

FTSE Russell Critical Benchmark Methodology Change and Cessation Policy

FTSE International Limited

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1 Introduction

1.1 Regulatory Environment

London Stock Exchange Group (“LSEG”) is a leading global financial markets infrastructure and data provider, trusted to deliver excellence by customers, partners and markets around the world. We play a vital social and economic role in the world’s financial system. With our trusted expertise and global scale, we enable the sustainable growth and stability of our customers and their communities.

LSEG offers Benchmark¹ and index solutions through FTSE Russell via the Benchmark Administrator², FTSE International Limited (“FIL”). FIL is authorised in the UK by the Financial Conduct Authority (“FCA”) under the UK Benchmark Regulation (“BMR”) and complies with the relevant obligations of the International Organisation of Securities Commissions (“IOSCO”) Principles for Financial Benchmarks.

FTSE Russell is a global index provider of Benchmarks, analytics and data with capabilities across asset classes. FTSE Russell’s indices are used by clients to inform asset allocation decisions, support portfolio construction and conduct risk and performance analysis.

1.2 Document Scope

This document is, unless specifically provided otherwise, applicable to all Benchmark families that are categorised as Critical³ under the BMR., i.e. the WMR Closing Spot Rates. WMR Closing Spot Rate is an umbrella term (in line with of Article 23(G) of the UK BMR) used to denote all the WMR spot foreign exchange rates as at 4.00pm UK time. The FTSE Russell Critical Benchmark Methodology Change and Benchmark Cessation Policy therefore applies to each currency pair version as if it were a separate Critical Benchmark.

1.3 Purpose of Document

This policy is published in accordance with Article 28(1) of the UK BMR, which requires an administrator to “publish a robust procedure concerning the actions to be taken by the administrator in the event of changes to or the cessation of a benchmark which may be used in the United Kingdom in accordance with Article 29(1). The procedure may be drafted, where applicable, for families of benchmarks.” Article 28(1A) requires that the procedure “(a) must be published with the benchmark statement for the benchmark when that statement is published in accordance with the first or second subparagraph of Article 27(1), and (b) must be updated and published whenever a material change occurs.”

A copy of this policy was provided to the FCA prior to publication for the purposes of the FCA’s consideration of whether the policy satisfies Article 28(1) of the UK BMR and any proposed updates to this policy also need to be provided to the FCA for review. Additionally, under UK BMR the FCA has specific powers including with respect to the orderly cessation of Critical Benchmarks, certain of which are described in Section 3 below.

1.4 Notice to Supervised Entities

Supervised Entities⁴ that use benchmarks are required, as per Article 28(2) of the UK BMR, to “produce and maintain robust written plans setting out the actions that they would take in the event that a benchmark materially changes or ceases to be provided. Where feasible and appropriate, such plans shall nominate one or several alternative benchmarks that could be referenced to substitute the benchmarks no longer provided, indicating why such benchmarks would be suitable alternatives. The supervised entities shall, upon request, provide the FCA with those plans and any updates and shall reflect them in the contractual relationship with clients”.

¹ ‘Benchmark’ as defined in Article 3.1(3) of the UK Benchmark Regulation.

² ‘Administrator’ as defined in Article 3.1(6) of the UK Benchmark Regulation.

³ ‘Critical Benchmark’ as defined in Article 3.1(25) of the UK Benchmark Regulation.

⁴ ‘Supervised entity’ as defined in Article 3.1(17) of the UK Benchmark Regulation.

2 Benchmark Methodology Change Policy

2.1 Introduction

Each FTSE Russell Benchmark is subject to an internal review on at least an annual basis. The relevant product manager is responsible for reviewing the methodologies and implementing the internal review process.

2.2 Trigger for Change Procedures

The change procedures can be triggered for a Benchmark Methodology from a range of sources, including, but not limited to:

- a) a periodic review of a Benchmark Methodology as described in the FTSE Russell Benchmark Internal Review Policy
- b) on the recommendation of FTSE Russell or the relevant Benchmark Oversight Committee
- c) on the recommendation of management within the Content Operations division, Benchmarks and Indices division or the Compliance department
- d) issues raised by stakeholders including Users⁵ of a Benchmark
- e) relevant regulatory or industry developments
- f) back testing result update

2.3 Analysis and Materiality

Once the change procedures are triggered for a Benchmark Methodology, FTSE Russell will analyse the impact of the proposed change on the Benchmark. The result of this analysis will be a determination to change the Benchmark Methodology, begin a consultation process (dependent on whether the analysis deems the change to be material as described below), or reject the change. The analysis will determine whether the proposed change:

- a) is beneficial to the quality and representativeness of the benchmark with respect to the underlying market or reality that it represents
- b) constitutes a material or non-material change to the Benchmark Methodology

In making such determinations, FTSE Russell will seek the advice and feedback of the relevant Benchmark Oversight Committee. As per Article 5 (3) (b) of UK BMR, the relevant Oversight Committee is able to request the Administrator to consult on changes to the Benchmark Methodology.

If it is determined that the change *is not* beneficial to the quality and representativeness of the Benchmark with respect to the underlying market or reality that it represents, FTSE Russell will not implement the change.

If it is determined that the change *is* beneficial to the quality and representativeness of the Benchmark with respect to the underlying market or reality that it represents, FTSE Russell will then determine the materiality of the proposed change, giving regard to:

- a) any fundamental change to the process by which the Benchmark is determined
- b) any change to the underlying market or reality represented by the Benchmark or any significant change to how that underlying market or reality is represented
- c) where applicable, whether any change to the panel of Contributors⁶ would adversely and materially affect the representativeness of the input data used in the Benchmark determination
- d) whether the change would significantly alter a Benchmark value after the usual rounding is applied to that Benchmark

In order to assess potential materiality, FTSE Russell may seek informal views from Benchmark Users.

⁵ 'Please see the definition of 'Use of a benchmark' as defined in Article 3.1(7) of the UK Benchmark Regulation for information on what qualifies as a Benchmark User.

⁶ 'Contributor' as defined in Article 3.1(9) of the UK Benchmark Regulation.

If FTSE Russell determines the change to the Benchmark *is not material*, FTSE Russell will amend and publish the Benchmark Methodology.

If FTSE Russell determines the change *is material*, FTSE Russell will follow the consultation process described below and will notify the FCA about this proposed Benchmark Methodology change.

2.4 Stakeholder Consultation

When a consultation process is triggered FTSE Russell issues a consultation document to solicit comments and feedback. Consultation documents include: the proposed change to the Benchmark Methodology, the rationale for proposing the change, the reason the proposed change is material, any regulatory or legal implications of the proposed changes, and an impact assessment of the proposal. The consultation document will also include FTSE Russell's assessment as to whether the change is beneficial to the quality and representativeness of the Benchmark with respect to the underlying market or reality that it represents considering points a)-d) outlined in Section 2.3 of this document.

Consultation papers are reviewed and agreed by the relevant Benchmark Oversight Committee and approved by FTSE Russell before publication.

Consultation documents are issued to stakeholders, as applicable, including known Users of Benchmark; Contributors to the Benchmark; redistributors of the Benchmark; and market advisory committee members. The consultation document is also published on the FTSE Russell website and made available upon request to any third party. The FCA shall be notified when the stakeholder consultation has been published.

The consultation document will specify a period for the consultation which is set in accordance with the circumstances and urgency of the proposed change but will typically be four weeks. Comments received, and FTSE Russell's response to those comments, will be accessible after any consultation, except where confidentiality has been requested by the originator of the comments.

2.5 Implementation

Following the end of a consultation, FTSE Russell will give due consideration to any feedback received. FTSE will publish an outcome of the consultation and may include anonymised comments frequently received and FTSE's response to such feedback if appropriate.

Following receipt of feedback, FTSE Russell will determine whether to proceed with the change whilst also considering the advice of the relevant Benchmark Oversight Committee in making such determination. All material changes to a Benchmark Methodology are subject to final approval by FTSE Russell.

If the determination is to proceed with the proposed change, FTSE Russell will announce the determination and set the effective date for the confirmed change. The notice period will depend on the nature of the Benchmark and the confirmed change.

If the determination is not to proceed, FTSE Russell will announce that determination.

The amended Benchmark Methodology and, if applicable, Benchmark Statement documents will be issued following the announcement of a confirmed change.

2.6 Force Majeure

Exceptional events may necessitate an immediate change to a Benchmark Methodology. In such exceptional circumstances, FTSE Russell may elect not to follow this Policy but will provide as much notice as practicable.

Following such a change, FTSE Russell will conduct an internal review of the Benchmark Methodology in accordance with the FTSE Russell Benchmark Internal Review Procedures.

3 Benchmark Cessation Policy

3.1 Potential reasons for the Cessation of a Benchmark

- 3.1.1 In certain circumstances, it may be necessary for FTSE Russell to cease the provision of a particular Benchmark. This may be due to external factors beyond the control of FTSE Russell, including a market structure change or deterioration in input data sufficiency for a particular currency, tenor, or instrument.
- 3.1.2 FTSE Russell keeps under review:
- a) the structure and liquidity of the market underlying each Benchmark
 - b) the representativeness of the input data used to determine each Benchmark, whether this is an automated feed of data, submissions from a panel, or other mechanism or combination of mechanisms
 - c) the products each Benchmark seeks to facilitate or underpin
 - d) to the extent feasible, the User base for each Benchmark and the use cases for each Benchmark
- 3.1.3 In its review of the above and any other factors, FTSE Russell may take the view that the Benchmark is no longer representative of its intended interest or market, and that this cannot be remedied by a corrective change to the Benchmark Methodology, design, or other aspect of the processes and procedures around the creation and usage of the Benchmark. All proposed cessations are subject to final approval by FTSE Russell.
- 3.1.4 In the above case, FTSE Russell would follow the Benchmark Cessation Procedures described below. In extreme circumstances FTSE Russell believes are beyond its control, it may be necessary to follow the Emergency Benchmark Cessation Procedures included below.

3.2 Benchmark Cessation Procedures

- 3.2.1 Upon determining that it may be necessary to cease calculation and distribution of a Benchmark, FTSE Russell will:
- a) carry out a detailed analysis of the estimated breadth and depth of usage, including financial contracts, financial instruments, and funds that reference the Benchmark and the economic and financial stability impact that might result from the cessation of the Benchmark, to ensure the response is proportionate.
 - b) consider the selection of a credible, alternative Benchmark such as, but not limited to, criteria that seek to match, to the extent practicable, the existing Benchmark's characteristics (e.g., credit quality).
 - c) consider the practicality of maintaining parallel Benchmarks (where feasible) to accommodate an orderly transition to a new Benchmark.
 - d) hold an extraordinary Benchmark Oversight Committee meeting to seek advice and a recommendation about the possible cessation the Benchmark.
 - e) carry out a public consultation to consider the views of stakeholders and any relevant regulatory bodies in determining what specific procedures are appropriate and the impact of ceasing a particular Benchmark. Consultation papers are reviewed and agreed by the relevant Benchmark Oversight Committee and approved by FTSE Russell before publication.
- 3.2.2 In all cases, FTSE Russell will take all reasonable steps to ensure that Users and other stakeholders are made aware as soon as possible of any intention or possible necessity to cease a Benchmark. Such communications will be designed to give Users and stakeholders as much warning as possible of an intention to cease calculation and will be issued via email, published on FTSE Russell's website and published on the usual alert pages maintained on LSEG's workspace platform.
- 3.2.3 Following the consultation, FTSE Russell may publish a summary of comments received, and a decision on whether to cease or not in a cessation notice. All cessations are subject to final approval by FTSE Russell.
- 3.2.4 If the decision is to cease, FTSE Russell will include an indicative calendar in the cessation notice. The calendar may include a period of suspension, following which any further comments received will be considered before the final cessation of the Benchmark. Typically, Users will be given a six-month notice period prior to the cessation of a Benchmark. The exact length of the notice period would take into consideration relevant factors, including but not limited to:
- a) the urgency of ceasing the Benchmark

b) the length of time Users need to adequately prepare

c) technology issues

d) legal and / or regulatory provisions

3.2.5 Where possible and appropriate, FTSE Russell will publish along with the cessation notice guidance for Users and other stakeholders on potential alternative or replacement Benchmarks.

3.3 Additional Benchmark Cessation Procedures for Critical Benchmarks

- 3.3.1 The following procedures will be performed if the Benchmark to be ceased is a Critical Benchmark as defined by the conditions included in Article 21(1) of UK BMR.
- 3.3.2 If FTSE Russell intends to cease providing a Critical Benchmark, FTSE Russell will:
- a) immediately notify the FCA in writing
 - b) within four weeks of such notification, submit an assessment of how the Benchmark:
 - i. is to be transitioned to a new Administrator; or
 - ii. is to be ceased to be provided, taking into account the procedure established in Article 28(1).
- During the period referred to in point (b), FTSE Russell would not cease provision of the Benchmark.
- 3.3.3 Upon receipt of the assessment of FTSE Russell the FCA will, within four weeks, make an assessment about how the Benchmark is to be transitioned to a new Administrator or cease to be provided, taking into account the procedure established in accordance with Article 28(1). During this time, FTSE Russell would not cease provision of the Benchmark without the written consent of the FCA.
- 3.3.4 Following completion of the assessment referred to in paragraph 3.3.2 the FCA has the power to compel FTSE Russell to continue publishing the Benchmark (for a period that may not exceed 12 months) until such time as:
- a) the provision of the Benchmark has been transitioned to a new Administrator;
 - b) the Benchmark can cease to be provided in an orderly fashion; or
 - c) the Benchmark is no longer Critical.
- 3.3.5 Before the end of any extension period, the FCA will review its decision to compel FTSE Russell to continue publishing the Benchmark and may, where necessary, extend the period by an appropriate time not exceeding a further 12 months. The maximum period of mandatory administration may not exceed 10 years.
- 3.3.6 If the FCA decides to compel the Administrator to continue publishing the Benchmark, the FCA must assess the capability of the Benchmark to measure the underlying market or economic reality, taking into account, among other things, the procedure established by the Administrator in accordance with Article 28(1) of UK BMR. After making its assessment, the FCA must give the Administrator:
- a) a written notice stating that it considers the Benchmark is not representative of the market or the economic reality that it is intended to measure or that the representativeness of the Benchmark is at risk, or
 - b) a written notice stating that it considers that the representativeness of the Benchmark is not at risk.
- The FCA must make its assessment and give notice before the end of the period of 28 days beginning with the day on which the FCA notifies the Administrator of its decision to compel the Administrator to continue publishing the Benchmark.
- 3.3.7 Without prejudice to 3.3.2, in the event FIL, as the Administrator of a Critical Benchmark, is to be wound down due to insolvency proceedings, the FCA would make an assessment of whether and how the Critical Benchmark can be transitioned to a new Administrator or can cease to be provided in an orderly fashion, taking into account the procedure established in accordance with Article 28(1).
- 3.3.8 Further to the above, before FTSE Russell publishes any update to this policy it must provide to the FCA the proposed update together with an assessment of i) the nature and extent of the current use of the Benchmark, ii) the availability of suitable alternatives to the Benchmark and iii) how prepared users of the Benchmark are for changes to, or the cessation of, the Benchmark.

3.4 Emergency Benchmark Cessation Procedures

It is possible in extremis that circumstances beyond FTSE Russell's control arise which mean that it is necessary to cease a Benchmark with little notice. This may include a sudden change in circumstances or markets that result in it being impossible to collect sufficient data to produce a viable Benchmark, and impossible to source alternative inputs.

Under these extreme circumstances, FTSE Russell will ensure that all relevant information including back-up plans and, where possible and appropriate, information on alternative Benchmarks are published for Users and stakeholders as rapidly as possible, and updates are given as circumstances evolve.

4 Record Keeping

4.1 Record Keeping Requirements

FTSE Russell must maintain relevant records in accordance with the FTSE Russell Record Retention Policy. Records regarding the cessation such as, rationale, relevant discussions and meeting minutes, key communication points with the FCA, and other material records must be retained. Closed public consultations will be retained on the relevant website or be available upon request.

Product Managers are responsible for keeping a 'Methodology Review & Change Log' to note relevant information about how the change is reviewed and approved, including:

- a) Analysis of the impact (relevant document to be retained where needed)
- b) Materiality of the change
- c) Consultation document, consultation period, and feedback (relevant document to be retained where needed)
- d) Determination of whether to proceed with evidence of approval
- e) Updated Benchmark Methodology with effective date

5 Document Review Cycle

5.1 Document Review Frequency

This document must be reviewed on at least an annual basis to ensure it remains appropriate and consistent with regulatory requirements, industry standards, and business changes.

5.2 Additional Requirements for Critical Benchmarks

Upon any Benchmark being designated as Critical by the FCA, this document needs to be submitted to the FCA for review and approval within the consideration period laid out in Article 28(1D) of the UK BMR. In case of any changes to this document after a Benchmark has been designated as Critical, this document needs to be submitted to the FCA for review and approval, along with the assessment referenced in section 3.3.8 above.

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and Benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to Benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of Benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To learn more, visit [lseg.com/ftse-russell](https://www.ftserussell.com); email info@ftserussell.com; or call your regional Client Service team office:

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