

Calculation of Special Dividends in Net Total Return Indexes

For the vast majority of its indexes, Nasdaq typically produces, calculates and disseminates multiple return versions. Each version is based on the same selection and weighting methodology, and should therefore have the same underlying constituents, index shares, and weights. The handling of dividends should be the only meaningful difference between the various return types. When selecting a benchmark, index stakeholders generally choose either the Total Return version or the Net Total Return version, based on whether they expect their dividends to be subject to foreign tax withholding.

- Price Return (PR) reflects the price performance of the index, plus the full value of special dividends, but excludes the value of regular dividends.
- (Gross) Total Return (TR) reflects the price performance, plus the full value of all dividends, both special and regular.
- Net Total Return (NTR) reflects the price performance, plus the *net* amount of all special and regular dividends after applying an assumed foreign tax withholding rate.

As part of an ongoing effort to better align index calculations with the expectations of passive investors, Nasdaq is seeking general feedback from investors, clients, and other industry professionals regarding the handling and calculation of special dividends events, specifically as applied to Net Total Return index versions. **It should be noted that no changes are being proposed for the calculation of Price Return or Total Return index versions.**

Current State

Currently, on the effective date of the special dividend, Net Total Return indexes apply a *net* price adjustment to the security from which the special dividend was paid. In market-cap-weighted indexes, a standard divisor adjustment accompanies this price adjustment in order to ensure that no price dislocation takes place between the prior end-of-day (EOD) index values and the start-of-day (SOD) index value on the effective date. In *non*-market-cap-weighted indexes, the same net price adjustment is applied, with the net amount of the dividend being “reinvested” in the security from which it was paid, through an increase in its number of index shares.

The current process is summarized in the following table:

Index type	Price adjustment to the security paying the special dividend	"Reinvestment" in the same security?	Index divisor change?	When are taxes reflected?
Price Return and Total Return (cap-weighted)	Full dividend amount	No	Yes	N/A
Price Return and Total Return (non-cap-weighted)	Full dividend amount	Reinvest full amount in additional index shares	No	N/A
Net Total Return (cap-weighted)	Net dividend amount	No	Yes	Intraday on dividend effective date
Net Total Return (non-cap-weighted)	Net dividend amount	Reinvest net amount in additional index shares	No	Intraday on dividend effective date

In cases where the special dividend is relatively large and/or the security has a significant weight in the index, this method of adjustment may produce unexpected results. In particular, the index shares and resulting weights of securities in the Net Total Return version of the index may diverge from the index shares and weights in the Price Return and Total Return versions of the same index.

Proposed State

In order to maintain the same index shares and weights across all return versions of an index, all versions will adjust the price of the dividend paying security by the full amount. For non-cap-weighted indexes, all return versions will reinvest the full amount of the dividend in new shares of the security. The “loss” of value due to tax withholding will be realized through a divisor change in Net Total Return indexes. This divisor change is designed to decrement the index value by the amount of the assumed tax withholding, and is applied prior to SOD on the effective date. Proposed changes to the process are highlighted below:

Index type	Price adjustment to the security paying the special dividend	"Reinvestment" in the same security?	Index divisor change?	When are taxes reflected?
Price Return and Total Return (cap-weighted)	Full dividend amount	No	Yes (to maintain the index level)	N/A
Price Return and Total Return (non-cap-weighted)	Full dividend amount	Reinvest full amount in additional index shares	No	N/A
Net Total Return (cap-weighted)	Full dividend amount	No	Yes (to decrement the index level)	Before SOD on effective date
Net Total Return (non-cap-weighted)	Full dividend amount	Reinvest full amount in additional index shares	Yes (to decrement the index level)	Before SOD on effective date

Feedback

Please provide your responses here: <https://nd.nasdaq.com/NTR-Consultation.html>

Following the conclusion of the consultation after the close of business on June 30th, 2022, a summary of the results will be published. Stakeholders will not be identified in the summary.

To submit attachments with this consultation response, please e-mail IndexConsultations@nasdaq.com