equity Policies & Practices Methodology](#): Additions and deletions of securities to indices can occur for a number of reasons. For indices that do not have a fixed number of constituents, additions and deletions are not linked to one another. For certain indices with a fixed number of constituents, whenever there is a deletion from an index, a replacement is added to the index, preferably on the same day. In other instances, indices can have a fixed number of constituents at each rebalancing with the constituent count fluctuating between rebalancings. In these situations, if an index has a targeted constituent count of 30 or less and more than 10% of the constituent count between rebalancing dates is removed from the index due to mergers, acquisitions, takeovers, delistings, bankruptcies, or other reasons that warrant ineligibility, the index will be reviewed by the Index Committee to determine when replacement securities will be added to the index.

Advance notice will be provided in the event the Index Committee decides to add companies or perform a rebalance outside the standard schedule.

When are constituent capping rules implemented in S&P DJI indices?

Many of S&P DJI indices include rules to cap individual or groups of securities within an index. These rules are captured in the index methodology and are generally designed to enhance the diversification of the index and avoid concentration. In most cases, these capping rules are executed close to each quarter-end, though frequencies may vary as further explained in the applicable index methodology. In order to provide advance notification of index shares, S&P DJI will use a reference date prior to the effective date of the changes. Since index shares are assigned based on prices prior to the rebalancing, the actual weight of each stock at the rebalancing differs from these weights due to market movements

Please refer to individual index methodologies for details of the capping rules as well as reference and implementation dates.