



IHS Markit™

IHS Markit Consultation on the Relaxation of Turnover Adjustment Factors for Single Market Size Indices with no constituents for the EMIX World Index Family (2022-02)

26 January 2022

1. IHS Markit's Administration

IHS Markit Benchmark Administration Limited (**IMBA UK**) is the Index Administrator of the EMIX Index family. IMBA UK administers these indices in accordance with the International Organisation of Securities Commissions Principles for Financial Benchmarks (the **IOSCO Principles**) and the UK Benchmarks Regulation (**UK BMR**).

2. Background

At each quarterly rebalancing, companies are assigned to a size segment (large, mid or small) based on their full market capitalization. The assignment to a size segment is done at the individual market (nationality) level for each company based on Final Full Market Capitalization Cut-offs derived for each Main Market. For example, Company A of German nationality would be assigned to a size segment based on the universe of all German companies and the Cut-offs for Developed Europe (the full details of the methodology is described in chapter 3.2.3 of the [IHS Markit EMIX Global Equity Indices Methodology](#)).

In addition, the Full Market Capitalization Cut-offs, the methodology also uses Turnover Adjustment Factors to reduce the turnover between different size segment indices. The following Turnover Adjustment Factors are applied to determine whether a specific company is included in a size segment:

Status after the previous index rebalancing	Turnover Adjustment Factor
Company is not part of any of the 3 size segments	100%
Company was part of the evaluated size segment	70%
Company was part of a smaller size segment	150%

For example, a company currently classified as mid cap needs to have a full market capitalization of at least 150% of the Large to Mid Full Market Capitalization Cut-off in order to be classified as large cap and will otherwise remain as mid cap unless its size is less than 70% of the Mid to Small Full Market Capitalization Cut-off.

In rare circumstances, the Turnover Adjustment Factors can cause a size segment index to be empty, despite the existence of companies that fit the Full Market Capitalization Cut-off. For example, one or several companies currently classified as mid cap may have a market capitalization between 100% and 150% of the Large to Mid Full Market Capitalization Cut-off for nationality A, causing them to remain mid cap and the large cap index to be empty according to the current methodology. IMBA UK intends to introduce a relaxation rule to the Turnover Adjustment Factors for single market size segments that otherwise result in indices with no constituents after application of standard rules. Key reasons for this change include:

- More accurate representation of all size segment indices for smaller markets
- Avoidance of empty size segment indices for markets where companies that pass the Capitalization Cut-offs exist

3. Proposal

IMBA UK intends to relax the existing Turnover Adjustment Factor applicable to companies in the smaller size segment from 150% to 100% for an Individual Market, if the standard Turnover Adjustment Factors result in a size segment with no constituents for that Individual Market.

The following example illustrates the application of Turnover Adjustment Factors after implementation of the proposed changes:

For example, assuming that all Individual Markets are represented by at least one company in a Main Market, if the Actual Full Market Capitalization Cut-off for the Large Segment of that Main Market has been set at USD 20 bn:

- Company A, previously part of the Mid size segment of the Main Market, requires its Full MCAP to be at least USD 30 bn to switch to the Large size segment. In the event that the Large size segment of the Individual Market to which Company A belongs is empty using the USD 30bn cut-off, Company A would be considered Large if its Full MCAP is at least USD 20 bn.

4. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 26 January 2022 Consultation opens
- 22 February 2022 Consultation closes
- 28 February 2022 IMBA UK reviews stakeholder feedback and a final decision is communicated
- 21 March 2022 Implementation of the final changes in conjunction with the March 2022 rebalancing

5. Consultation process

The participation of stakeholders in this consultation is important as IMBA UK seeks to gather views on the proposals herein and the suggested timetable for implementation of those proposals. IMBA UK may publish summaries of stakeholders' comments along with IMBA UK's responses to those comments unless the stakeholder in question expressly requests confidentiality.

To participate in this consultation please respond to IMBA UK Administration Services at MK-IndexAdminConsultation@ihsmarkit.com.

Please be advised that all comments will be reviewed and considered before a final decision is made; however, IMBA UK makes no guarantee and is under no obligation to comply with any of the responses. The consultation may result in no changes or

outcome of any kind. An announcement will be posted on our website accordingly. IMBA UK reserves the right to make a final decision on the proposal.

6. Key question

Do you have any concerns regarding IMBA UK's proposal to relax the Turnover Adjustment Factor in the case of empty segment indices for the EMIX World Index Family and relevant implementation timeline?