

**APPROVED**

By the Directorate of MICEX Stock Exchange

On May 22, 2015 (Minutes No 12)

\_\_\_\_\_ A. Kuznetsova

General Director

MICEX Stock Exchange

**APPROVED**

By the Executive Board of Moscow Exchange

On May 22, 2015 (Minutes No 27)

\_\_\_\_\_ A. Afanasiev

CEO

Moscow Exchange

**Moscow Exchange Index Management Policy**

Moscow  
2015

## **1. DOCUMENT SCOPE**

- 1.1. This Moscow Exchange Index Management Policy (the "Policy") defines key priorities, requirements and guidelines with respect to the development, calculation and distribution of indices and indicators of the securities, FX, money, derivatives and commodities markets. Such priorities, requirements and guidelines are to be applied at the Moscow Exchange and MICEX Stock Exchange.
- 1.2. This Policy has been designed with features of the Moscow Exchange and MICEX Stock Exchange's organizational structures and IT base considered. This Policy must be construed in terms of other internal documents of the Moscow Exchange and MICEX Stock Exchange covering principles of interaction between business units, confidential (including insider) information security, mechanisms of enforcement against illegal use of insider information and market manipulation, operational risk management, business continuity, prevention of conflicts of interest, as well as other processes and transactions of the Moscow Exchange and MICEX Stock Exchange.
- 1.3. The IOSCO Principles for Financial Benchmarks were taken into account when creating this Policy.
- 1.4. This Policy as amended and supplemented is subject to approval by the Moscow Exchange and MICEX Stock Exchange.

## 1.5. TERMS AND DEFINITIONS

1.6. The following terms and definitions are used in this Policy:

*The Exchange* – the Moscow Exchange and the MICEX Stock Exchange together;

*Indices* – indices and other indicators of the securities, FX, money, derivatives and commodities markets, including equity and bond indices, repo rate indicators and FX fixes;

*Index management* – a range of activities aimed at the development, calculation, distribution and cancelation of the Indices;

*Stakeholders* – representatives of organizations of the following categories: professional market participants, self-regulatory organizations, different categories of investors, financial advisors, information and rating agencies, infrastructure organizations, mass media, regulatory authorities, etc.;

*Advisory Councils* – the Index Committee of the MICEX Stock Exchange, the Equity & Bond Market Committee of the MICEX Stock Exchange, the Repo and Securities Lending Committee of the MICEX Stock Exchange, the Collective Investment Market Committee of the MICEX Stock Exchange, the FX Market Committee of the Moscow Exchange, the Derivatives Market Committee of the Moscow Exchange and other user committees established by the Exchange in cooperation with a relevant category of Stakeholders as set forth in the law and internal documents governing activities of such committees;

*IOSCO* – the International Organization of Securities Commissions;

*Methodologies* – documents defining the procedure and mechanisms of the Indices calculation. The Methodologies are subject to approval by the Moscow Exchange and/or the MICEX Stock Exchange;

*IOSCO Principles* – the IOSCO's Principles for Financial Benchmarks;

*Regulations* – the Exchange's nonpublic corporate bylaws describing principles of interaction between the Exchange's business units, with Stakeholders, the confidential (including insider) information security, mechanisms of enforcement against illegal use of insider information and market manipulation, operational risk management, business continuity, prevention of conflicts of interest, as well as other processes and transactions of the Exchange;

*Market Data* – publicly available information on the current market situation and end-of-day trading results including quotes, interest rates, aggregate volumes of orders and trades executed by member firms on the Exchange's Equity & Bond Market, FX Market, Money Market, Derivatives Market and Commodities Market. Market data is made publicly available by the Exchange as required by the regulatory acts for financial markets;

*Index Management SHS* – the software and hardware suite of the Exchange which is used to calculate, review and disseminate the Indices.

1.7. Terms not specifically defined herein have the meanings assigned to them in the law, associated regulatory acts for financial markets, internal documents of the Exchange and IOSCO's documents.

## **2. OBJECTIVES**

- 2.1. This Policy aims to demonstrate the conformity of the Exchange with good professional standards and business transparency principles, as well as its commitment to streamline the Indices.
- 2.2. The Exchange sets the following objectives:
  - To deliver accurate and fully covered market environment and trends through the Indices;
  - To maintain the Indices highly representative and clear by using Market Data in their calculation;
  - To keep the Indices highly reliable for Stakeholders and the public;
  - To make the Indices available to the public;
  - To ensure application of high technologies in the Index Management;
  - To follow the best international index management practices and to cooperate with different categories of Stakeholders and foreign (international) institutions and organizations, to share expertise and jointly develop the Indices.

## **3. INDICES STANDARDS**

- 3.1. This Policy defines the following key standards for the Indices:
  - The Indices must comply with the Russian legislation, IOSCO principles and other international regulatory acts that deal with the calculation procedure of relevant market indicators;
  - The Indices are calculated in a clear, prescribed and continuous manner;
  - The Indices' constituents are highly liquid instruments;
  - The Indices' constituents are balanced, replicable and available as investment vehicles;
  - The Indices are suitable for index tracking funds and structured products.
- 3.2. The formulae used for calculating the Indices, procedure for selecting/reviewing constituents, number of constituents, markets sectors, trading modes, periods and prices of trades considered to calculate the Indices, values at inception, weight bounds for constituents and other calculation issues are set forth in the Methodologies that are available on the Exchange's website.
- 3.3. If circumstances occur that may have adverse effect on the Indices' consistency against the actual market situation (also in the event of absence of data necessary to calculate the Indices), the Exchange is entitled to take any measures to ensure the Indices' consistency, i.e. removing instruments from an Index, changing calculation parameters, applying the previous trading day's or the latest available market data, etc.
- 3.4. If any errors or technical failures of the Index Management SHS take place that result in corrupted Indices' values, the Indices may be recalculated for the period of such errors or technical failures. Notices of the Indices recalculation are to be published on the Exchange's website.

## **4. STAKEHOLDER ENGAGEMENT**

- 4.1. Any changes of the Index formula, the Index review procedure, the list of markets sectors, trading

modes, periods and prices of trades considered to calculate the Index are material changes of the Index calculation method that require pertinent amendments being made to the Methodology.

4.2. The Methodologies as amended and supplemented, the Index constituents and their parameters are approved, and the Indices are cancelled upon the decision of the Exchange's authorized bodies as recommended by the Advisory Councils.

4.3. The Exchange notifies in advance relevant categories of Stakeholders and all concerned parties about all expected changes of the Index calculation method, the Index constituents and their parameters.

4.4. The Exchange considers enquiries, complaints and claims (the "Claims") of Stakeholders with respect to the Indices. The Claims Handling Procedure is clear and accessible as much as possible for Stakeholders:

4.4.1. The Exchange handles written claims sent through the post and/or electronic messages (through the form given on the Exchange's website). The Exchange acknowledges receipt of a Claim and keeps informed the claimer of the progress and resolve of the claim, if possible.

4.4.2. If the Claim has been recognised reasonable, the Exchange in cooperation with the Advisory Councils will prepare and implement appropriate changes to the method of the Indices calculation and transmission.

4.5. The Exchange is entitled to cancel an Index if market data necessary for its calculation is not available, the Index is not in demand from interested Stakeholders or other circumstances occur.

4.5.1. The decision to cancel the Index is made by authorised bodies of the Exchange.

4.5.2. Any decisions with respect to the cancellation of the Indices are made as advised by certain Stakeholders and discussed with the Advisory Councils.

4.5.3. The Index cancellation is announced not later than two weeks before the cancellation date.

## **5. DIVISION OF AUTHORITIES**

5.1. While carrying out the Index Management, the business units of the Exchange interact in accordance with their tasks and functions. The interaction process is set forth in the Regulations.

5.2. The Index and Market Data Department (the "Department") established as the Exchange's business unit is responsible for the provision of the Index Management processes. The Department has the following functions:

- Implementation of projects aiming to improve the representativeness, transparency and diversity of the Indices;
- Analysis of expected changes in the Exchange's market technologies, instruments and services, the organization and procedures of the Russian and international financial and commodities markets and instruments traded thereon, in order to facilitate the Index Management;

- Drafting amendments and supplements to the Methodologies and preparing reviews of Indices and parameters of their components, for their following endorsement by the executive bodies of the Exchange; obtaining approvals for such amendments and supplements from the Advisory Councils;
- Drafting functional specifications for pertinent changes to be made to the Index Management SHS;
- Ensuring that complaints and claims from users of Indices are considered by the executive bodies of the Exchange and the Advisory Councils;
- Ensuring that information on the Indices is published in a timely manner;
- Advising Stakeholders and other users with respect to the Indices;
- Monitoring the accuracy of the Indices at publication;
- Audit of distributors of Market Data with respect to the dissemination of the Indices.

5.3. The following business units are also involved in implementing of objectives of the Index Management:

- 5.3.1. *Trading and Clearing Systems Centre* is involved in introducing changes set out in the Department's technical specifications to the Index Management SHS when new Indices are introduced or existing Indices are streamlined, as well as in testing of such changes in collaboration with the Department.
- 5.3.2. *Service Department* is involved in introducing changes to the Index Management SHS at the production stage and in calculating and disseminating the Indices.
- 5.3.3. *Legal Department* is involved in legal reviewing at the time of developing and/or amending and supplementing Methodologies, documents governing activities of the Advisory Councils and Indices dissemination agreements.
- 5.3.4. *Department for Operational Risk, Information Security and Business Continuity* is involved in managing the operational risk, providing business continuity, information security, fraud prevention, etc.
- 5.3.5. *Internal Control Office* is involved in enforcing actions to bring the Exchange's activities in line with the law and internal documents, and in counteracting illegal use of insider information and market manipulation, preventing conflicts of interest, etc.

5.4. The Exchange's human resource management with respect to employees of the Department and other Exchange's business units dealing with the Index Management aims to recruiting highly qualified and skilled staff, ensuring the continuity of all Index Management processes and consistency of working methods, sharing knowledge and expertise, providing favourable working conditions for the staff, enhancing performance, establishing an effective remuneration system and

training and developing the staff.

## **6. CONTROL**

6.1. The following management bodies have overall charge of the company and carry out performance monitoring of the Exchange and also the Index Management:

- The Supervisory Board of the Moscow Exchange and the Board of Directors of the MICEX Stock Exchange, which also approve members of pertinent Advisory Councils as set out in the Regulations;
- Executive bodies of the Exchange that also review and amend Methodologies.

The above-stated bodies act in collaboration with the Advisory Councils as required by the law and internal documents of the Exchange dealing with issues in the scope of such bodies.

6.2. The Exchange's internal auditors conduct from time to time an integrated audit of the Index Management processes to verify whether they are in line with the federal laws and associated regulatory acts for financial markets, as well as the Regulations and other internal documents of the Exchange.

6.3. Internal control procedures aim to prevent conflicts of interests and secure confidential information (also prevent illegal use of insider information). An Exchange's business unit performs controls as delegated in the Regulations.

6.4. If a conflict of interest arises that may have material effect on the Index Management processes and the Indices consistency, the Exchange discloses such conflict of interest. Procedure for resolving conflicts of interest is set out in the Regulation.

6.5. Any third parties and/or Exchange's business units carry out annual audits of the Indices, the Methodologies and the Index Management processes for compliance thereof with the IOSCO Principles. Auditor's reports are posted on the Exchange's website.

## **7. STORAGE OF INFORMATION**

7.1. Any information having been used to calculate the Indices over the last five years or the whole lifetime of them if they have been calculated for less than five years will be kept integrated and available. Such information includes market data, resolutions of the Advisory Councils, etc.

7.2. All enquiries of Stakeholders and users of index data will be kept for a minimum of five years.

7.3. Backup copies of the Indices values and any data having been used to calculate the Indices will be made for a minimum of five last years of the Indices calculation or the whole lifetime of them if they have been calculated for less than five years, in accordance with the Exchange's internal documents.

## **8. REVIEW OF THE POLICY AND METHODOLOGIES**

8.1. The Exchange reviews this Policy if requirements of the Russian applicable law or IOSCO Principles

have been amended or business of the Exchange has changed substantially, specifically with respect to the company profile, corporate structure, etc.

8.2. The Exchange amends Methodologies minimum once a year to bring them in line with requirements set out in Section 4 hereof. Advisory Councils participate in discussions for evaluating the reasonability of such amendments.