



IOSCO Committee on Investment Management (Committee 5)

Survey on index providers for industry participants

This survey is intended to support IOSCO's mandate by seeking to generate a more granular understanding of certain conduct-related index provider matters. IOSCO has identified potential areas that require further study, including (i) the role of asset managers in relation to indices and index providers and the role and processes of index providers in the provision of indices, (ii) the potential impact of administrative errors on investment funds and (iii) potential conflicts of interest that may exist at the index provider in relation to the fund.

The survey is primarily intended for those involved in asset management (to complete Part A) and the provision of indices (to complete Part B). IOSCO will take into account the responses in formulating its approach to these matters. Individual responses will remain confidential and used only in anonymized and/or aggregated format in any future publications by IOSCO. Respondents may choose to provide responses to all or just some questions under the given section.

The survey refers to 'exceptional events or shocks'. This is generally intended to refer to market wide disruptions outside of the control of the relevant index provider / asset manager. During the course of IOSCO's work on this topic, two such exceptional market events have occurred, namely the COVID-19 market shock (2020) and the Russian market shock (2022). However, depending on the specific question, it may be appropriate to comment on more 'regular' events (such as corporate actions, etc).

The submission deadline is 26 November 2022.

Part A: Questions for Asset Managers:

General

1. Please outline the key jurisdictions / regulatory framework in which your firm operates.
2. Please provide details how the costs associated with utilising a particular index / index provider are disclosed to investors in the fund / investment product. For example, please clarify if there are any circumstances under which the specific costs associated with using a particular index are broken out apart from other fees and expenses. Please outline if you are aware of any confidentiality provisions or contractual terms which may be currently imposed that would prevent such fee disclosures.
3. Where you are fully or partially responsible for the choice of an index to manage against, please outline your due diligence processes to assess the appropriateness of the index for your client/target market both at the outset and on an ongoing basis?
4. Please provide details of products where you have engaged with an index provider to create a bespoke benchmark? Please elaborate on why you would engage with an index provider



to create a benchmark instead of selecting a pre-existing benchmark or opting to actively manage the portfolio. Where does the responsibility for the operational performance¹ of the index lie contractually and where, in practice, do you think responsibility does lie?

5. In addition to the topics / questions addressed below, are there any other areas which you think IOSCO should consider as part of its work on conduct-related index provider matters.

Response to regular and exceptional events

1. Please describe your internal governance arrangements and policies for responding to regular and exceptional events which result in challenges managing against and / or in tracking a particular index. Please separately detail these for 'regular' events (such as corporate actions, etc.) and ad-hoc exceptional events (such as external shocks such as the Russian / Ukraine market shock).
2. Please provide details about the extent to which you engage with index providers during such events (and specifically what concrete engagement took place during the Russian / Ukraine market shock).
3. Please also provide details of the following:
 - a. Did you change your processes with respect to index tracking during this period?
 - b. Please provide any information on any index changes or rebalancing holidays during this period (for example, their duration, information on the interaction and decision making process around declaring a rebalancing holiday between index providers and asset managers, including how potential conflicts of interest among them may have been managed).

Errors

1. Did you experience any errors in the compilation of an index caused by an index provider? If so, please elaborate on the circumstances surrounding the error (e.g. the source of the error – human error, IT related, etc). What impact did this have on your business and that of the funds under management (or other underlying products as may be relevant)? For example, was there any necessity to pay financial compensation or redress of some form?
2. What type of arrangements (e.g. contractual or otherwise) are in place to manage such errors?

Conflicts of interest

1. Please provide details of the extent to which you perform self-indexing and/or have an affiliated index provider. What are the potential conflicts of interest that may arise? Please also detail how potential conflicts of interest are managed in such cases (e.g., information barriers, etc.).

¹ Operational performance refers to, for example, governance arrangements, how well the index is managed or how it incorporates changes, etc. It is not intended to refer to the investment return/performance of the index.



2. Are there other situations that may give rise to potential conflicts (e.g., where an index provider invests in the fund or provides seed funding)? Please also detail how potential conflicts of interest are managed in such cases.
3. Do you consider that conflicts of interest may arise where both an index and an investment fund tracking that index use the same pricing information? What processes are in place to effectively manage such conflicts? Please explain the nature of the potential conflicts, how they are avoided, managed and disclosed. Where possible, please provide examples of how such conflicts were managed during recent exceptional market events.
4. Do you provide any disclosure of any affiliations or potential conflicts of interest that might arise? If so, please provide details of that disclosure.

Services / functions utilised

1. Please provide details of any services or functions you utilise from index providers in addition to the core function of index provision or administration. Do you consider that such services or functions raise any particular issues (e.g. conflicts, operational, etc.)?
2. Where an index provider provides non-core services, such as Environmental, Social or Governance (ESG) screening services, do any particular challenges or difficulties arise? For example, where such screening does not form part of the index's rules, could this result in the index being less transparent? On the other hand, where such screening forms part of the index's rules, could this result in a higher level of discretion being exercised by the index providers? Are there any measures adopted by the asset managers to ensure such discretion are bounded within certain limits?

Part B: Questions for Index Providers:

General

1. Please outline the key jurisdictions / regulatory framework in which your firm operates.
2. In addition to the topics / questions addressed below, are there any other areas which you think IOSCO should consider as part of its work on conduct-related index provider matters.
3. Please outline what, if any, confidentiality provisions or contractual terms you may impose to prevent disclosure of fee related information by users of your indices (such as asset managers).

Response to regular and exceptional events

1. Please describe the internal governance arrangements and policies and procedures for responding to regular and exceptional events which result in changes to the index. In particular, please provide details regarding the composition and function of the internal governance arrangements within your firm that ultimately decides, on behalf of the firm, which actions will apply to indices. If this is via a committee structure, please clarify the applicable (i) number of members; (ii) quorum requirement; (iii) selection process of the members and (iv) responsibilities assigned to the members. If this is not via a committee structure, please provide details of the governance arrangements in place.

Please separately detail these for ‘regular’ events (such as corporate actions, etc) and ad-hoc exceptional events (such as the Russian / Ukraine market shock).

2. Have you observed any liquidity issues in the underlying markets which have had an impact on the sufficiency of indices’ input data? If yes, please elaborate how you managed and communicated these risks to users of the indices (e.g. consultation on methodology changes or other means).
3. Further to the developing energy crisis, have you considered risks related to system outages and have you stress tested your operational resilience to other issues that may arise? If so, please provide details of these.
4. Please provide details of the processes in place for engagement / consultation with interested parties during such exceptional events (and specifically related to the Russian / Ukraine market shock). In particular:
 - a. Did you change your processes with respect to asset managers during this period, as compared to processes during normal circumstances?
 - b. Please provide any information on any index changes or rebalancing holidays during this period (for example, their duration, information on the interaction and decision making process around declaring a rebalancing holiday between you and asset managers, including how potential conflicts of interest among them may have been managed). For example, where emerging market indices had to remove Russian equities or bonds, were users consulted to gather suggestions on appropriate substitutes?



- c. Please provide any information on the known impact on users of the indices (in particular investment funds) as a result of rebalances during exceptional events? Were any complaints received and if so, how were these addressed?
- d. Have you experienced any market circumstances (in relation to market or operational risk) under which the compilation of an index has been difficult/impossible?

Errors

1. Did you experience any errors in the compilation of an index? If so, please elaborate on the circumstances surrounding the error (e.g. the source of the error – human error, IT related, etc). What impact did this have on your business and that of the funds utilising your indices? For example, was there any necessity to pay financial compensation or redress of some form?
2. What type of arrangements (e.g. contractual or otherwise) are in place to manage such errors?

Conflicts of interest

1. Please provide any observations you may have in relation to how potential conflicts of interests are managed during engagement with external stakeholders (that engagement could include routine consultations or engagement during exceptional events).
2. Do you consider that conflicts of interest may arise where both an index and an investment fund tracking that index use the same pricing information? What processes are in place to effectively manage such conflicts? Where possible please provide examples of how such conflicts were managed during recent exceptional market events. Are there other conflicts that regulators should consider, for example do particular conflicts arise where the index provider is in the same group as a stock exchange?

Services / functions provided

1. Please provide details of any services or functions which are provided in addition to the core function of index provision or index administration. Do you consider that such services or functions warrant particular regulatory attention?
2. Where you as an index provider provide non-core services, such as Environmental, Social or Governance (ESG) screening services, do any particular challenges or difficulties arise? For example, where such screening does not form part of the index's rules, could this result in the index being less transparent? On the other hand, where such screening forms part of the index's rules, could this result in a higher level of discretion being exercised by the index providers? Are there any measures adopted by the index providers to ensure such discretion is bounded within certain limits?

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