

## S&P Merger Arbitrage Indices Consultation on the Cash Component Buffer

**NEW YORK, JUNE 17, 2022:** S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P Merger Arbitrage Indices.

In order to prevent situations where adding a stock could cause the cash component to go negative, S&P DJI is considering modifying the cash buffer. Under this proposal, the cash buffer would change to a projected 0.5%. Additionally, S&P DJI is considering modifying the cash component weight rules so that they encompass any number of positions rather than just when the index has 40. Under this proposal, if the projected cash component is less than 1.5% at the time of an eligible merger announcement, the worst performing cash deal(s) will be removed until the projected index cash position becomes at least 2%, regardless of the position count. The tables below summarize the proposed changes.

| Methodology | Constituent Weightings   |
|-------------|--|
| Current     | If, at the time of the addition, the projected cash position represents less than 3% for the S&P Merger Arbitrage Indices, or less than 2.5% for the S&P Long-Only Merger Arbitrage Indices, is negative or would be potentially negative at the time of the addition, the long position index shares will be based on the deal price. It will be assigned a weight equal to the weight of the cash component on the effective date of the addition, as projected on the reference date, <b>less a 5% buffer</b> . The short position is added at the deal ratio.  |
| Proposed    | If, at the time of the addition, the projected cash position represents less than 3% for the S&P Merger Arbitrage Indices, or less than 2.5% for the S&P Long-Only Merger Arbitrage Indices, is negative or would be potentially negative at the time of the addition, the long position index shares will be based on the deal price. It will be assigned a weight equal to the weight of the cash component on the effective date of the addition, as projected on the reference date, <b>leaving a 0.5% projected weight in cash to serve as a cash buffer</b> . The short position is added at the deal ratio. |

| Methodology | Replacements due to Cash Level  |
|-------------|---|
| Current     | If, at the time of a merger announcement where the merger is eligible for the index, <b>there are less than 40 positions in the index and the cash component weight is less than 1.5% in the index</b> , the worst performing long-only deal(s) are removed until the index cash position becomes at least 2% to accommodate the inclusion of the new deal. |
| Proposed    | If, at the time of a merger announcement where the merger is eligible for the index, <b>the cash component weight is less than 1.5% in the index</b> , the worst performing long-only deal(s) are removed until the index cash position becomes at least 2% to accommodate the inclusion of the new deal.   |

For additional information about the indices, please refer to the [S&P Merger Arbitrage Indices Methodology](#).

### IMPACT ANALYSIS

Using data from March through May 2022, the tables on the following page outline the impact of the proposed changes on the cash levels and add weights of the S&P Merger Arbitrage Index when an eligible merger deal qualifies for index inclusion.

| Base Scenario Summary |         |
|-----------------------|---------|
| Short positions       | 5       |
| Long positions        | 38      |
| Projected Cash weight | 0.5196% |

| Scenario  | Parameter             | Current Methodology   | Proposed Methodology   |
|---|-----------------------|---|--|
| Scenario 1:<br>Addition of one new Cash Deal  | Projected Cash        | 0.5196%   | 3.2694%  |
|   | Target Add Weight     | 0.4936% <sup>1</sup>  | 2.7694% <sup>2</sup>   |
|   | Projected Cash Buffer | 0.0260%   | 0.5000%  |
|   | Comment               | With a target add weight of 0.49%, there remains a small buffer of only 0.026%.   | After deleting the worst performing cash deal, the projected cash position is greater, allowing for an add weight of 2.8% vs 0.49%. This is closer to the standard target add weight of 3%.  |
| Scenario 2:<br>Addition of one new Cash Deal with a drop of a Stock Deal on the same effective date (i.e. the date of the addition) | Projected Cash        | 0.4000%   | 3.1498%  |
|   | Target Add Weight     | 0.3800% <sup>1</sup>  | 2.6498% <sup>2</sup>   |
|   | Projected Cash Buffer | 0.0200%   | 0.5000%  |
|   | Comment               | The target add weight is 0.38%, which leaves a projected cash buffer of 2 basis points. If the stock deal moves in price, it could use more than the 2 basis points of remaining cash, creating a negative cash position on the day of the add. | After deleting the worst performing cash deal, the projected cash position is greater, allowing for an add weight of 2.6% vs 0.38%. This is closer to the standard target add weight of 3% and the projected cash buffer is greater which allows for price fluctuations. |

## IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described changes, if adopted, prior to the open on July 18, 2022.

## QUESTIONS

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

1. Do you agree with the proposal to modify the cash buffer to a projected weight of 0.5%?
2. Do you agree with the proposal to remove the worst performing long-only deal(s) if the index's cash component weight is less than 1.5%, regardless of the position count?
3. If the proposed changes are adopted, do you agree with the proposed implementation date?
4. 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 **July 1, 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](#).

<sup>1</sup> Per the current methodology, new additions are added at a 3% weight. If the index has less than 40 positions, any new additions are added at the projected cash weight, less a 5% buffer.

<sup>2</sup> With the proposed methodology update, the worst performing cash deal will be deleted. The target add weight will leave a projected 0.5% cash buffer.

## CONSULTATION

For further information about this consultation, please contact S&P Dow Jones Indices at [SPDJI\\_Index\\_Governance@spglobal.com](mailto: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](http://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.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit [www.spglobal.com/spdji](http://www.spglobal.com/spdji).

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