

# **KBW Nasdaq Capital Markets Index Methodology**

## **Index Description**

The KBW Nasdaq Capital Markets Index is designed to track the performance of companies that conduct business as broker-dealers, asset managers, trust and custody banks or exchanges that are publicly traded in the U.S.

## **Index Calculation**

The KBW Nasdaq Capital Markets Index is a modified market capitalization weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each such security's Last Sale Price<sup>1</sup>, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for Index reporting purposes. The Index began on November 17, 2004 at a base value of 212.22.

The formula for index value is as follows:

Aggregate Adjusted Market Value/Divisor

The formula for the divisor is as follows:

(Market Value after Adjustments/Market Value before Adjustments) X Divisor before Adjustments

Two versions of the Index are calculated – a price return index and a total return index.

- The price return index (Nasdaq: KSX) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: KSXTR) reinvests cash dividends on the ex-date.

All Indexes reflect extraordinary cash distributions.

The Indexes are calculated and disseminated once per second from 9:30:01 to 17:16:00 Eastern Time (ET) in USD. The closing value of the Indexes may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

## **Eligibility**

Index eligibility is limited to specific security types only. The security types eligible for the Index include common stocks.

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<sup>1</sup> For purposes of this document, Last Sale Price refers to the last regular way trade reported on such security's Index Market. The Index Market is the listing market for which prices are received and used by Nasdaq in the Index calculation and generally will represent the most liquid trading market of the Index Security. If a security does not trade on its Index Market on a given day or the Index Market has not opened for trading, the most recent last sale price from the Index Market (adjusted for corporate actions, if any) is used. For securities where Nasdaq is the Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

## **Index Committee**

KBW Nasdaq Indexes are maintained by a 5-member Index Committee consisting of 4 full-time KBW employees and one full-time Nasdaq employee. The objective of the Index Committee is to develop and maintain indexes that seek to replicate certain market, industry, and geographic segments. The Index Committee meets at minimum quarterly and reviews any pending corporate actions impacting current index components as well as evaluates companies being considered for index inclusion and any relevant market news and events. The Index Committee also reviews the suitability of current index components on a quarterly basis using both quantitative and qualitative measures. The Index Committee reserves the right to alter index methodology and matters pertaining to index maintenance as necessary. All Index Committee discussions and meeting minutes are confidential.

## **Initial Eligibility Criteria**

To be eligible for inclusion in the Index a security must meet the following criteria:

- be listed on The Nasdaq Stock Market® (Nasdaq®), the New York Stock Exchange or NYSE MKT;
- be classified, as conducting business as broker-dealers, asset managers, trust and custody banks or exchanges as determined by the Index Committee;
- have a market capitalization greater than or equal to the smallest Index Security's market capitalization;
- have a minimum monthly average daily trading volume of 100 thousand shares;
- have a minimum average trailing-30-day stock closing price of \$2.00;
- have a minimum free float of 20%;
- one security per issuer is permitted. If an issuer has multiple securities, the security with the highest monthly average daily trading volume will be selected for possible inclusion into the Index;
- have listed options on a recognized options market in the U.S. or be eligible for listed-options trading on a recognized options market in the U.S.;
- the issuer of the security may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible;
- may not be issued by an issuer currently in bankruptcy proceedings;
- the issuer of the security may not have annual financial statements with an audit opinion that is currently withdrawn; and
- the security must have "seasoned" on a recognized market for at least 3 months.

## **Continued Eligibility Criteria**

The Index Committee attempts to keep turnover at a minimum. Index changes are avoided and except under extraordinary circumstances that may result in an interim evaluation, the Index Securities are evaluated by the Index Committee on a quarterly basis in March, June, September and December.

To be eligible for continued inclusion in the Index, an Index Security must meet the following continued eligibility criteria:

- be listed on The Nasdaq Stock Market® (Nasdaq®), the New York Stock Exchange or NYSE MKT;
- be classified, as reasonably as conducting business as broker-dealers, asset managers, trust and custody banks or exchanges as determined by the Index Committee; and
- have a minimum trailing-three month average stock closing price of \$2.00.

## **Evaluation**

The criteria for initial and continued eligibility are applied quarterly using market data through the 15<sup>th</sup> day of each calendar quarter month of February, May, August and November (in cases where the 15<sup>th</sup> of the month is a holiday or weekend, the prior day trading day is used instead). Security additions and deletions are made effective after the close of trading on the third Friday of March, June, September and December.

In the event of an extraordinary change in the nature of any component stock (e.g. delisting, merger, acquisition, change of principal business, etc.) in the Index that will alter the overall market character of the Index, the Index Committee will take appropriate actions to remove the stock or replace it at the next Evaluation with another stock which would best represent the intended market character of the Index.

Additionally, if at any time during the year other than the Evaluation, an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index, the security is removed from the Index and is replaced at the next Evaluation, which occurs after the close of trading on the third Friday in each of March, June, September and December. In all cases, a security is removed from the Index at its Last Sale Price. If, however, at the time of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, in Nasdaq's discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

## **Index Maintenance**

Changes in the price and/or Index Shares driven by corporate events such as stock dividends, stock splits and certain spin-offs and rights issuances are adjusted on the ex-date. If the change in total shares outstanding arising from other corporate actions is greater than or equal to 10.0%, the change is made as soon as practicable. Otherwise, if the change in total shares outstanding is less than 10%, then all such changes are accumulated and made effective at one time on a quarterly basis after the close of trading

on the third Friday in each of March, June, September and December. The Index Shares are derived from the security's total shares outstanding. The Index Shares are adjusted by the same percentage amount by which the total shares outstanding have changed.

A special cash dividend announced by the listing exchange, will result in an adjustment to the Last Sale Price of an Index Security prior to market open on the ex-date for the special amount distributed. A special dividend may also be referred to as extra, extraordinary, non-recurring, one-time, unusual, etc.

Ordinarily, whenever there is a change in an Index Security or a change to the price of an Index Security due to spin-offs, rights issuances or special cash dividends as mentioned above, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index which might otherwise be caused by any such change. All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

### **Index Rebalancing**

The Index employs a modified market capitalization weighting methodology. At each quarter, the Index is rebalanced such that the maximum weight of any Index Security does not exceed 8% and no more than 5 securities are at that cap. The excess weight of any capped security is distributed proportionally across the remaining Index Securities. If after redistribution, any of the 5 highest ranked Index Securities are weighted below 8%, these securities are not capped. Next, any remaining Index Securities in excess of 4% are capped at 4% and the excess weight will be redistributed proportionally across the remaining Index Securities. The process is repeated, if necessary, to derive the final weights.

The modified market capitalization weighting methodology is applied to the capitalization of each Index Security, using the Last Sale Price of the security at the close of trading on the last trading day in February, May, August and November and after applying quarterly changes to the total shares outstanding. Index Shares are then calculated multiplying the weight of the security derived above by the new market value of the Index and dividing the adjusted modified market capitalization for each Index Security by its corresponding Last Sale Price. The changes are effective after trading on the third Friday in March, June, September and December.

The Index Committee, may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

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