

JAPANESE AND KOREAN DIVIDEND TREATMENT ENHANCEMENT FOR EQUITY INDICES

NEW YORK, OCTOBER 30, 2015: S&P Dow Jones Indices today announced an enhancement to the return calculation of equity indices with Japanese and Korean companies. This enhancement takes effect January 1, 2016 and will provide a more accurate measurement of dividend returns for companies from these countries.

Background

Companies in Japan and South Korea do not typically confirm cash dividend amounts prior to the ex-dates. Estimated dividends are usually available for Japanese companies ahead of the dividend ex-date, and it is a generally accepted practice to recognize the estimated amount. Korean companies do not usually provide an estimate for dividends. For both countries, actual dividend amounts are confirmed by the companies several weeks after the ex-date.

Post Ex-date Adjustment for Japanese and Korean Dividends

Beginning January 1, 2016, S&P Dow Jones Indices will determine the difference between the dividend amount recognized on the original ex-date and the confirmed dividend amount announced by the company. For depositary receipts (ADR/GDR), S&P Dow Jones Indices will use the confirmed dividend amount announced by the depositary bank. An adjustment in terms of dividend points will be applied to the affected indices weekly at the close of the following Friday without restatement to past index levels. Any dividend adjustment applied on Friday will be announced one day in advance. If the following Friday is not a trading day, the dividend adjustment will be applied on the next trading day. The dividend point adjustment for a particular index is calculated using the following formula:

$$\text{Index Dividend Point Adjustment} = \frac{D_{dt} * S_{at}}{\text{Divisor}_t}$$

where:

D_{dt} = difference between the original and the confirmed dividend amount; foreign exchange conversion if applicable will be based on exchange rate on the ex-date

S_{at} = index share on the ex-date

Divisor_t = index divisor on the ex-date

Both the gross total return (TR) and net total return (NTR) versions of the dividend point adjustment will be calculated. The TR index dividend point adjustment, which can be positive or negative, will be added to the price index level on Friday for the calculation of the total return index that day. Similarly, the NTR index dividend point adjustment will be used for the calculation of net total return. If there are multiple dividend adjustments to be implemented in an index, a separate index dividend point will be calculated for each one. The index dividend points will then be aggregated for the calculation of return index levels. In the event that a negative dividend adjustment results in an overall negative

index dividend for the day, the gross and net total return series will underperform the price return on the effective date that the dividend adjustment is applied.

What Will This Enhancement Cover?

This enhancement is applicable to Japanese and Korean companies listed in their home markets and overseas as depositary receipts (ADR/GDR). The change will cover dividends with record dates on or after December 31, 2015.

If a stock is not part of an index on the original dividend ex-date or the dividend adjustment implementation date, there will be no dividend adjustment due to that stock for that particular index. If a stock had a GICS change between the original ex-date and the dividend adjustment effective date but remained in the headline index throughout the period, any dividend adjustment attributable to that stock would be applied to the headline index but not to the GICS indices.

The S&P Dow Jones Indices' Index Committee reserves the right to apply this dividend adjustment treatment to companies in other countries. Decisions will be made on a case-by-case basis and announced to clients with ample lead time, when possible.

Example

A. Index Level Adjustment

As an example, take a hypothetical company, ABC, with an estimated dividend announced on March 27, 2015. The dividend was confirmed on April 21, 2015 from market data sources. A dividend adjustment would be implemented on the following Friday, April 24, 2015.

This example assumes there was no dividend going ex on Apr 24, 2015, and that the company remained a member of the index on that date.

Price Index Level [4/24/2015] = 121.5

Price Index Level [4/23/2015] = 120.2

Total Return Level [4/23/2015] = 150

Original Dividend Data

Date	Gross Dividend	FX Rate	Share	IWF	Index Divisor
3/27/2015	0.5	1	10000	0.8	1000

Confirmed Dividend Data

Date	Gross Dividend	FX Rate	Share	IWF	Index Divisor
4/24/2015	0.6	1.15	15000	0.78	1200

Index Dividend Point Adjustment = $[(0.6 - 0.5) * 1 * 10000 * 0.8] / 1000 = 0.8$

Total Return on 4/24/2015 = $(121.5 + 0.8) / 120.2 = 1.017471$

Total Return Level on 4/24/2015 = $150 * 1.017471 = 152.62$

B. Stock Level Reporting in UFF 2.0**SDC:**

Index Dividend Point Adjustment = 0.8 (from the calculation above)

The dividend adjustment market capitalization on the adjustment effective date is the product of the index dividend points due to the dividend adjustment on the original ex-date and the divisor on the adjustment effective date:

$$0.8 * 1200 = 960$$

The per share dividend adjustment on the adjustment effective date is calculated as dividend adjustment market capitalization divided by the stock's index share and adjusted for FX rate on that day:

$$960 / (15,000 * 0.78 * 1.15) = 0.07135$$

0.07135 will appear as a dividend in the stock level constituent file.

SDE :

The post ex-date dividend adjustment will be represented differently so that they can be distinguished from the normal cash dividend events. Dividend adjustments will appear as a new action type - **"Dividend Adjustment"** under the ACTION TYPE heading.

Columns for current SHARE, IWF, AWF, FX RATE and other calculated columns such as CURRENT INDEX SHARES will show data as of the original dividend ex-date.

The Dividend column will show the difference between the original and the confirmed dividends: 0.6 – 0.5 = 0.1

The **"REFERENCE DATE"** column will show the date of the original dividend ex-date: 3/27/2015. For this example, a standard comment will appear as **"Dividend adjustment applied for ABC on 03/27/2015"**.

The S&P Dow Jones Indices' Equity Indices Policies and Practices and the UFF 2.0 Specifications are being updated for this change and will be available prior to the effective date of the change.

For more information about S&P Dow Jones Indices, please visit www.spdji.com

ABOUT S&P DOW JONES INDICES

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