Wilshire Indexes
Benchmark Approval, Change and Cessation Policy

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Introduction

This policy regards the processes and policy of Wilshire Opco UK Ltd (“Wilshire Indexes”) with regards to the approval of a benchmark methodology, the procedures for consulting on a proposed material change to the methodology of a benchmark, and the procedures for the cessation of the calculation of one or more Wilshire benchmarks.

The final decision on the approval of a methodology, the implementation of a change to an existing benchmark methodology, and the cessation of the calculation of a benchmark, rests with the Wilshire Indexes Executive Committee.

Approval of a Benchmark Methodology

A proposal to create a new benchmark can be made by a member of Wilshire Indexes staff, including sales staff, in the light of perceived demand. Proposals can also be made by clients, or prospective clients, of Wilshire Indexes.

The procedures to be followed depend on whether the proposed benchmark is intended for general use (a “standard index”), whether the benchmark is derived from an existing standard index (a “custom index”), or if the benchmark is intended for the use of a single client (a “bespoke” index).

Standard Index

A proposal to initiate a new standard index will first be presented to the Wilshire Indexes Executive Committee for a go/no-go decision. The Executive Committee will determine whether the proposal should be progressed in the light of perceived client demand, and any additional costs that might be incurred to safely administer the index. Additional costs might arise as a result of the need for new data sources or because the operational complexity of the index would require additional investment in staff or technology.

Once the Executive Committee has given its approval for the proposal to be progressed, an initial investigation of the methodology will be undertaken by the Wilshire Indexes Research Team. Along with the proposer, the Research Team will draft a skeleton methodology setting out the basic index calculation including the index eligibility criteria, the constituent weighting algorithm, the reconstitution procedures, the corporate action methodology, and the ad-hoc procedures to be followed in the periods between reconstitutions.

The Research Team will conduct historical calculations based on the draft methodology to ensure that the methodology is workable. For example, the Research Team will check that all necessary data is available in both the research and production environments, and that the return history does not exhibit any outlier jumps or other unusual characteristics that might be caused by incorrect input data; any errors detected in this way are corrected and vendors notified if appropriate. As part of the testing process, the backtested performance of the proposed methodology will be evaluated over different market regimes including bull and bear markets, bubbles and crashes, and periods of high and low volatility. The backtest performance will also be compared to other publicly available indexes with a similar objective. Refinements may be made to the methodology will be implemented in the light of the tests conducted.

Once the Research Team is satisfied that the draft methodology is providing an adequate representation of the underlying economic reality that the proposed index is seeking to measure, the proposed methodology along with the results of the backtesting will be presented to the Wilshire Indexes Executive Committee. The Executive Committee will consider whether the proposed methodology would benefit from external feedback from the Wilshire Indexes Advisory Group, and if so, will arrange for the proposed index to be presented at the next meeting of the Advisory Group. The Research Team will take account of any feedback received and further refinements to the proposed methodology may be made as a result.

Once the feedback from the Advisory Group (if any) has been assimilated, the Research Team will write a full index methodology. This methodology will be provided to the Index Management Committee for their feedback on any operational difficulties that might be encountered during the day-to-day calculation of the indexes, and to the Benchmark Administration Manager who will check that the methodology has been written in a way that is clear and unambiguous.

A final proposal including the feedback from the Index Management Committee and the Benchmark Administration Manager will be considered by the Wilshire Indexes Executive Committee who will set out any remaining steps that must be

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completed before the index launch date including the production and approval (by the Index Management Committee) of operational procedures and a marketing launch plan.

**Custom Index**

A custom index is one that is created on the request of one or more clients and are derived from a standard index through the application of additional filters, the use of non-standard withholding tax rates, or through hedging into a non-standard currency. Filters might be used to exclude companies that belong to a specific industry or country, or that fall below a certain size or liquidity threshold; withholding tax rates might be based on the historic experience of the client.

Such indexes are relatively easy to construct and, provided no special inputs are required, approval will be granted by the Wilshire Indexes Executive Committee subject to the availability of the necessary resources. Custom indexes are usually made available on a non-exclusive basis.

**Bespoke Index**

A bespoke index is an index created at the behest of a single client. The procedure to be followed for the approval of a bespoke index methodology is the same as that for a standard index but with the following exceptions.

- The index methodology is client directed. The Wilshire Indexes Research Team will assist the client with the running of backtests and may help with suggestions for data sources or minor features of the calculation, but the methodology is the responsibility of the client and no investment advice is provided by Wilshire Indexes.
- As the index is intended for the use by one client only, no feedback is sought from the Wilshire Indexes Equity Index Advisory Group.
- If the client intends to appoint Wilshire Indexes as the independent administrator of the bespoke index, Wilshire Indexes and the client will agree procedures, including communication protocols, to ensure that Wilshire Indexes can act independently and that potential conflicts of interest are identified and mitigated, or managed, accordingly.
- If the client intends to appoint Wilshire Indexes as the “Administrator”, as defined in the UK and EU Benchmark Regulations, and if the index is intended to be used as a “Benchmark’, as defined in the UK and EU Benchmark Regulations, Wilshire Indexes will administer the index in line with its obligations as set out in the regulations.
- Final approval to launch the index is provided by both the Wilshire Indexes Executive Committee and the requesting client.

**Changes to a Benchmark Methodology**

The process to be followed for making changes to a benchmark methodology depends on the materiality of the change.  

**Material Definition**

Materiality is not always easy to define with respect to benchmarks, but by way of example, the following would be considered material changes to a methodology.

- A change to a benchmark’s objective
- A change to the methodology that would significantly change the composition of a benchmark
  - A change to the types of eligible securities, for example to allow or exclude preference shares, limited partnerships or REITs in equity indices
  - A significant change to the eligibility rules for individual securities, for example in relation to free float criteria, voting rights, liquidity rules, or rules relating to the exclusion of securities placed on a warning list maintained by a trading venue or a regulator
  - A change to the reconstitution frequency of the index
  - Changes to any buffer rules that are applied at the time of the index reconstitution.

The following would not be considered material changes.
• A change to the way a class of corporate event or action is implemented in the index including a change to the method for determining the effective date of a corporate event
• Changes to the timetable for removing suspended securities from an index
• A change to the definition of a restricted share holder for the purposes of calculating the free float of a security.

Changes to a Standard Index Methodology

Changes to the methodology of any Wilshire Benchmark may be proposed by the Wilshire Index Management Committee, the Wilshire Indexes Research Team, a client, or other stakeholder such as a trading venue or regulator.

• In all cases, the Investment Management Committee will prepare a paper for consideration by the Wilshire Indexes Executive Committee setting out the case for the proposal along with the IMC’s view as to whether the proposal is considered to be material.
• If a change to the returns of the index might occur as a result of the methodology change, the Wilshire Indexes Research Team will conduct analysis and perform backtests of the proposed methodology to be included in the paper.
• Feedback on the proposal will first be sought from the Wilshire Indexes Equity Index Methodology Advisory Group.
• If there is insufficient support from the Advisory Group for a proposal originating outside of Wilshire Indexes, the Benchmark Administration Manager will respond to the proposer accordingly.

Immaterial Change

• If the proposal is deemed to be an immaterial change and there is sufficient support from the Advisory Group, the Index Management Committee will draft a notice to be sent to index users, including any users of custom indexes derived from the standard index, and published on the Wilshire website setting out the rationale for the change and the proposed date for its implementation.
• The final notice will be approved by the Wilshire Indexes Executive Committee.
• Where circumstances allow, the notice will provide a minimum of 30 days’ notice ahead of implementation.
• The notice will provide for feedback from users and other stakeholders.
• Should adverse feedback be received, this will be discussed with the Advisory Group and the Index Management Committee may decide to modify or withdraw the proposed change. Users will be informed of any revision and a follow-up notice will be published.
• Absent further feedback, a reminded notification will be sent to clients and a follow-up notice will be published on the Wilshire website five days before the implementation date.

Material Change

• If the proposal is deemed to be a material change and there is sufficient support from the Advisory Group, the Index Management Committee will draft a consultation to be put to users and stakeholders.
• The draft consultation will be considered first by the Wilshire Indexes Equity Index Advisory Group who may suggest changes to the questions asked.
• The final consultation will be approved at a meeting of the Wilshire Indexes Executive Committee. The proposal will be published, and stakeholders given a reasonable period, typically 60 days, in which to respond.
• The results of the consultation will first be analysed at a meeting of the Advisory Group. If the results are positive, the Investment Management Committee will propose revisions to the index methodology documentation to the Advisory Group along with a timetable for the implementation of the change.
• The final wording for the methodology documentation and the timetable for implementation will be approved at a meeting of the Wilshire Indexes Executive Committee.
• A summary of comments received, and of Wilshire’s response, will be made available to stakeholders. Unless express approval is sought, the names of respondents will be kept anonymous.
Changes to a Custom Index Methodology

Any changes to the methodology of the standard index underlying a custom index will automatically flow through to the custom index. It is therefore important that users of custom indexes are included in any consultation to change the methodology of the underlying index and are provided with the same notification of any forthcoming changes.

Proposals to change the method by which the custom index is derived from its standard index parent follow the same procedures for changes to a standard index methodology above.

Changes to a Bespoke Index Methodology

If a client desires a change to the methodology of their bespoke benchmark, the request will be analysed by the Wilshire Indexes Index Management Committee and Research Team in the same way as for a standard index. The analysis will be presented to the Wilshire Indexes Executive Committee who will consider whether the proposed changes are to the benefit of the index.

If the index is administered by Wilshire Indexes as a benchmark under the UK and EU Benchmark Regulations, the Wilshire Indexes Executive Committee will require assurance from the Wilshire Indexes Index Management Committee that its obligations under the UK and EU Benchmark Regulations will continue to be met before providing its approval of the change.

Benchmark Cessation

Users of Wilshire benchmarks should be aware that it may become impossible to continue calculation of one or more of the Benchmarks, for reasons both within and outside of Wilshire’s control. These might include, for example, a lack of required data or substantiated concerns regarding data quality, or insufficient eligible constituents to make a viable benchmark. Wilshire may also decide to discontinue a benchmark that is commercially unviable; such a benchmark is unlikely to be a significant benchmark.

For these reasons, products based upon a Wilshire Benchmark should have procedures or processes to enable them to address the possibility of a complete cessation of the calculation of one or more Wilshire benchmarks.

Cessation Procedure

- Proposals to cease the calculation of a benchmark will be considered by the Wilshire Indexes Executive Committee.
- If the Wilshire Indexes Executive Committee considers that cessation is warranted, known users of the benchmark will be informed directly. In addition, a notice will be published on the Wilshire Indexes website.
- The notification to known users and the published notice will provide a minimum of 90 days' notice for the index to be decommissioned and solicit feedback on the cessation proposal.
- Further reminder notices will be sent at 60, 30 and 5 days before the decommission date.
- If any adverse reaction is received following the receipt of the decommission notices, the Wilshire Indexes Executive Committee will consider that feedback and may decide to cancel or defer the decommissioning proposal.
- On the day of decommission, Wilshire Indexes will cease the publication of index values and the distribution of index files.
- The index will continue to calculate in the background for a further period of 90 days to allow any previously unidentified users to provide feedback on the cessation of the index. The Wilshire Indexes Executive Committee will consider that feedback and may decide to cancel or defer the decommissioning proposal.
- Absent any such decision by the Wilshire Indexes Executive Committee, the index will cease calculation 90 days after the announced decommissioning date.

Policy Approval

This Benchmark Change & Cessation Policy was approved by the Wilshire Indexes Executive Committee.