

S&P Dow Jones Indices Consultation on the Treatment of Spin-offs with Long Lead Times and Uncertain Valuations

NEW YORK, MARCH 8, 2022: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes regarding the treatment of spin-offs in S&P DJI’s indices.

CURRENT TREATMENT OF SPIN-OFFS

As a general policy, a spin-off security is added to all indices where the parent security is a constituent, at a zero price at the market close of the day before the ex-date (with no divisor adjustment). The spin-off security will remain in the parent’s indices if it meets the eligibility criteria.

If a spin-off security is determined to be ineligible to remain in the index, it will be removed after at least one day of regular way trading (with a divisor adjustment). In certain instances, S&P DJI may decide to add the spin-off security to indices using a non-zero price and applying a price adjustment to the parent. In certain other instances, S&P DJI may determine not to add the ineligible security to the parent’s indices due to de minimis value or lack of information on value of the spin-off security.

If there is a gap between the ex-date and distribution date (or payable date), or if the spin-off security does not trade regular way on the ex-date, the spin-off security is kept in all indices in which the parent is a constituent until the spin-off security begins trading regular way. An indicative or estimated price may be used for the spin-off entity in place of a zero price until the spin-off security begins trading to represent the value of the spin-off received. The indicative or estimated price for the spin-off security is usually calculated using the difference between the parent’s close price the night before the ex-date and the opening price of the parent on the ex-date. Any difference in calculation due to subsequent corporate actions on the parent or spin-off security will be communicated to clients through the usual channels. If the spin-off entity does not trade for 20 consecutive trading days after the ex-date and there is no guidance issued for when trading may begin, S&P DJI may decide to remove the spin-off security at a zero price with advance notice given to clients.

For further information regarding the treatment of spin-offs in S&P DJI’s indices, please refer to [S&P DJI’s Equity Indices Policies and Practices Methodology](#).

BACKGROUND

S&P DJI’s spin-off approach seeks to provide replicability and accuracy. Under certain circumstances, there are factors that inhibit the ability to do so. One such circumstance is when the valuation of the spin-off is uncertain, but expected to be significant, and furthermore there is a long lead time between the ex-date and listing date. A second example is when an ineligible security type is being distributed. In accordance with current S&P DJI policy, due to the lack of information on the value of the spin-off security, S&P DJI may decide to not recognize the corporate action in the indices. S&P DJI is seeking market feedback on index implementation under these types of circumstances:

1. Use of de minimis where the expected value of a spin-off entity is expected to be immaterial.

2. Use of de minimis where a spin-off entity is an ineligible security type.
3. Approach where the expected value of a spin-off entity is uncertain, but expected to be significant.
4. Valuation of a spin-off entity for index purposes between the ex-date and the first trading date.
5. Timeframe for retaining a spin-off entity when there is no guidance for when trading may begin.

Examples for context:

In 2020, a Canadian company filed to spin off a company it had yet to acquire. The event had an ex-date prior to the closing, which was subsequently postponed for several months followed by a several week delay in the listing of the security. In addition to uncertainty around the timing, the event had uncertainty around the value of the child entity. As a result, the S&P DJI Index Committee chose not to recognize the event and put out a notice accordingly. Following the listing of the child company, feedback was received that this treatment was not replicable as there was an active trading market and the child company's value was substantial.

In 2020, a U.S. company issued warrants as a distribution on its common stock. The distribution was not quoted ex on the exchange. It was known that the warrants intended to list, but the listing date was not known in advance. As a result of the ineligible security type and not being quoted ex by the exchange, the SPDJI Index Committee chose not to recognize the event and put out a notice accordingly. The listing date was communicated by the exchange 16 business days after the record date and the warrants subsequently began trading five business days later.

IMPLEMENTATION TIMING

Should any changes be adopted as a result of this consultation, sufficient advanced notice will be provided prior to implementation.

QUESTIONS

S&P DJI is seeking feedback from market participants regarding event treatment in cases where the expected value of a spin-off entity is uncertain and when there is a significant gap between the ex-date and distribution (or listing) date.

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. **In scenarios where the expected value of a spin-off entity is expected to be immaterial, which option do you prefer?**
 - **Treat the action as de minimis and do not recognize it in the index.**
 - **Add the spin-off entity to the index in accordance with the zero-price spin-off approach.**
2. **In scenarios where a spin-off entity is an ineligible security type, but the value is expected to be material, which option do you prefer?**
 - **Treat the action as de minimis and do not recognize it in the index.**
 - **Add the spin-off entity to the index in accordance with the zero-price spin-off approach.**

CONSULTATION

3. In scenarios where the expected value of a spin-off entity is uncertain, but expected to be significant, and when there is a significant gap between the ex-date and distribution, should spin-offs be added to indices?
4. If the spin-off is added on the ex-date, how should it be valued between the ex-date and the first trading date?
 - At a zero price.
 - At an estimated price: The parent's closing price the night before the ex-date less the opening price of the parent on the ex-date.
 - At an estimated price: The parent's closing price the night before the ex-date less the parent's closing price on the ex-date.
 - At a different estimated price (please specify in question 7 below).
5. If the spin-off is added on the ex-date and there is no guidance issued for when trading may begin, how long should it be kept in the indices?
 - 20 trading days
 - The greater of 20 trading days or until the next rebalancing.
 - A different period (please specify in question 7 below).
6. Should any changes be adopted as a result of this consultation, do you have any concerns regarding a possible implementation date (please specify)?
7. Do you have any other comments or feedback regarding the proposed changes outlined above?

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Please respond to this survey by **April 8, 2022**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at SPDJI_Index_Governance@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spglobal.com/spdji.

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500[®] and the Dow Jones Industrial Average[®]. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

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