

# FTSE Russell

Daniel Berry

Managing Director

Sales & Account Management

FTSE Russell UK & Europe

**MAY 2017**

FTSE Russell is not an investment firm and this presentation is not advice about any investment activity. None of the information in this presentation or reference to a FTSE Russell index constitutes an offer to buy or sell, or a promotion of, a security. This presentation is solely for informational purposes. Accordingly, nothing contained in this presentation is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of making any investment through our indexes.

### **About FTSE Russell**

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.

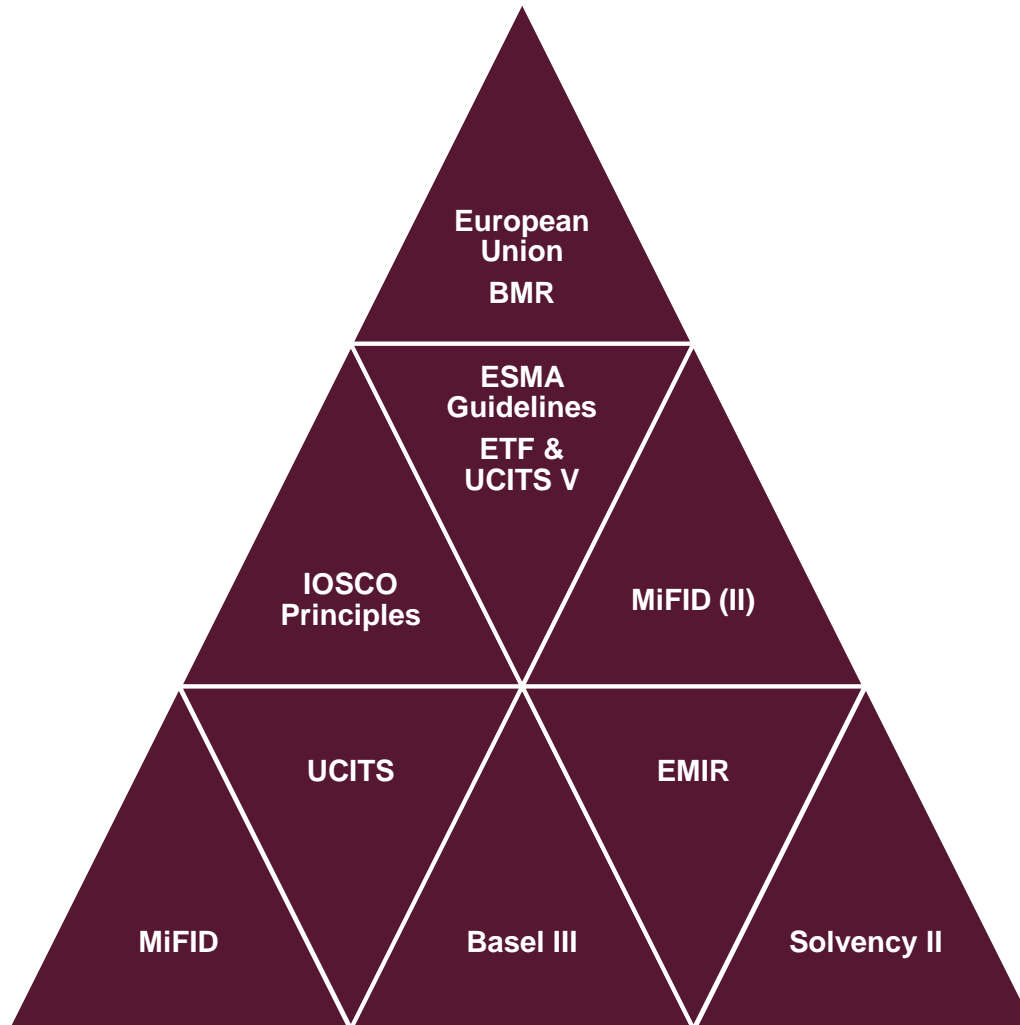
FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received 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.

FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit [www.ftserussell.com](http://www.ftserussell.com).

# A New Era of Benchmarking – Regulation

# Our industry has a deep & enduring relationship with regulation ...



# **Our industry has a deep & enduring relationship with regulation ...**

*“Regulation founded Markit over 14 years ago as we helped our customers meet a new regulatory obligation, EITF 02/03, which required greater transparency around credit default swaps.*

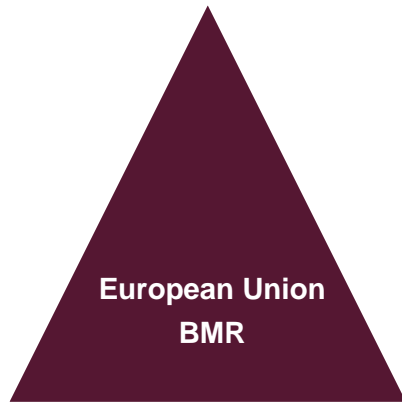
*Regulation is required in financial services and is a difficult balance as it seeks to provide the safe transparent operation of the financial markets and the incentives and liquidity required for the markets to operate efficiently”*

*Lance Uggla – President IHS Markit, 25<sup>th</sup> April 2017*

# European Benchmarks Regulation (BMR)

What you need to know...

# Today we will focus on the NEW forthcoming European Union Benchmark Regulation (BMR)



- What is it ?
- When is it effective ?
- Which Benchmarks will be regulated ?
- Who does it affect ?
- What do I need to do ?
- How can FTSE Russell Help ?

**What are the consequences of not being aware of Financial Market Regulation ?**

# What is the BMR?

- **New Regulation** EU's response to LIBOR scandal & FX Benchmark manipulation
- **Scope** Cross Asset Class coverage, Interest Rates/FX/Securities/Commodities & other benchmarks used in financial transactions
- **New Rule** EU benchmark administrators must be authorised or registered and implement new systems and controls
- **New Rule** Supervised entities must not use unregulated benchmarks in the EU in securities or derivatives traded on a venue or via a systematic internaliser, certain consumer loans or investment funds
- **Non EU Benchmarks** A supervised entity may only use a benchmark in the Union if it is provided by an authorised administrator in the Union or a third country administrator complying with the third country regime for equivalence, recognition or endorsement

***The European Union BMR aims to reduce the risk of manipulation of benchmarks by addressing conflicts of interest, governance controls and the use of discretion in the benchmark-setting process.***

***It requires EU administrators of abroad class of benchmarks to be authorised or registered by a national regulator and to implement governance systems and other controls to ensure the integrity and reliability of their benchmarks.***

***These build on – but go beyond – the 2013 Principles for Financial Benchmarks and the 2012 Principles adopted by the International Organisation of Securities Commissions (IOSCO).***



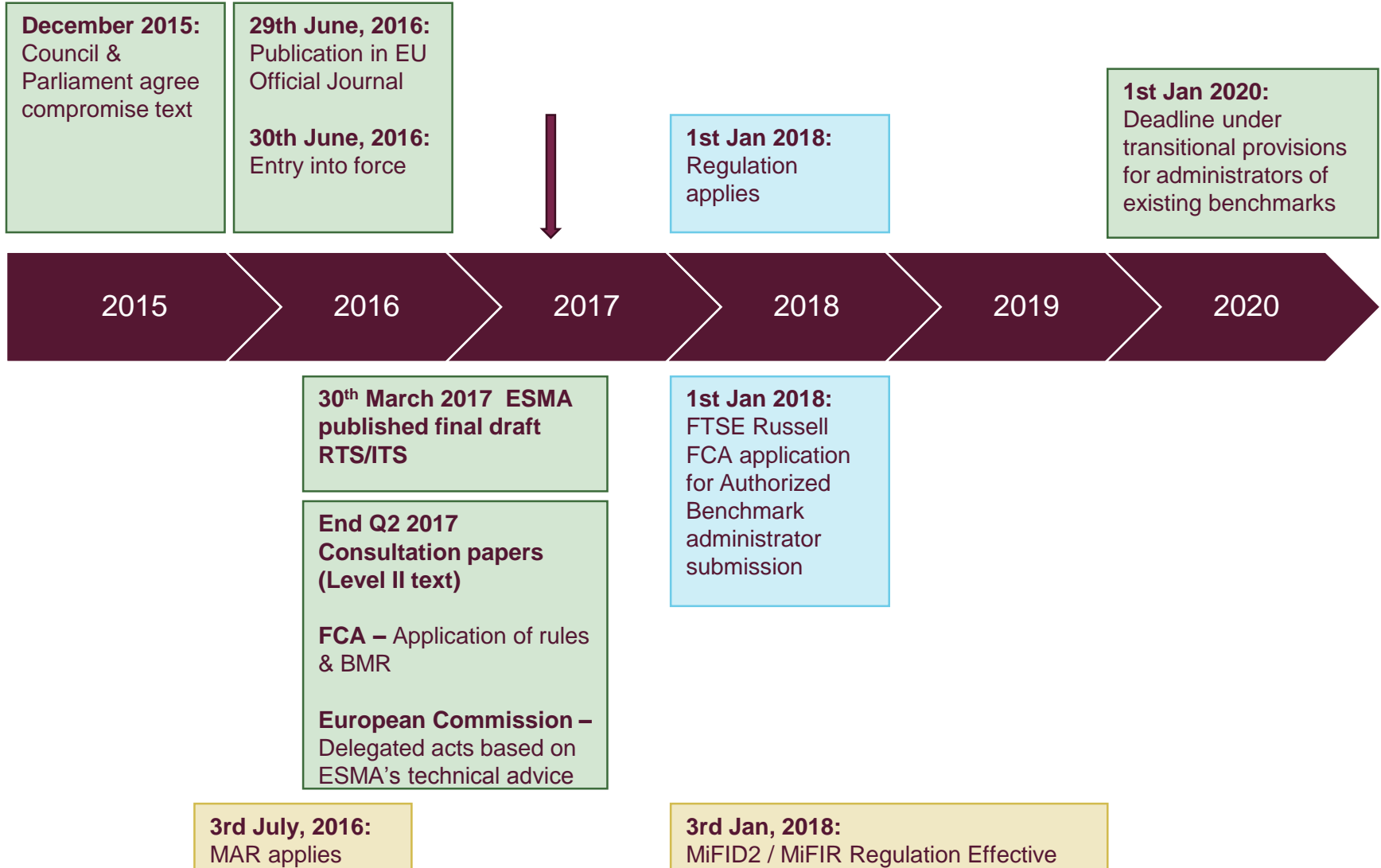
# Aims of the BMR

- **A common framework to ensure the accuracy of indices used as benchmarks in financial instruments and financial contracts, or to measure the performance of investment funds in the Union**
- **Contributes to the proper functioning of the internal market**
- **Achieves a high level of consumer and investor protection**
- **A supervised entity may only use a benchmark in the Union if it is provided by an authorised administrator in the Union or a third country administrator complying with the third country regime for equivalence, recognition or endorsement**

## **Restrictions on use**

From 1 January 2018 supervised entities will be prohibited from “using” indices as a benchmark in the EU unless they are produced by an EU administrator included on ESMA’s register of administrators authorised or registered under the Regulation or are non-EU benchmarks that are included on ESMA’s register because they have been qualified for use in the EU under the Regulation’s third country regime.

# EU BMR Benchmarks Regulation: Timetable



*Note: The regulation does not prescribe a timetable for the adoption of the Commission's delegated and implementing acts or ESMA's guidelines under the regulation. NB MiFID II and MiFIR empower ESMA to develop numerous draft regulatory technical standards (RTS) and draft implementing technical standards (ITS)*

# Timetable

- **Final text published in the Official Journal of the European Union on 29 June 2016**
- **Entry into force – day after publication in the Official Journal**
  - 30 June 2016
- **Applies from 1 January 2018**
  - Critical benchmarks applies from 3 July 2016
- **ESMA advice**
  - Final Report - Technical advice published 10 November 2016 (following May consultation)
  - Final Report - Draft technical standards published 30 March 2017 (following September consultation)
- **Consultation papers**
  - FCA – application of existing rules and BMR (expected Q2 2017)
  - European Commission – draft delegated acts based on ESMA's technical advice (expected April/May)
- **Administrators to seek authorisation or registration**
  - By 1 January 2020 for benchmarks licensed at 30 June 2016
  - Within 30 working days of a new licence of a relevant benchmark to a supervised entity
- **Transitional provisions for existing benchmarks**
  - Can continue use, but not for new instruments or contracts

# Which Benchmarks will be regulated ?

- *An index will be regulated as a “benchmark” where it determines amounts payable under or sets the value of financial instruments or financial contracts or is used in investment funds.*
- *The aim is to cover indices used in securities or derivatives traded on a regulated trading venue under MiFID2/MiFIR, including securities and derivatives traded outside a venue via an investment firm that is a “systematic internaliser” under MiFID2/MiFIR.*
- *The Regulation also covers indices used to set interest rates under certain consumer loans and consumer mortgages as well as the indices used in index tracking and some other funds.*
- *Regardless of volume or systematic relevance.*
- *ESMA Key test of being ‘publicly available’ ...*
- *In theory ALL FTSE Russell Indices*

What is a benchmark?	
<b>Benchmark</b>	<p>Any <b>index</b> ...</p> <p>.... by reference to which the amount payable under a <b>financial instrument</b> or <b>financial contract</b>, or the value of a <b>financial instrument</b> is determined</p> <p>or</p> <p>... an <b>index</b> that is used to measure the performance of an investment fund with the purpose of:</p> <ul style="list-style-type: none"> <li>■ tracking the return of such index or</li> <li>■ defining the asset allocation of a portfolio or</li> <li>■ computing the performance fees.</li> </ul>
<b>Index</b>	<p>Any figure:</p> <ul style="list-style-type: none"> <li>■ that is published or made available to the public;</li> <li>■ that is regularly determined, entirely or partially, by the application of a formula or any other method of calculation, or by an assessment; and</li> <li>■ on the basis of the value of one or more underlying assets or prices, including estimated prices, actual or estimated interest rates, quotes and committed quotes or other values or surveys.</li> </ul>
<b>Financial instrument</b>	<p>Any of the instruments listed in Section C of Annex I of MiFID2:</p> <ul style="list-style-type: none"> <li>■ for which a request for admission to trading on a trading venue (as defined in MiFID2) has been made or</li> <li>■ which are traded on a trading venue or via a systematic internaliser (as defined in MiFID2)</li> </ul>
<b>Financial contract</b>	<p>Any credit agreement covered by the Consumer Credit Directive or the Mortgage Credit Directive</p>
<b>Investment fund</b>	<p>Any UCITS or alternative investment fund (AIF)</p>

# Who Does BMR affect ?

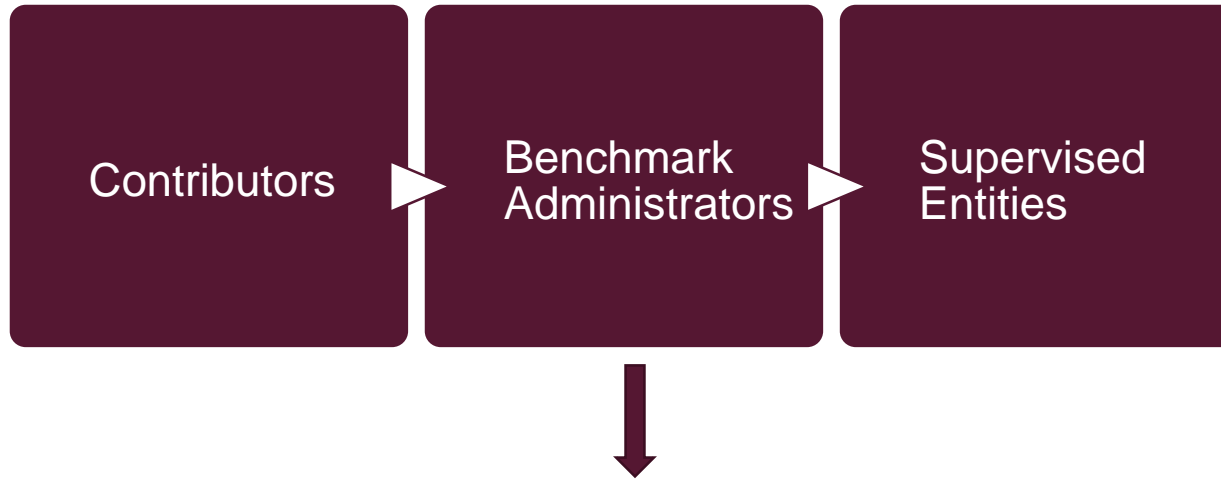
## Contributors



- *Where a benchmark is based on input data from contributors, the administrator must develop a code of conduct for contributors and ensure that contributors adhere to the code.*
- *The administrator must also monitor input data and contributors so as to be able to report suspected market abuse to its national regulator.*
- *FTSE Russell are constantly working to ensure that data available to us and used within our models meets or exceeds the regulatory measures we are obliged to adhere to. Many contributors are also specifically named in benchmark regulation e.g. LIBOR etc.*

# Who Does BMR affect ?

## Benchmark Administrators



- *The obligations that apply to EU benchmark administrators mainly depend on the type and category of their benchmarks.*
- *There are four broad types of benchmark, depending on their underlying asset or factor: interest rate benchmarks, commodity benchmarks, regulated-data benchmarks and other(non-commodity) benchmarks.*
- *In addition, there are three different categories of benchmark: critical, significant and non-significant. This creates a highly differentiated regime where different rules apply to benchmarks with different characteristics.*
- *At FTSE Russell we see these challenges as both Organisational & Benchmark based themes*

# Benchmark Administrators

## Organisational requirements

- **Governance**
  - Robust, clear structure
- **Conflicts of interest**
  - Conflicts to be published or disclosed
  - Mitigate (independent oversight), manage or cease production
- **Oversight function (e.g. separate committee)**
  - Methodology definition, change process
  - Control framework
  - Third parties
  - Audits ...
- **Methodology**
  - Robust and reliable; transparency
- **Control framework**
  - Compliance with regulation
  - Management of operational risk, BCP and DR
  - Adherence to contributor code of conduct
- **Accountability framework**
  - Compliance function, audits
- **Record keeping**
  - Inputs, judgements, complaints
- **Complaints handling procedure**
  - Published, timely, independence
- **Code of conduct for submitters**
  - What, who; suspicions, conflicts
- **Cessation policy**

# Administrators

## Benchmark requirements

- **Meet benchmark requirements**

- Publish methodology and review procedures
- Publish benchmark statement
- Monitor input data
- Contingency arrangements
- Implement code of conduct for contributors

- **Should contain at a minimum:**

- Definitions of key terms
- Criteria and procedures used in determination
- Controls and rules governing discretion or judgement
- Procedures in times of market stress
- Procedures for dealing with errors
- Identification of potential limitations



# Who Does BMR affect ?

Supervised Entities (User Firms)



## *Restrictions on use*

*From 1 January 2018 supervised entities will be prohibited from “using” indices as a benchmark in the EU unless they are produced by an EU administrator included on ESMA’s register of administrators authorised or registered under the Regulation or are non-EU benchmarks that are included on ESMA’s register because they have been qualified for use in the EU under the Regulation’s third country regime.*

# How Can FTSE Russell Help ?

## Supervised Entities (User Firms)

*Article 29 is the salient point which stipulates that User Firms need to comply with –*

### **TITLE V**

### **USE OF BENCHMARKS IN THE UNION**

#### **Article 29 Use of a benchmark**

***1. A supervised entity may use a benchmark or a combination of benchmarks in the Union if the benchmark is provided by an administrator located in the Union and included in the register referred to in Article 36 or is a benchmark which is included in the register referred to in Article 36.***

***2. Where the object of a prospectus to be published under Directive 2003/71/EC or Directive 2009/65/EC is transferable securities or other investment products that reference a benchmark, the issuer, offeror, or person asking for admission to trade on a regulated market shall ensure that the prospectus also includes clear and prominent information stating whether the benchmark is provided by an administrator included in the register referred to in Article 36 of this Regulation.***

# What Does My Firm Need to do?

## Supervised Entities (User Firms)

*What does my firm need to do ?*

*The sanctions which can be applied by the competent authorities for breach of the Regulation are wide ranging –*

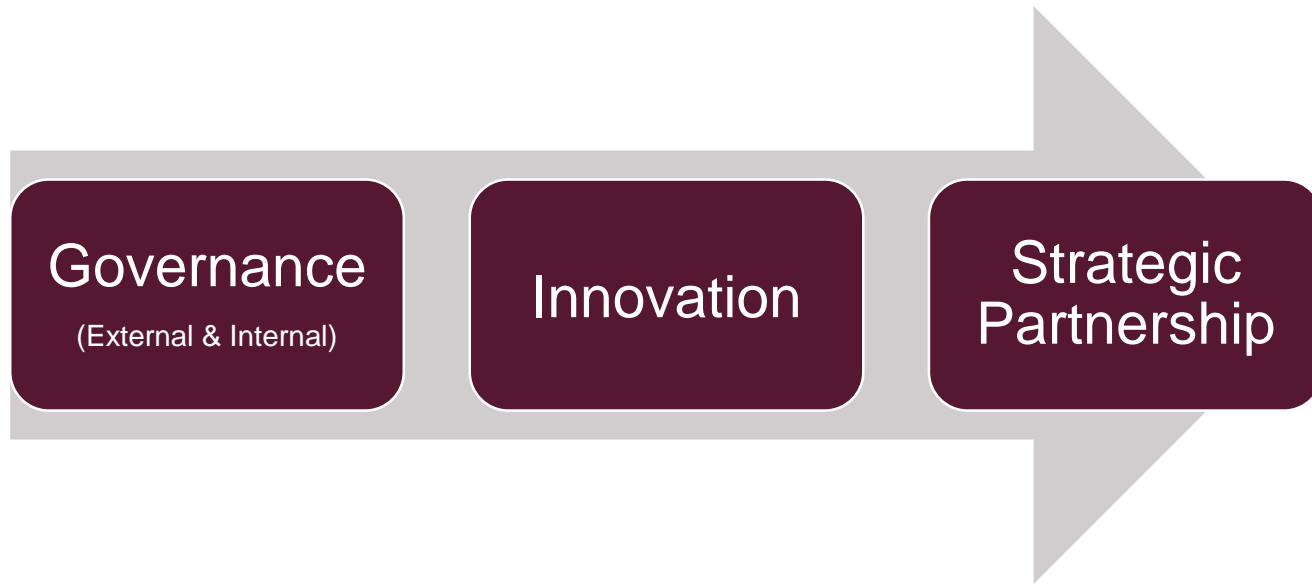
- *Cease and desist orders*
- *Disgorgement of profits*
- *Financial sanctions up to EUR 1,000,000 or 10% of total annual turnover, whichever is higher*

*Therefore it is essential that all supervised entities –*

- *Create an inventory of all benchmarks used in the Union (within the scope and definition of the Regulation)*
- *Satisfy themselves that the administrator of those benchmarks is prepared for the application of the Regulation (both in terms of compliance and authorisation/recognition/endorsement)*

*This will ensure compliance with BMR regulation post 1<sup>st</sup> January 2018*

# How Can FTSE Russell Help ?



*With over \$13 trillion in assets marked to our indexes globally FTSE Russell are uniquely positioned to become 'Trusted Advisors' to our customer base.*

*FTSE Russell have a vested interest in collaborating and working with financial regulators the world over across many asset classes to ensure that our content, benchmarks and indexes meet and exceed stated and published regulatory standards.*

*Continued strong governance, commitment to innovation and strategic partnerships with our clients are ways in which we can help our customer base and supervised entities in turn meet their own regulatory obligations.*

# How Can FTSE Russell Help ?

## Governance...

### *FTSE Russell is embracing EU BMR and planning for -*

- *Plan for a single administrator located in the UK – FTSE International Limited*
- *FTSE Russell to apply to the FCA for authorisation*
- *All FTSE Russell benchmarks and index families are in scope globally*
- *All FTSE Russell benchmarks and indices will likely be treated as significant*
- *Regulated data exclusions will apply where the input data are contributed entirely and directly from an EU-regulated venue*

# How Can FTSE Russell Help ?

Innovation...

*FTSE Russell's reputation as an innovator is long standing and compelling -*

- *First with free float liquidity rule (1999)*
- *2012 Founded IIA (Index Industry Association) ([www.indexindustry.org](http://www.indexindustry.org))*
- *2014 IIA paper on EC proposal for regulation on index benchmarks*
- *First adopters of IOSCO Principles formulation*
- *LSEG & UN SSE reporting Initiative – David Harris, Head Sustainable Business at LSEG*

# Case Study 1

## OTC / Structured Products

### Bank A

#### European Market Maker OTC specialist

- **Situation – €450m Notional Structured Product & OTC Issuance linked to custom in-house ‘indices’**
- **Risk – Regulatory risk, No use of a formal registered benchmark administrator. Third party risk, data quality risk, valuation risk, calculation risk**
- **Solution – Regional OTC & Structured Product issuance & trademark/data agreement with FTSE Russell, including custom calculation rights on a user basis. Operational independence, BMR (IOSCO) compliance, mutually agreed legal and commercial terms**

# Case Study 2

## Fund Administration & Performance Reporting

### Fund Administrator B

European Fund Administrator with \$2.3 Trillion \$AUA

- **Situation – \$2.3 Trillion \$AUA, 40% of funds vs. FTSE Russell benchmarks, reporting, factsheet, valuation statements – turnkey solution provider**
- **Risk – Business & Reputational Risks. Absence of any compliant licence agreement, breach of vendor contract obligations, no formal registered benchmark administrator. Transfer of risks (reputational, business, operational, liability) to own client base**
- **Solution – Supply of data and B2B Distribution Agreement with FTSE Russell. BMR (IOSCO) compliance, permitted distribution and servicing of customers, enhanced accuracy and formal agreement on IP use and rights**



# Case Study 3

## Wealth Manager

### UK Wealth Manager C

#### UK Wealth Manager with \$30 BN \$AUM

- **Situation – In-house production of indices for HNW clients and model portfolios**
- **Risk – Regulatory, Reputational & Operational Risks. In-house indices not compliant with forthcoming BMR regulation**
- **Solution – FTSE Russell worked with the client to produce risk profiled multi-asset benchmarks. This ensured BMR (IOSCO) compliance and a reduced risk of regulatory penalties & fines**

# How Can FTSE Russell Help ?

## Strategic Partnership...

**FTSE Russell can leverage all of these features to deliver benefits to our customer base -**

- *FTSE Russell as 'Best Advisor' – your guide to the regulatory environment*
- *Trusted expert advisors on hand*
- *Dedicated web based resources ...*
- *Dedicated FTP Account resources*

The screenshot shows the FTSE Russell website's 'Governance' page. The header includes the FTSE Russell logo, a search bar, and navigation links for 'Login', 'Contact us', and 'Press'. The main navigation menu includes 'About Us', 'Index Series', 'Services', 'Tools & Analytics', 'Research & Insights', and 'Blog'. The 'Governance' section is highlighted in the left sidebar. The main content area features a dark blue header with the text 'Robust governance, transparency and integrity have always been at the foundation of our business'. Below this, there are sections for 'Our control and governance framework', 'IOSCO Statement of Compliance', and 'ESMA Guidelines on ETFs and other UCITS issues'. A 'Useful links' sidebar on the right lists: Internal Governance (circled in red), External Committees, IOSCO, Policy, methodology & support guides, Committee terms of reference, and Market Consultations.

A vertical sidebar titled 'Useful links' with a blue header. It contains six items, each with a circular icon and a text label:

- Internal Governance
- External Committees
- IOSCO
- Policy, methodology & support guides
- Committee terms of reference
- Market Consultations

## What can I do for my firm ? (Supervised Entity)

- **Talk with your compliance team**
- **Talk with your user base**
- **Talk with your legal team**
- **Talk with FTSE Russell as your trusted advisor**

**Q&A ?**

**Thank You**

# Important Information

© 2017 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE TMX Global Debt Capital Markets Inc. and FTSE TMX Global Debt Capital Markets Limited (together, “FTSE TMX”) and (4) MTSNext Limited (“MTSNext”). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE TMX and MTS Next Limited. “FTSE®”, “Russell®”, “FTSE Russell®” “MTS®”, “FTSE TMX®”, “FTSE4Good®” and “ICB®” and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, or FTSE TMX.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE Russell Indexes or the fitness or suitability of the Indexes for any particular purpose to which they might be put.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group index data and the use of their data to create financial products require a licence from FTSE, Russell, FTSE TMX, MTSNext and/or their respective licensors.

The logo consists of a light purple circle centered on a dark purple background. Inside the circle, the words "FTSE" and "Russell" are stacked vertically in a white, bold, sans-serif font.

**FTSE  
Russell**

[ftserussell.com](https://www.ftserussell.com)