Wilshire Indexes
Policy with Respect to the ESMA Guidelines on ETFs and Other UCITS Issues

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Introduction

Wilshire OpCo UK Ltd (“Wilshire Indexes”) is a Benchmark Administrator registered with the United Kingdom Financial Conduct Authority. This document summarises the information that Wilshire Indexes publishes to assist users of its benchmarks in their determination of whether ETF and other UCITS products based on a Wilshire index adhere to ESMA’s Guidelines on ETFs and Other UCITS.

The original European Securities and Markets Authority (ESMA)’s Guidelines on ETFs and other UCITS issues came into force on 18 February 2014 (the Guidelines). The Guidelines were updated on 01 August 2014. Further clarifications to the guidelines were provided in a Questions and Answers document originally published on 01 February 2016 and updated on 29 March 2019.

All benchmarks administered by Wilshire Indexes that are available for “use” (as defined in the BMR) in the UK and the European Union have a comprehensive methodology document that contains much of the information regarding the criteria set out in the Guidelines. The methodology documents are supplemented by index factsheets and a set of policy documents that provide additional information. A link is provided on the Wilshire Indexes website to lists of index constituents and their weights. These lists are updated two months after the most recent index reconstitution or rebalance.

The following sections summarise the information provided in the various documents along with the relevant clauses from the Guidelines.

Index Methodology Document

Wilshire Indexes publishes methodology documents for all Wilshire standard indexes and for all other indexes intended to be used as a basis for UCITS products.

The index methodology document provides the following relevant information:

- A clear description of the index (Guideline 9(a))
- The objective of the index (Guideline 52)
- Whether cash management is included as part of the index strategy (Guideline 52)
- The universe of the index components and the basis for their selection (Guidelines 52 and 58)
- Whether cash management is included in the index strategy and whether its use affects the objective nature of the index calculation methodology (Guideline 52)
- Whether leverage is used in the index methodology (Guideline 56)
- The index rebalancing methodology and the rebalance frequency (Guidelines 54, 55, 56 and 58)
- A clear narrative description of the benchmark (Guideline 61).

Equity Index Calculation and Corporate Action Guide

The Wilshire Indexes Equity Index Calculation and Corporate Guide provides additional, generic information on the calculation of Wilshire equity indexes including the treatment of common corporate actions (Guideline 56).
Policy for the Exercise of Expert Judgement

The Wilshire Indexes index methodology documentation and the Equity Index Calculation and Corporate Action Guide are intended to be transparent and objective in so far as is practical. However, because not every future scenario can be envisaged, expert judgement may on occasion be required. The Policy for the Exercise of Expert Judgement sets out those occasions when expert judgement may need to be exercised.

Index Notices

Index notices are published on the Wilshire Indexes website to provide users with advance notice of the intended treatment of complex corporate events (Guideline 56).

Index Factsheets

Index factsheets are published quarterly and provide summary information with respect to performance (risk and return), sector breakdowns and market capitalisation.

Constituent Weights

Index constituents and their weights as of the quarter end immediately following an index reconstitution or rebalance are published with a delay of two months. For example, an index that is reconstituted in March would have its constituent weights as of 31 March published on 31 May (Guideline 57).

Subscribing clients, including those issuing products based on a Wilshire Indexes index, receive daily files of constituent weights (Guideline 61).

Users of Wilshire Indexes benchmarks can use the constituent weights to determine whether an index satisfies the diversification limits referred to in Article 53 of the UCITS Directive (Guideline 49) and whether a single component has an impact that exceeds the relevant diversification requirements (Guideline 50).

Error Correction Policy for Equity Indexes

The Wilshire Indexes Error Correction Policy for Equity Indexes sets out the how errors in a Wilshire equity index will be remedied once identified. Only in exceptional circumstances, such as the discovery of an incorrectly conducted index reconstitution, will previously published values of a Wilshire index be corrected (Guideline 60).

Wilshire Indexes Benchmark Approval, Change and Cessation Policy

The Wilshire Indexes Benchmark Approval, Change and Cessation Policy states that if a change is made to an index methodology, the change will only be effected with notice from a future date. No changes will be made to previously published index values (Guideline 60).

Additional Information

Licensing

All Wilshire Indexes standard indexes are intended for general use and are licensed on a non-exclusive basis (Guideline 53).
Customised versions of Wilshire Indexes standard indexes such as versions that exclude a specific industry sector (for example as defined in the Wilshire Indexes GATS classification scheme) or a specific country are also licensed on a non-exclusive basis. Bespoke indexes created at the specific request of a client can also be licensed on a non-exclusive basis if the client so requests. However, those issuing products on a bespoke index must make their own determination as to whether Guideline 53 is likely to be satisfied.

Payment

Wilshire Indexes confirms that no payment is accepted from potential index constituents for inclusion in any Wilshire index (Guideline 59).

Independent Valuation

Wilshire Indexes confirms that the valuation of Wilshire indexes is undertaken by the Index Management team and that the valuation is not influenced by any team or staff member involved in the design of the index (Guideline 62). Further, Wilshire Indexes confirms that no member of Wilshire Indexes staff is rewarded on the basis of the performance of an index.

Publication

Values of Wilshire Indexes benchmarks are published on a daily basis to the Wilshire Indexes website (Guidelines 57 and 61).

Other Governance and Policy Documentation

The following documents provide additional information on the Wilshire Indexes policy framework.

Wilshire Indexes Conflicts of Interest Policy

Wilshire Indexes Market Abuse Policy

Wilshire Indexes Queries and Complaints Policy

Policy Approval

This Error Correction Policy was approved by the Wilshire Indexes Executive Committee.
Appendix

Extracts from the ESMA Guidelines Relevant to Equity Benchmark Administrators

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;

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.

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.

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.

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.

Guideline 54
The UCITS’ prospectus should disclose the rebalancing frequency and its effects on the costs within the strategy.
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.

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.

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.

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.

Guideline 59

A UCITS should not invest in financial indices whose index provider accepts 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’).

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.

Guideline 62

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