



General Handling of Spinoff Events within Nasdaq Indexes

Summary of Responses and Final Disposition

Nasdaq has concluded its consultation regarding the general handling of spinoff events within Nasdaq Indexes. Thank you to those who participated.

Consultation

In an effort to solicit and consider feedback from investors, clients, and other industry professionals, Nasdaq recently sought public comment on the following draft spinoff policy. Once adopted, the final version of the policy would replace the existing policy in the *Corporate Actions and Events Manual*, and apply to all Nasdaq indexes, except where otherwise noted in individual index methodologies.

Spin-offs/ De-mergers

A spin-off (also known as a de-merger) occurs when the issuer of an equity security (the parent) “spins off” a business it owns into a separate new issuer (the “spinco”). Shares of the spinco are distributed to the shareholders of the parent, on a pro-rata basis, at a ratio established by the parent. Any spinco which does not meet the traditional definition of a security, or is not expected to be publicly listed, may be disregarded by the index.

Unless otherwise indicated in the published methodology of a particular index, spinco securities will be added to the same index as their parent security on the effective date. Index Shares of the spinco are calculated by multiplying the Index Shares of the parent times the spinoff ratio.

If the parent security’s listing exchange applies a price adjustment to the parent security, the spinco security will be assigned an initial price consistent with that amount, adjusted according to the spinoff ratio. If no price adjustment is applied to the parent, the spinco will be assigned a price of zero. In any case, including events involving multiple spincos, the total value of the parent and spinco(s) reflected within the index at the start-of-day on the effective date will be equal to the value of the parent security at the prior end-of-day. Resulting divisor changes, if any, are not expected to be meaningful. Passive investors should not expect to take any action at the time the spinoff event becomes effective.

Once the spinoff event has been completed, the spinco will be evaluated for continued inclusion in the index. By default, the security will remain in the index until at least the next scheduled reconstitution, unless there is a specific reason for immediate disqualification. Regardless of the reason(s) for disqualification, a disqualified spinco will be held in the index until regular-way trading is established, and removed only after sufficient advanced notice is provided through the normal communication channels.

Questions should be directed to [Nasdaq Global Indexes](#) at +1 844 717 0708 (for US Callers) or +1 301 978 8311 (for International Callers).



A. Market Cap Corporate Action Method

A disqualified spinco is normally removed at the last sale price of the day prior to the announced removal date. There is no adjustment to the Index Shares of the parent. This will result in a divisor adjustment.

B. Non-Market Cap Corporate Action Method

A disqualified spinco is normally removed at the last sale price of the day prior to the announced removal date. The Index Shares of the parent are increased in order to absorb the weight of the removed security. Resulting divisor changes, if any, are not expected to be meaningful.

If a spinco is retained in an equally weighted index, the index will not be rebalanced to restore equal weighting until the next scheduled rebalancing or reconstitution event.

In addition, to alleviate liquidity and capacity concerns particular to non-market cap weighting schemes, spinco securities that do not meet minimum size and/or liquidity requirements may be removed from such an index as part of the next rebalance event in order to protect the integrity of the index.

Summary of Responses

The vast majority of respondents were in favor of the proposed changes. While many respondents did not elaborate, some specifically cited the challenges associated with when-issued markets, along with a strong preference for regular-way trading. Others noted the likelihood of reduced turnover, and the avoidance of unnecessarily deleting index-eligible securities.

Concerns expressed by respondents included:

- Removal criteria. Some respondents expressed a preference that spinco securities be required to meet *all* stated initial eligibility requirements in order to avoid disqualification. While most did not suggest as strict an approach, there was general agreement that removal criteria should be primarily driven by each index's stated methodology.
- Liquidity. Among those that commented on removal criteria, the most commonly raised issue was that of liquidity. In particular, it was noted that relatively illiquid spincos were problematic for the handling of ongoing fund flows, especially for indexes with annual or semi-annual reconstitutions.
- Notice of removals. The draft language presented for comment stated that a disqualified spinco would be removed "...only after sufficient advanced notice is provided." Several respondents weighed in with preferences ranging from one to five days' notice. Also noted was the difficulty of selling a security before the payment date, along with a request that removals occur at least two days after that time.

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Final Disposition

Having taken the results of the consultation into consideration, Nasdaq has determined to take the following actions with regard to all Nasdaq Global (non-Nordic) Indexes:

- Effective immediately, the draft language offered for comment in the consultation will be adopted as presented, and will replace the current policy in the *Corporate Actions and Events Manual*, which is incorporated by reference in many Nasdaq Index methodologies.
- Index methodologies that do not currently reference the *Corporate Actions and Events Manual* will also follow the new policy, in order to preserve the integrity of those indexes. Efforts will be made to align the text of those methodology documents as soon as is practicable.
- Spinco disqualification and removal criteria, while not specifically enumerated in the general policy, may be applied differently to different indexes or index families, based on their specific requirements. Generally speaking, the disqualification and removal of spinco securities will adhere to the stated Deletion Policy within each index methodology, just as it would apply to any other index constituent. For those indexes without specifically stated Deletion Policies, every attempt will be made to adjudicate spinco securities in keeping with the spirit of the methodology, until such time as an official Deletion Policy is adopted.
- As noted in the consultation, some indexes or families of indexes may be the subject of additional future consultations, particularly with respect to spinco disqualification and removal criteria. Such consultations may, or may not, result in future changes or clarifications to those methodologies.