

# **INDEX GOVERNANCE FRAMEWORK**

**Terms of Reference**

**February 1, 2023**

**Nomura Fiduciary Research & Consulting Co., Ltd.**

**Index Services Department**

## **Index Services Department (ISD)**

The Index Operations Dept. (IOD) was established in July 2015, to administer Nomura Securities Co., Ltd. (NSC)'s indices based on the Principles for Financial Benchmarks published by IOSCO (IOSCO Principles). On February 1, 2023, Nomura Fiduciary Research & Consulting Co., Ltd. (NFRC) took over NSC's Index Business and IOD was reorganized into Index Services Department (ISD).

Specifically, ISD:

- is responsible for all aspects of index development, determination, dissemination, operation, and governance;
- determines the design of indices, including what data are to be used in the index calculation;
- makes changes to the constituents and their weightings in accordance with the calculation methodology relating to ongoing maintenance and periodic reconstitutions, and publishes information and maintains records of index weightings of all constituents;
- conducts reviews at least annually with regard to index methodologies and other matters in order to assess whether a material change to the index methodology is required due to a structural change in the markets; whether the values measured by NFRC's indices have diminished or are not functioning due to a structural change in the market; or whether data in the index calculation are sufficient, appropriate and verifiable;
- changes index methodologies, if necessary, through a consultation process;
- disseminates the indices (including handling of enquiries and complaints, data distribution, contracting, and marketing);
- exercises oversight of third parties responsible for collection of relevant elements in the calculation and provision of the index;
- identifies, records, manages, mitigates, prevents, or remedies current and potential conflicts of interest and potential market abuse risks, and annually reviews the conflicts of interest register;
- responds to errors or disaster and recalculates or amends the index values as appropriate;
- implements index cessation;
- establishes the policies and control framework for ensuring the integrity of the benchmark and annually reviews them and their effectiveness; and

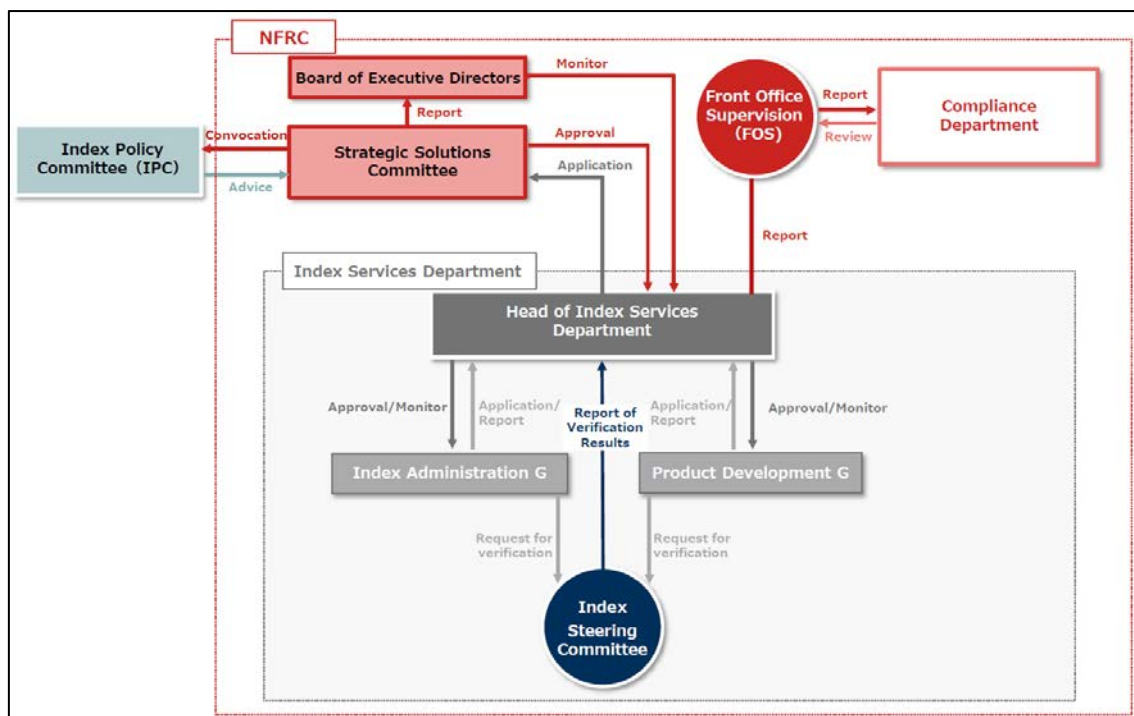
- keeps all activity trails for five years that provide evidence that NFRC is in compliance with national legal or regulatory requirements and submits all relevant documents if requested by the regulatory authorities.

### Index Governance Structure in NFRC

NFRC's indices are designed in an objective manner based on clearly prescribed rules and methodologies that are not allowed to be changed until passing predetermined procedures so as to mitigate any arbitrariness and/or discretion in the index determination process. NFRC compliance with methodologies, rules, manuals, policies, and approval procedures in the index determination process is seen as vital.

NFRC has established an oversight and governance structure concerning the indices managed by ISD with three internal and one external bodies with the aim of protecting the integrity of the index determination process and addressing conflicts of interest. Details of the governance structure are as shown in Figure 1.

**Fig. 1: Governance framework for NFRC’s indices**



### The Strategic Solutions Committee

The Strategic Solutions Committee is one of the governance bodies in NFRC, and is chaired by the President & Representative Director and operates with a limited number

of members due to the information management perspective. The Board of Executive Directors appoints members and ensures members in Compliance Department are included.

The Strategic Solutions Committee discusses and takes a role to approve significant matters such as:

- establishing and updating policies published on NFRC's Website.
- developing new indices.
- changing methodologies and ceasing existing indices

### **Front Office Supervision (FOS)**

ISD conducts FOS, which is the first line of controls.

FOS are aimed at:

- reviewing the major activities undertaken during the month and the key “risk indicators”, including the following:
  - ✓ Results of risk assessments related to employees’ conduct and ISD’s activities. Matters reported through FOS are reviewed by the Compliance Department.
  - ✓ Incidents related to index calculations and administration activities in terms of conflicts of interest, operational issues, and compliance issues.
- ensuring ISD’s adherence to supervisory procedures in its index administration, while maintaining consistency of approach where appropriate;
- cementing the supervisory framework through regular updates;
- ensuring that associated policies and ISD’s procedures are continually reviewed and updated where necessary; and
- assessing, overseeing, and challenging the effectiveness of the first line of controls.

### **Index Steering Committee**

The Index Steering Committee is a governance body established in ISD and is made up of members appointed by the Head of ISD. The role is to verify applications submitted by teams in ISD and confirm if the necessary information is available to make a decision. Verification results are reported to the Head of ISD.

## **Index Policy Committee (IPC)**

The Index Policy Committee (IPC) acts as an advisory body for the Strategic Solutions Committee, providing recommendations with regard to the appropriateness, integrity, transparency, reasonableness, and potential limitations of NFRC's index administration.

ISD stipulates the following in its internal rules: a) the Strategic Solutions Committee shall appoint the IPC members; b) members should be external experts and practitioners who are involved in the financial index business or asset management industry; c) members should not have any material conflicts of interest; and d) NDAs shall be signed between NFRC and each IPC member; and e) membership shall be reviewed on an annual basis.

IPC meetings are held on an annual basis, although the Strategic Solutions Committee can convene an IPC meeting at any time if it is deemed necessary.

NFRC does not disclose the names of IPC members or its candidates in order to maintain the independence of the IPC and prevent lobbying by market participants, unless regulatory authorities or auditors require such disclosure.

## **Key Control Framework**

NFRC sets forth the following policies to establish and manage NFRC's index determination, calculation, and publication procedures. ISD reviews and updates the control framework at least annually. ISD consults with the Compliance Department its effectiveness.

<http://qr.nomuraholdings.com/en/guides/index.html>

- ✓ Index Governance Framework (Terms of Reference)
- ✓ Conflicts of Interest Policy
- ✓ Index Calculation Policy
- ✓ Complaints Handling Policy

## **Oversight of Third Parties**

NFRC outsources activities relating to the collection of relevant elements in index calculation and the provision of NFRC's indices, and discloses the identity and roles of third parties in index rule books or the "Index Calculation Policy". NFRC is responsible for the appropriate oversight of the third parties. NFRC sets forth the following policies

and procedures to oversee third parties undertaking these activities. Specifically, NFRC:

- ✓ defines the roles and obligations, operational policies, and contingency plans in a written agreement, a service level agreement, or a service level provision.
- ✓ oversees third parties' service quality by establishing a framework to perform a daily verification check over the index calculation prior to the publication of indices, or evaluating Information Technology General Control and Information Technology Application Control implemented by the third party annually, along with holding periodic meetings or receiving reports on the outsourced activities periodically from third parties.

### **Ensuring Data Sufficiency**

NFRC stipulates in its internal rules that ISD must regularly evaluate data to ensure they are sufficient to represent the interest measured by NFRC's indices reliably and accurately. Evaluation standards set by ISD include the following.

- Sufficient coverage in terms of prices.
- A reasonable deviation range between prices obtained from a different source than the original source and prices used to calculate indices.

## Revision history

<b>Revision date</b>	<b>Details</b>
March 27, 2019	First edition
September 30, 2019	Partial revision of “Index Governance Board (IGB)”
March 26, 2021	Revisions to overall text
March 17, 2022	Partial revision of “Index Governance Board (IGB)” and “Front Office Supervision (FOS) meetings”
February 1, 2023	Revisions to overall text due to the business succession.