

Nomura: Index Termination and Transition Policy

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TERMINATION OF INDICES AND TRANSITIONAL ARRANGEMENTS

1 Introduction

To comply with Principle 13 of the IOSCO Principles and Article 28 of the Benchmark Regulation, and in accordance with Appendix 2, Section 17 of the “Nomura Index Governance and Control Framework Summary and Other Documents” (which is available via <https://www.nomuranow.com/portal/site/nnextranet/en/global-markets/structured-derivatives/quant-investment-strategies.shtml>) (the “**Governance Policy Summary**”), this policy (the “**Policy**”) sets out the full policies and procedures on the approach taken to the cessation of an Index.

Whilst the Index Administrator endeavours to maintain continuity for all of its Indices, in certain circumstances the termination of an Index may be required. Careful consideration must be given to the reasons to terminate an Index, the estimated breadth and depth of financial instruments and financial contracts that reference the Index and, importantly, the possible impact of termination on Stakeholders. Any termination of an Index that is being used requires Index Committee approval. Structuring is responsible for helping identify the users of the relevant Index. Any termination of an index with no investment, where the Index Administrator is not otherwise reasonably aware that the Index is being used, requires notification to the Index Committee.

2 Possible reasons for Index termination

Reasons for proposing the termination of an Index include (but are not limited to):

- a) there is no investment in an Index;
- b) underlying market/Input Data is no longer available or the quality or quantity of the market/Input Data is insufficient for use in an Index – in particular, where a change to Methodology is not feasible;
- c) the Input Data is no longer sufficient to represent accurately and reliably the Market or Economic Reality that the Index is intended to measure, or is not otherwise appropriate in particular, where the issue cannot be rectified through a change to the Input Data, Methodology and/or if the Input Data is based on submissions from Submitters/Contributors, a change to the Submitter/Contributor of such Input Data;
- d) the Index no longer meets its objective and a change to the Methodology is not feasible;
- e) the maintenance of the Index is no longer possible and/or practicable from an operational perspective; and
- f) commercial factors make the cost of maintaining the Index economically unsustainable when compared to use of the Index over a period of time.

3 Approach to termination of Indices with investment

- i. **Legal and Compliance consultation:** before submitting any proposal to terminate an Index to the Index Committee for approval, Legal and Compliance must be consulted by Structuring to assess if the proposed termination is consistent with the applicable Index Description or any other obligations (including any applicable legal requirements, such as licence arrangements that may have been entered into with third parties).
- ii. **Information submitted to Index Committee:** Structuring will prepare and submit a termination proposal using the Index Termination Proposal Form to the Index Committee. This termination proposal must include all information necessary to understand the implications of terminating the Index and include (as a minimum):
 - a) the rationale for the proposed termination;
 - b) the availability of any suitable alternative benchmarks/indices (if any) as a replacement (including: (i) whether such replacement benchmark/index would match the existing Index's characteristics (e.g. credit quality, maturities and liquidity of the alternative market); (ii) differences between the current and the proposed replacement benchmark/index; (iii) the extent to which any alternative benchmark/index meets the asset/liability needs of Stakeholders; (iv) whether any alternative benchmark/index is investable; (v) the availability of transparent transaction/Input Data; (vi) the potential impact on Stakeholders; and (vii) any potential legal and/or regulatory implications related to change. In practice, there may be no or a limited pool of alternative benchmarks/indices for Index strategies;
 - c) the breadth and depth of the Index's use (total notional values of client investments) as well as the nature and number of invested client/users;
 - d) the actual or estimated likely consequences of termination both for Stakeholders and for the Firm; and
 - e) the timeframe and method of proposed Stakeholder engagement anticipated.
- iii. **Index Committee considerations/approval:** The Index Committee will consider the termination proposal and whether a suitable replacement Index or benchmark/index is available (as noted above, in practice, there may be no or a limited pool of alternative benchmarks/indices for Index strategies). It will further consider (amongst anything else it deems relevant) the period of time that the relevant Index can continue to be produced to permit existing products to migrate to an alternative index or for the relevant product to be restructured (where this is reasonably practicable in the circumstances).

On the basis of the termination proposal, the Index Committee will make an initial decision as to whether to approve the termination of the Index, pending Stakeholder consultation. The Index Committee may specify requirements relating to the nature and extent of Stakeholder consultation. The period of Stakeholder consultation may vary, although this should allow Stakeholders sufficient time to raise comments/questions as appropriate. Stakeholder responses will be consolidated and submitted to the Index

Committee for the Index Committee to make a final decision as to whether an Index should be terminated.

If the Index Committee approves the termination of an Index, a notice period of two months is typically given before Index determinations cease and the Index is formally terminated. There may be instances where due to a rapid change in the relevant market or the cancellation or suspension of Input Data, it is necessary to terminate the Index with shorter notice. In these instances, Stakeholders will be informed as soon as reasonably practicable after the relevant issue has been identified, at least as an interim measure, (before termination occurs) consideration needs to be given to whether the Input Data or Methodology could be modified in order to avoid or otherwise mitigate disruption to Stakeholders.

- iv. **Publication:** After final Index Committee approval, the termination of the Index will be announced. The form of announcement will depend on any instructions from the Index Committee as well as the nature and number of Stakeholders. Where there is a limited number of Stakeholders they may be informed directly (for example, by e-mail) or, alternatively, an announcement may be made on Bloomberg or by posting a technical note on the Index Administrator's website.

4 Approach to termination of Indices with no investment

Structuring shall obtain email confirmation from Trading that no AUM is outstanding. Where the Index had any investment in the past, Structuring shall further obtain email confirmation from Sales (provided there is still Sales coverage for such investors present in the Firm) that to the best of their knowledge there is no other use of the Index. Any termination of an Index with no investment shall be notified to the Index Committee and a technical note shall be posted on the Index Administrator's website.

5 Stakeholder recommended contingency plans

Whilst the Index Administrator endeavours to maintain continuity in the production of its Indices, it also takes steps to encourage Subscribers and other Stakeholders who have a financial instrument that references an Index to take steps to ensure:

- a) contracts or other financial instruments that reference an Index, have robust fall-back provisions in the event of material changes to, or cessation of, the referenced Index; and
- b) Stakeholders are made aware via risk factors of the possibility that various factors, including external factors beyond the control of the Firm, might necessitate material changes to an Index.

Definitions

Please note that where applicable, the definitions below have been taken from the IOSCO Principles.

Term	Definition
Administration	Includes all stages and processes involved in the production and dissemination of an Index, including: <ul style="list-style-type: none"> a) collecting, analysing and/or processing information or expressions of opinion for the purposes of the determination of an Index; b) determining an Index through the application of a formula or another method of calculating the information or expressions of opinions provided for that purpose; and c) dissemination to users, including any review, adjustment and modification to this process.
Administrator	An organisation or legal person that controls the creation and operation of the Index Administration process, whether or not it owns the intellectual property relating to the Benchmark. In particular, it has responsibility for all stages of the Index Administration process, including: <ul style="list-style-type: none"> a) the calculation of the Benchmark; b) determining and applying the Index Methodology; and c) disseminating the Benchmark.
AUM	Assets under management.
Benchmark Regulation	The Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (Regulation (EU) 2016/1011).
Compliance	The internal regulatory compliance function (in the UK, Asia or other jurisdiction, as applicable) that supports the Index Administration business.
Firm	Nomura International plc (and any successor).
Governance Policy	The Firm's Indices Governance Policy and Control Framework (as replaced, modified or supplemented from time to time).
Financial Instrument	Means any of the instruments listed in Section C of Annex I to Directive 2014/65/EU: <ul style="list-style-type: none"> (a) Transferable securities; (b) Money-market instruments; (c) Units in collective investment undertakings; (d) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;

Term	Definition
	<p>(e) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);</p> <p>(f) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled, provided that they are traded on a regulated market and/or an MTF;</p> <p>(g) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in C.6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, <i>inter alia</i>, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;</p> <p>(h) Derivative instruments for the transfer of credit risk;</p> <p>(i) Financial contracts for differences;</p> <p>(j) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this section, which have the characteristics of other derivative financial instruments, having regard to whether, <i>inter alia</i>, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls,</p> <p>for which a request for admission to trading on a trading venue, as defined in point (24) of Article 4(1) of Directive 2014/65/EU, has been made or which is traded on a trading venue as defined in point (24) of Article 4(1) of Directive 2014/65/EU or via a systematic internaliser as defined in point (20) of Article 4(1) of that Directive.</p>
<p>Index</p>	<p>With the exception of Legacy Indices which are excluded from this definition, Index is defined in line with the definition of “Benchmark” used in the Principles as prices, estimates, rates, indices or values that are:</p> <p>(a) made available to users, whether free of charge or for payment;</p> <p>(a) calculated periodically, entirely or partially by the application of a formula or another method of calculation to, or assessment of, the value of one or more underlying interests;</p> <p>(b) used for reference for purposes that include one or more of the</p>

Term	Definition
	<p>following:</p> <ul style="list-style-type: none"> (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments; (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument; and/or (iii) measuring the performance of a financial instrument. <p>For the avoidance of doubt, this definition of “Index” includes Benchmark Regulation Indices.</p>
Index-Linked Product(s)	Any instrument where the return is wholly or partially dependent on the performance of an Index.
Index Administrator	The Firm in its capacity as Administrator.
Index Committee	Is the governance committee described in Appendix 3 of the Governance Policy Summary (including any successor committee).
Index Description	The document(s) which sets out: (i) the Index summary; (ii) the Methodology or rule book which specifies how a particular Index is calculated; (iii) Index risk factors; and (iv) historical Index performance analysis/information.
Index Termination Proposal form	The Index termination proposal form set out in the Governance Policy (as updated or replaced from time to time).
Input Data	The data in respect of the value of one or more underlying assets, or prices, including estimated prices, quotes, committed quotes or other values, used by an administrator to determine an Index. Input Data may include data from Regulated Markets or Trading Venues with mandatory post-trade transparency requirements.
IOSCO	Means the International Organisation of Securities Commissions (or any successor organisation).
IOSCO Principles	The Principles for Financial Benchmarks published by IOSCO on 17 July 2013.
Legal	The internal legal function (in the UK, Asia or other jurisdiction, as applicable) that manages legal risk and legal aspects of the Index Administration business.
Market or Economic Reality	Refers to any physical commodity, currency or other tangible goods, intangibles (such as an equity security, bond, futures contract, swap or option, interest rates, another Index, including Indices that track the performance of a rule based trading strategy or the volatility of a Financial Instrument or another Index), any Financial Instrument on an economic

Term	Definition
	interest, which is intended to be measured by an Index, and in all cases includes the market for such interest and the broader real economic activities pertaining to the relevant market.
Methodology	The written rules and procedures according to which information is collected and the Index is determined.
Quantitative Strategies	The non-independent research function (in the UK, Asia or other jurisdiction, as applicable) which supports the Index Administration business.
Regulated Market or Trading Venue	Means a market or exchange that is regulated and/or supervised by a Regulatory Authority.
Regulatory Authority	Means a governmental or statutory body (not being a Self-Regulatory Organisation) with responsibility for securities and/or commodities and futures regulation.
Sales	The persons in the Sales and/or Structuring team (in the UK or Asia, as applicable) who are marketing Index-Linked Products that are issued by the Firm or any of its affiliates.
Self-Regulatory Organisation	Means an organisation that has been given the power or responsibility to regulate itself, whose rules are subject to meaningful sanctions regarding any part of the securities market or industry. This authority may be derived from a statutory delegation of power to a non-governmental entity or through a contract between a Self-Regulatory Organisation and its members as is authorised or recognised by the governmental regulator.
Stakeholders	Subscribers and other persons or entities who own contracts or financial instruments that reference an Index.
Structuring	The structuring team (in the UK as applicable or, in Asia/Mumbai, a combination of Structuring and Quantitative Strategies teams) which is responsible for the design, determination, and maintenance of Indices and which overall supports the Index Administration business.
Submission(s)/ Contribution(s)	(a) For the purposes of the Principles only, prices, estimates, values, rates or other information that is provided by a Submitter to an Administrator for the purposes of determining an Index. This excludes data sourced from Regulated Markets or Trading Venues with mandatory post-trade transparency requirements; and (b) for the purposes of the Benchmark Regulation and applicable to Benchmark Regulation Indices only, providing any Input Data not readily available to the Administrator, or to another person for purposes of passing to the Administrator, that is required in connection with the determination of an Index, and is provided for that purpose.
Submitter/Contributor	A legal person providing information to an Administrator or Calculation Agent required in connection with the determination of an Index, in particular any

Term	Definition
	information provided as part of a Submission/Contribution of Input Data.
Subscriber	A person or entity that purchases Index determination services from an Administrator.
Trading	The trading operations (in the UK or Asia, as appropriate) which manage risk in relation to any Index-Linked Product of the Firm or any of its affiliates.