

IHS Markit Benchmark Administration Limited Consultation on changes to penny stock filter criteria for First Republic Founders Indices

1. First Republic Bank Index Administration

IHS Markit Benchmark Administration Limited (**IMBA UK**) is the Index Administrator of the First Republic Founders Indices. 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 and Proposal

IMBA UK is conducting a consultation with market participants on the potential change to how the penny stock filter criteria are applied to the First Republic Founders Indices during an annual reconstitution or scheduled quarterly rebalance.

The goal of the penny stock criteria is to ensure that the indices contain limited exposure to penny stocks by preventing inclusion over an Annual Reconstitution, and also by preventing existing constituents that become penny stocks, from an increase in weighting allocation during a Scheduled Quarterly Rebalance.

A penny stock is defined as a stock with a price of five US dollars or less.

Annual Reconstitution

The current index methodology states the following:

The determination of whether a security is a penny stock is observed on the last index business day in June (the Annual Determination Day). The criteria applied to measure this are:

- *If the stock is priced at <5 USD it is dropped from the index*
- *If a stock is >6 USD it is eligible to be added to the index*

Any changes to the composition of the indices are applied after the close of the 10th index business day in July (the Annual Reconstitution Day).

The proposed change is to apply the criteria to screen whether a security is a penny stock on both the Annual Determination Day (last index business day in June) **AND** the Annual Reconstitution Day (10th index business day in July) thus:

- If the stock is priced at <5 USD on the Annual Determination Day **OR** the Annual Reconstitution Day it is dropped from the index
- If a stock is >6 USD on the Annual Determination Day **AND** the Annual Reconstitution Day it is eligible to be added to the index

Scheduled Quarterly Rebalance

The current index methodology states the following:

The determination of whether a security is a penny stock is observed on the last Index Business Day of a calendar quarter in December, March and September (a Quarterly Determination Day). The criteria applied to measure this are:

- *If the stock is priced at <5 USD its weight will remain the same and will not be increased over the rebalance*

Any changes to the composition of the indices are applied after the close of the 10th index business day in October, January, and April (the Scheduled Quarterly Rebalancing Day).

The proposed change is to apply the criteria to screen whether a security is a penny stock on both the Quarterly Determination Day **AND** the Scheduled Quarterly Rebalancing Day thus:

- If the stock is priced at <5 USD on the Quarterly Determination Day **OR** the Scheduled Quarterly Rebalancing Day its current weight within the index remains the same and will not increase over the rebalance

3. Consultation timetable

The timetable IMBA UK is suggesting is as follows:

- 16 May 2022 Consultation opens
- 13 June 2022 Consultation closes
- 15 June 2022 IMBA UK reviews stakeholder feedback and a final decision is communicated
- Before 30 June 2022 Proposed implementation before the 2022 Annual reconstitution

4. 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.

5. Key question

Do you have any concerns regarding IMBA UK's proposal to update the methodology of the First Republic Founders Index family and/or the implementation timeline?

APPENDIX – Indices in scope

Name	Ticker
First Republic Founders Total Return Index	FRCFDR
First Republic Founders Price Return Index	FRCFDRP