

# **INDEX GOVERNANCE FRAMEWORK**

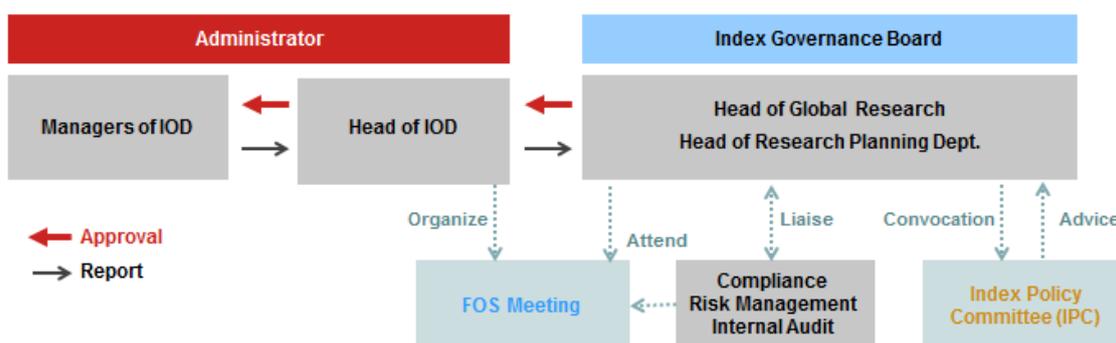
**Terms of Reference**

**September, 30 2019**

**Nomura Securities Co., Ltd.  
Global Research Division,  
Financial Engineering & Technology Research Center  
Index Operations Dept.**

Nomura Securities Co., Ltd. (NSC) has established an oversight and governance structure concerning the indices managed by the Index Operations Dept. (IOD) with the aim of protecting the integrity of the index determination process and addressing conflicts of interest (Col). The breakdown of the governance structure is as shown in Figure 1.

Figure.1 Governance framework for NSC’s indices



### Index Operations Dept. (IOD)

The Index Operations Dept. (IOD) was established to administrate NSC’s indices based on the Principles for Financial Benchmarks published by IOSCO (IOSCO Principles). Specifically, the IOD:

- is responsible for daily calculation, dissemination, and operation of indices;
- exercises oversight of third parties responsible for calculating and delivering NSC’s indices;
- maintains records of index weightings of all constituents;
- makes changes to the constituents and their weightings in accordance with index rules;
- carries out periodic index reviews and applies related changes as required by the rules;
- publishes information relating to changes to constituent weightings resulting from ongoing maintenance and periodic reviews;
- disseminates the indices (includes processing of enquiries, data distribution, contracting, and marketing);
- monitors all the vendors who provide index calculation services as well as data services; and,
- keeps tabs on all activity trails.

To enhance index governance and to help ensure the integrity and independence of index determinations, the IOD, a pure research entity, is physically separated and independent from both the Global Markets Division and the Investment Banking Division of NSC. Also, data systems are mutually inaccessible between the IOD and those in other departments (such as traders working in the Global Markets Division or bankers working in the Investment Banking Division) in accordance with NSC's information security policy. These structures effectively block information flow between the IOD (engaging in index-related activities) and other departments and thereby help mitigate Col.

All the indices the IOD administers are designed in an objective manner based on clearly prescribed rules so as to mitigate any arbitrariness and/or discretion in the index determination process. IOD compliance with methodologies, rules, manuals, policies, and approval procedures with regard to the index determination process is seen as vital, and the Index Governance Board (IGB) oversees and monitors IOD's index administration operations.

IOD managers are responsible for supervising and training staff. They are also responsible for devising succession plans for staff in key roles. The IOD's members receive compliance training upon joining and thereafter, and are expected to attain annual certification. Additionally, IOD members receive ongoing on-the-job functional skills training and are reviewed annually for relevant expertise and competencies.

### **Index Governance Board (IGB)**

The IOD comes under the oversight of the Index Governance Board (IGB), an entity which monitors the IOD's day-to-day operations, liaising closely with divisions responsible for Compliance, Risk Management, and Internal Audit. The IGB plays a key role in the approval process by reviewing any proposals made by the IOD (methodology changes, index cessation, etc.) and confirming that the IOD has not violated any part of due process prescribed by the ongoing control framework, but does neither make proposals to nor mandate IOD. To help the IGB monitor IOD index administration in terms of the day-to-day index operations of NSC indices, the IOD submits monthly report to the IGB which outlines the major activities undertaken by the IOD within the month and key risk indicators in accordance with

the IOSCO Principles. The IGB monitors index-related activities (such as overall management and operation of the indices), and considers remedial actions to be taken, where necessary.

The IGB is responsible for identifying risks associated with NSC's indices administration, including CoI, operational issues, and compliance issues. It is also responsible for regular review of the control framework and its effectiveness, as appropriate.

IGB membership is limited to the Research Division of NSC and Compliance. Board members are typically nominated, removed, and replaced in line with regular personnel changes. The IGB is currently made up of two members: the Head of Global Research (Chairperson) and the Head of the Research Planning Dept., Global Research.

IGB members can consult with the Compliance, Risk Management, and Internal Audit divisions in order to review the control framework and its effectiveness.

In order to seek professional advice on market changes, index rules, codes of conduct, etc., the IGB annually convenes and consults with the Index Policy Committee (IPC) comprised of external experts.

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

The Index Policy Committee (IPC) plays the role of an advisory body for the IGB (with the IGB not necessarily bound by resulting recommendations) with regards to the appropriateness, integrity, transparency, and reasonableness of the IOD's index administration.

IPC membership guidelines include the following: a) members should be external experts/practitioners involved in the financial index industry and/or asset management industry; b) members should not have any material CoI; c) the IGB shall appoint the IPC members from among the candidates recommended by the head of the IOD; and d) NDAs shall be signed between NSC and each IPC member. IPC membership is reviewed on an annual basis, as noted above.

IPC meetings are held on an annual basis, although the IGB can convene an IPC meeting at any time if it is deemed necessary. IPC candidates/members and any information related to IPC meetings are kept private in order to prevent lobbying by market participants unless regulatory authorities or auditors require such disclosure.

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

The IOD holds monthly FOS meetings, where representatives from the Compliance, Risk Management, and Internal Audit divisions, and IGB members gather. FOS meetings are used as a conduit to discuss, examine, and evaluate the appropriateness of the IOD's activities.

FOS meetings are aimed at:

- ensuring IOD'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 the IOD's procedures are continually reviewed and updated where necessary;
- monitoring key control indicators and dashboards to ensure that relevant supervisors are adhering to supervision requirements and escalating issues to respective business leads, compliance, and IGB, as necessary; and,
- assessing, overseeing, and challenging the effectiveness of the first line of controls.

## **[Key Controls]**

NSC sets forth the following policies and procedures on index calculation and publication processes, to establish and operate an appropriate control framework.

### Policies

NSC sets forth the Code of Ethics for Nomura people and has established compensation structures, internal training, and a whistle-blowing system with regard to Col.

### Price data as inputs for index calculation

Referring to the “Conflicts of Interest Policy”, “Index Calculation Policy”, and rulebooks for policies related to maintaining the soundness and quality of index calculations, NSC’s equity indices (including the Russell/Nomura Japan Equity Index family) are calculated based on contract prices in regulated exchange markets. In the case of fixed income indices (e.g., NOMURA-BPI), the Nomura price or JS Price is used for index calculations.

### NRI as a calculation agent

NSC’s indices excluding “Nomura Japan Equity High Dividend 70, Net Total Return US Dollar Hedged Index” are calculated and published using index calculation systems owned by Nomura Research Institute, Ltd. (NRI), a vendor for IT systems and information services external to NSC.

NSC maintains appropriate controls over NRI’s systems for index-related activities according to the agreement with NRI on outsourcing input data collection, index calculation, and publication.

The IOD maintains index soundness and quality by monitoring the daily index-related activities of NRI (achieved via regular (monthly) meetings with NRI).

### Revision history

Revision date	Details
March, 27 2019	First edition
September, 30 2019	Partial revision of "Index Governance Board (IGB)"