Wilshire Indexes
Market Abuse Policy
Introduction

Wilshire OpCo UK Ltd (“Wilshire Indexes”) is authorised by the UK Financial Conduct Authority as an administrator of benchmarks pursuant to the UK Benchmark Regulation. This document describes the policy and procedures that Wilshire Indexes has implemented in order to mitigate and manage the risk of abuse of material non-public information (known as inside information in the UK Market Abuse Regulation (UK MAR)) and index manipulation. It MUST be read in conjunction with the Wilshire group Compliance Manual and Ethics Code, which contains an overview of UK MAR.

This document is owned by the Wilshire Indexes Board of Directors and is subject to regular review by the Wilshire Group Risk and Compliance Committee and the Wilshire Group Conflicts Committee. The Board may delegate any recommendations to the Wilshire Indexes Executive Committee to implement following any accepted recommendations from the Wilshire Group Risk and Compliance Committee and the Wilshire Group Conflicts Committee.

Misuse of MNPI

Material Non-Public Information – trading and disclosure

Employees of Wilshire Indexes may from time to time be in possession of material non-public information (MNPI) as defined in Article 7 of UK MAR (Please see the Wilshire group Compliance Manual for further details of UK MAR including the definition of MNPI – known as inside information in UK MAR). Examples of such situations include:

- Knowledge of index composition additions and deletions ahead of the publication of the results of a forthcoming reconstitution of a Wilshire Index;
- Knowledge, ahead of the publication of a notice, that a complaint received in respect of the wrongful inclusion or exclusion in a Wilshire Index of a security has been upheld;
- Knowledge, ahead of the publication of a notice, of the proposed treatment of a corporate event (e.g. takeover event) in relation to a company that is included in a Wilshire Index that would like to used by an investor when making an investment decision (e.g. whether to buy or sell the shares in the company);
- Knowledge, ahead of the publication of a notice, of forthcoming changes to the industry classification of a company that is included in the Wilshire Index;
- Knowledge, ahead of the publication of a notice, of forthcoming changes to a company’s ESG metric(s) that will change the eligibility of that company for an ESG index.

The Wilshire group Compliance Manual, to which all employees of Wilshire Indexes must adhere, prohibits employees from trading on the basis of MNPI and provides for sanctions to be imposed on those who do. Employees are required to submit their personal account transactions for approval ahead of trading and must not trade until the trades have been approved, and employees are further required to sign quarterly attestations with respect to their adherence to the trading standards set out in the Wilshire Code of Ethics.

Employees are also trained on the importance of not providing MNPI to any party, including a benchmark user or other stakeholder ahead of the publication of a notice providing this information to the market or the (simultaneous) distribution of index files containing index information to licensees of the index. Provision of MNPI to clients or any third parties or any other person (including another Wilshire employee) other than in the proper performance of the employee’s role is prohibited by the Wilshire Compliance Manual and Code of Ethics.

Index Manipulation (or Potential Index Manipulation)
Becoming a member of an index, particularly an index underlying investment funds and products with sizeable assets under management, can be valuable to companies who are not currently in the Wilshire Index. As well as increased demand for the company’s securities, and the expected consequent increase in the price of those securities, the company benefits from the addition of an attractive cohort of shareholders to its register. This leads to the potential for index manipulation. Index manipulation could be carried out by a Wilshire employee, a company seeking inclusion in an index or other market participants seeking to capitalize on a perceived error in an index. For example, a market participant may challenge the inclusion of a company in the index composition (for example, by claiming that the company does not meet the eligibility criteria for inclusion) and may trade in the shares of the company in the belief that the company will be removed from the index.

The trading of a potential constituent by an employee, or group of employees, with the intent of raising its price and making it eligible for index inclusion is prohibited by the Wilshire Compliance Manual/Code of Ethics. The same prohibition applies to employees who might seek to change the weight of an index constituent to benefit a personal position through the direct manipulation of an index file. Strict access controls prevent unauthorized staff members from being able to edit index files.

A company currently excluded from an index could seek to manipulate its future inclusion by various means including:

- Seeking to manipulate the price of the company on or ahead of index rank day (the day on which companies are ranked by their size and tested for index eligibility) to ensure a security meets the minimum size threshold for inclusion. This could be accomplished, for example, through back-and-forth (“wash”) trading between company insiders.
- A company could also look to manipulate the criteria that are used to test its eligibility. For example, a company could manipulate the designation of its major shareholders to cause them to appear as unconnected and therefore considered as non-restricted when calculating the company’s free float. Such free float manipulation could allow the company to meet minimum free float or investable market capitalization eligibility thresholds.
- A company could also misreport other criteria used to assess index eligibility, for example in a sustainable investment index it could misreport its carbon footprint or not report on certain controversies it has been involved in. Another example would be a company claiming to be headquartered in a certain jurisdiction in order to pass the index’s nationality assignment test.

Such attempts by companies to manipulate their inclusion are not easy to identify through surveillance by an index company alone. However, the Wilshire Indexes Queries and Complaints policy provides for any stakeholder to query the index weight or index eligibility of a company and these queries in themselves can highlight attempts at potential manipulation. The situation can then be further researched, and if manipulation is reasonably expected, the Wilshire Indexes Exercise of Expert Judgement Policy allows for the inclusion of such companies to be deferred to a subsequent reconstitution, thus discouraging similar attempts in the future.

Clients and other market participants might seek to profit from perceived errors in an index’s composition. As set out in the Wilshire Indexes Exercise of Expert Judgment Policy, there are occasions where the exercise of expert judgement is required, for example because data used to determine the eligibility or weight of a constituent is incomplete or ambiguous. The Wilshire Queries and Complaints Policy provides for such data to be queried by clients and other stakeholders, including the companies themselves. Should the Wilshire Indexes Executive Committee uphold the query, it is possible that the weight or eligibility of the constituent in question could be changed, and this would constitute a further example of MNPI. The Wilshire Indexes Queries and Complaints Policy makes clear that such MNPI must not be divulged to the complainant ahead of the publication of a notice setting out the decision by the Wilshire Indexes Executive Committee.

A further example of an issue that might result in index manipulation is the promotion of “meme” stocks by certain investment groups on social media platforms. To date, meme stock promotion does not appear to have been linked to targeting index inclusion. However, if such a link were suspected in the future, expert judgement could also be exercised in such situations to defer the entry of the security.
Management of Potential Index Manipulation

The Wilshire Indexes Index Management Team is responsible for identifying and escalating potential incidents of index manipulation. As part of their surveillance responsibility, the Index Management Team will investigate significant changes to a company’s index eligibility criteria including a company’s free float, nationality assignment criteria or ESG metric. The Index Management Team will also investigate suspicious price behaviour exhibited by a non-constituent in the run up to the index rank date.

If the Wilshire Indexes Index Management Team suspects an attempt at manipulating an index, it will escalate the issue to the Benchmark Administration Manager who will arrange for the issue to be discussed at an ad-hoc meeting of the Index Management Committee. The Index Management Committee will in turn provide a recommendation to the Wilshire Indexes Executive Committee as to the appropriate course of action. For example, the Index Management Committee may recommend that the inclusion of a company suspected of manipulating its price or eligibility criteria be deferred to a later reconstitution.

Incidents of potential index manipulation will be reported to the Wilshire group Risk and Compliance Committee by the Wilshire Indexes Compliance Officer. Should the Risk and Compliance Committee determine that the suspected manipulation attempt could have been mitigated through the implementation of enhancements to the procedures used to identify manipulation attempts or through changes to the index methodology, it will convey its findings to the Wilshire Indexes Board of Directors who may request that the Wilshire Index Executive Committee consider these recommendations and make changes and enhancements as appropriate.

Should the Risk and Compliance Committee determine that the incident should be reported to the FCA and, if the attempt at manipulation has taken place outside of the UK, additionally to the regulator responsible for the jurisdiction where the attempted manipulation took place, this communication will be undertaken by the group Chief Compliance Officer.

Policy Approval

This Market Abuse Policy was approved by the Wilshire Indexes Board.