
FTSE Russell and EU Benchmark Regulation

Regulating the provision of, contribution to and use of benchmarks

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Section 1

Background. Definition and objectives. Scope and timeline.

1. How and why did the EU Benchmark Regulation (EU BMR) come into existence?

The European Commission proposed a draft regulation for *indexes*¹ that are used as *benchmarks* in *financial instruments* and *financial contracts* or to measure the performance of an *investment fund* in September 2013. This was prompted by growing concerns about the integrity and accuracy of benchmarks, which had been highlighted by previous scandals such as the LIBOR and EURIBOR rate manipulation.

Following agreement and approval by the European Parliament and the Council of the European Union the [final text](#) of the EU BMR was published in the European Official Journal on 29 June 2016, entered into force on 30 June 2016 and applies from 1 January 2018.

2. What are the objectives of the EU BMR?

The EU BMR aims to raise the standard of benchmark provision by introducing a common regulatory framework at an EU level. This framework is designed to ensure the accuracy and integrity of indexes used as benchmarks and contribute to the proper functioning of the internal market while achieving a high level of consumer and investor protection.

3. How does the EU BMR define “index”?

The EU BMR defines an index in Article 3(1)(1) as:

[...] any figure:

(a) that is published or made available to the public;

(b) that is regularly determined:

¹ The terms in italics indicate an EU BMR defined term

(i) entirely or partially by the application of a formula or any other method of calculation, or by an assessment; and

(ii) on the basis of the value of one or more underlying assets or prices, including estimated prices, actual or estimated interest rates, quotes and committed quotes, or other values or surveys.”

4. How does the EU BMR define “benchmark”?

The EU BMR defines a benchmark in Article 3(1)(3) as:

“Any index by reference to which the amount payable under a financial instrument or a financial contract, or the value of a financial instrument, is determined, or an index that is used to measure the performance of an investment fund with the purpose of tracking the return of such index or of defining the asset allocation of a portfolio or of computing the performance fees.”

5. What are the various types of benchmarks?

The EU BMR groups benchmarks into different types. This creates a differentiated regime where different rules apply to benchmarks with different characteristics.

In general, the provisions of Title II of the EU BMR apply to all benchmarks within scope. However, certain types of benchmark, categorised according to their underlying asset or factor, have particular provisions of the EU BMR applied or disapplied as follows:

- **Regulated data benchmarks:** Released from certain obligations e.g. in relation to input data and the requirement for codes of conduct. Regulated data benchmarks cannot be categorised as critical benchmarks.
- **Interest rate benchmarks:** Subject to the requirements set out in Annex I of the EU BMR in addition to, or as a substitute for, the requirements of Title II.
- **Commodity benchmarks:** Subject to the requirements set out in Annex II of the EU BMR instead of the requirements in Title II, unless they are regulated data benchmarks or are based on submissions the majority of which are supervised entities.

The EU BMR also categorises benchmarks into three distinct categories according to particular quantitative and qualitative measures as follows:

- **Critical benchmarks:** Meet one of the conditions in Article 20:
 - it is a reference for financial instruments or financial contracts or used for measuring the performance of investment funds, having a total value (all maturities, tenors) > €500bn; or
 - it is based on submissions and recognised as critical in one member state; or
 - it is a reference for financial instruments or financial contracts or used for measuring the performance of investment funds, having a total value > €400bn; and it has no, or very few, substitutes;

and cessation would adversely affect market integrity, financial stability, the real economy, consumers, etc;

- **Significant benchmarks:** Where a benchmark is not critical and:
 - it is a reference for financial instruments or financial contracts or is used for measuring the performance of investment funds, having a total average value > €50bn; or
 - it has no or very few substitutes or cessation would have significant and adverse impact on market integrity, financial stability, the real economy, consumers, etc;
- **Non-significant benchmarks:** Benchmarks that are not critical or significant benchmarks.

6. Who is affected by the EU BMR?

The EU BMR contains provisions that affect:

- *administrators* of benchmarks (both within and outside of the EU),
- *contributors of input data* to a benchmark, and
- *supervised entities using* a benchmark within the EU.

7. How does the EU BMR define a benchmark “administrator”?

The EU BMR defines an administrator in Article 3(1)(6) as:

“a natural or legal person that has control over the provision of a benchmark”.

Provision of a benchmark is defined in Article 3(1)(5) as:

“(a) administering the arrangements for determining a benchmark;

(b) collecting, analysing or processing input data for the purpose of determining a benchmark; and

(c) determining a benchmark through the application of a formula or other method of calculation or by an assessment of input data provided for that purpose”.

8. How does the EU BMR define “contributor”?

Article 3(1)(9) of the EU BMR contains the following definition:

“‘contributor’ means a natural or legal person contributing input data”.

The definition of input data in Article 3(1)(14) is:

“‘input data’ means the data in respect of the value of one or more underlying assets, or prices, including estimated prices, quotes, committed quotes or other values, used by an administrator to determine a benchmark”.

The definition of a contribution of input data in Article 3(1)(8) is:

“‘contribution of input data’ means providing any input data not readily available to an administrator, or to another person for the purposes of passing to an administrator,

that is required in connection with the determination of a benchmark, and is provided for that purpose”.

9. How does the EU BMR define “supervised entity”?

Article 3(1)(17) specifies that “supervised entity” means any of the following:

“(a) a credit institution as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (1);

(b) an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU;

(c) an insurance undertaking as defined in point (1) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council (2);

(d) a reinsurance undertaking as defined in point (4) of Article 13 of Directive 2009/138/EC; (e) a UCITS as defined in Article 1(2) of Directive 2009/65/EC or, where applicable, a UCITS management company as defined in point (b) of Article 2(1) of that Directive;

(f) an alternative investment fund manager (AIFM) as defined in point (b) of Article 4(1) of Directive 2011/61/EU of the European Parliament and of the Council (3);

(g) an institution for occupational retirement provision as defined in point (a) of Article 6 of Directive 2003/41/EC of the European Parliament and of the Council (4);

(h) a creditor as defined in point (b) of Article 3 of Directive 2008/48/EC for the purposes of credit agreements as defined in point (c) of Article 3 of that Directive;

(i) a non-credit institution as defined in point (10) of Article 4 of Directive 2014/17/EU for the purposes of credit agreements as defined in point (3) of Article 4 of that Directive;

(j) a market operator as defined in point (18) of Article 4(1) of Directive 2014/65/EU;

(k) a CCP as defined in point (1) of Article 2 of Regulation (EU) No 648/2012 of the European Parliament and of the Council (5);

(l) a trade repository as defined in point (2) of Article 2 of Regulation (EU) No 648/2012; (m) an administrator”.

10. What is meant by “use of benchmark”?

To help further with the definition of “use”, Article 3(1)(7) of the EU BMR provides:

“*use of benchmark*’ means:

(a) *issuance of a financial instrument² which references an index or a combination of indices;*

² Note the further definition in Article 3(1)(16)

- (b) *determination of the amount payable under a financial instrument or a financial contract³ by referencing an index or a combination of indices;*
- (c) *being a party to a financial contract which references an index or a combination of indices;*
- (d) *providing a borrowing rate as defined in point (j) of Article 3 of Directive 2008/48/EC calculated as a spread or mark-up over an index or a combination of indices and that is solely used as a reference in a financial contract to which the creditor is a party;*
- (e) *measuring the performance of an investment fund⁴ through an index or a combination of indices for the purpose of tracking the return of such index or combination of indices, of defining the asset allocation of a portfolio, or of computing the performance fees.”*

11. What is the scope of the EU BMR?

The EU BMR specifies that supervised entities may only “use” a benchmark in the EU if:

- **the benchmark is provided by an EU administrator** included in ESMA’s register of administrators, authorised or registered under EU BMR, or
- **the benchmark is provided by a non-EU provider** included in ESMA’s register qualifying for use in the EU under the EU BMR’s third-country regime (through equivalence, recognition or endorsement).

ESMA will establish and maintain a public register of authorised and registered EU based administrators and a list of benchmarks provided by non-EU providers qualifying for use in the EU.

12. When does the EU BMR apply?

The EU BMR applies from **1 January 2018**.

There are certain transitional provisions (as defined in Article 51 (1)) which apply until **1 January 2020**. Further guidance on these provisions has been given by ESMA in its Questions and Answers ([see link](#)).

- 12.1** As clarified in ESMA’s Questions and Answers dated 5 July 2017 (Question 8.1) an EU based index provider, already providing a benchmark on 30 June 2016, has until 1 January 2020 to apply for authorisation or registration.

ESMA has confirmed that, until 1 January 2020, “*the EU index provider is allowed to continue its activity of provision of benchmarks in full and supervised entities in the Union are able to use all the benchmarks provided by EU index providers that qualify for the transitional provisions in Article 51(1).*”

This includes benchmarks already provided before 1 January 2018, updates and modifications of benchmarks already provided before 1 January 2018, as well as the provision of new benchmarks for the first time after 1 January 2018. The

³ Note the further definition in Article 3(1)(18)

⁴ Note the further definition in Article 3(1)(19) and the additional guidance provided in ESMA’s Questions and Answers dated 5 February 2017 (Questions 5.1-5.5).

transitional provisions of Article 51(1) are to be applied unless and until the authorisation or registration of the EU index provider is refused.”

- 12.2** As clarified in ESMA’s Questions and Answers dated 5 July 2017 (Question 8.2), ESMA’s understanding of the transitional provisions in Article 51(3) as they relate to an EU based index provider not already providing a benchmark on 30 June 2016 is that if the EU index provider starts to provide benchmarks between 30 June 2016 and 1 January 2018:

“all benchmarks provided for the first time on or before 1 January 2018 by an EU index provider can be used by a supervised entity until 1 January 2020 or until and unless the authorisation or registration of the EU index provider is refused.

Therefore, if an EU index provider starts to provide benchmarks between 30 June 2016 and 1 January 2018, such benchmarks, including their updates and modifications, can be used by supervised entities on and after 1 January 2018 (even if the authorisation or registration is not yet granted) and until 1 January 2020 or until and unless the authorisation or registration of the EU index provider is refused.

However, in the case that an EU index provider starts to provide benchmarks after 30 June 2016 and provides a new benchmark after 1 January 2018, supervised entities will not be allowed to use such newly provided benchmark, unless the EU index provider obtains first authorisation or registration.”

- 12.3** There are further transitional provisions (as defined in Article 51 [5]) that were clarified in ESMA’s Questions and Answers (Question 8.3) dated 8 November 2017 and which apply to third-country (non-EU) administrators.

In its Answer 8.3, ESMA clarified that it:

“considers that the meaning of the term “where the benchmark is already used in the Union” in Article 51(5) of the BMR is “where the benchmark is already used in the Union on or before 1 January 2020”.”

The effect of this clarification is that third-country administrators can continue to provide existing and new benchmarks for use in the Union up to 1 January 2020 under the transitional provisions contained in Article 51(5) and supervised entities may continue to reference such benchmarks or add a reference to such benchmarks prior to 1 January 2020.

13. From when do index providers have to comply with the EU BMR?

Index providers had questioned whether they were required to comply with the EU BMR from the date of application, 1 January 2018, or from the point at which they are authorised or registered as an administrator.

In its Questions and Answers (Question 6.1) dated 14 December 2017, ESMA clarified that:

“EU index providers are required to comply with the obligations laid down in the BMR only at the time of authorisation or registration.”

14. **What are the consequences of non-compliance with the EU BMR?**

Sanctions that can be applied by the competent authorities for breach of the EU BMR are wide ranging and are set out in Article 42. They include cease and desist orders, disgorgement of profits, withdrawal of authorisation for administrators, prohibition on individuals from exercising management functions, public warnings as well as financial sanctions for corporate entities and for individuals.

Section 2

Implications for administrators

15. What are the requirements for administrators under the EU BMR?

The majority of the EU BMR focuses on the requirements for administrators and these requirements are grouped into the following themes:

- Benchmark Integrity and Reliability
 - Governance of and control by administrators
 - Input data, methodology and reporting of infringements
 - Code of conduct and requirements for contributors
- Requirements for Different Types of Benchmarks
 - Regulated-data benchmarks
 - Interest rate benchmarks
 - Commodity benchmarks
 - Critical benchmarks
 - Significant benchmarks
 - Non-significant benchmarks
- Transparency and Consumer Protection
 - Benchmark statement
 - Changes to and cessation of a benchmark

16. **How does FTSE Russell comply with the EU BMR?**

FTSE International Limited has been authorised by the United Kingdom Financial Conduct Authority (the “FCA”) as an EU based administrator of benchmarks. The authorisation covers all FTSE, Russell, FTSE TMX and FTSE MTS indexes known to be used as benchmarks in the European Union.

17. **When was FTSE International Limited authorised as an administrator of benchmarks?**

FTSE International Limited was authorised by the FCA as an EU based administrator of benchmarks on 1 June 2018 and appears on the [FCA's Register](#). FTSE International Limited was added to the [register of EU-based administrators maintained by ESMA](#).

18. **Are the Citi fixed income indexes included in FTSE Russell's authorisation?**

The fixed income indexes acquired from Citigroup Indices LLC in August 2017 will continue to be administered by that body, now renamed FTSE Fixed Income LLC, according to the third country transitional provisions afforded by the EU BMR until such time as the administration of those indexes has been assumed by FTSE International Limited.

19. **Will a list of FTSE Russell benchmarks appear in the ESMA register?**

No. For EU based administrators, the ESMA register just includes the name of the authorised or registered administrator and the competent authority responsible for its supervision. In the case of FTSE Russell, the entry is for FTSE International Limited and the competent authority is the FCA.

Section 3

Implications for benchmark users

20. How will the EU BMR impact users of indexes?

20.1 Use

If a firm:

- is a *supervised entity*;
- intending to *use a benchmark*;
- within the EU,

Article 29(1) of the EU BMR provides that the firm may continue to do so if that benchmark is provided by an administrator in the EU appearing in the ESMA register or is a benchmark included in the ESMA register by virtue of the third country qualifying provisions of equivalence, recognition or endorsement.

20.2 Publication of a prospectus

Article 29(2) specifies that :

“Where the object of a prospectus to be published under Directive 2003/71/EC or Directive 2009/65/EC is transferable securities or other investment products that reference a benchmark, the issuer, offeror, or person asking for admission to trade on a regulated market shall ensure that the prospectus also includes clear and prominent information stating whether the benchmark is provided by an administrator included in the register referred to in Article 36 of this Regulation.”

In its Questions and Answers issued on 24 May 2018, ESMA clarified in Answer 8.2 that prospectuses should include reference to the ESMA register of administrators and benchmarks ("the register") as follows:

For prospectuses approved on or after 1 January 2018:

- Where the register already includes the relevant administrator by the time a prospectus under Directive 2003/71/EC or Directive 2009/65/EC is published, ESMA considers that such prospectus should include a reference to the fact that the administrator is listed in the register.
- Where the register does not include the relevant administrator by the time a prospectus is published, ESMA considers that such prospectus should include a statement to that effect. Additionally:

- Prospectuses published under Directive 2009/65/EC should be updated at the first occasion once the relevant administrator is included in the register.
- Prospectuses approved under Directive 2003/71/EC are not required under BMR to be systematically updated by means of a supplement once the relevant administrator is included in the register. This is without prejudice to the obligation under Directive 2003/71/EC of the issuer, offeror or person asking for admission to trading on a regulated market to assess on a case-by-case basis the significance and/or materiality of the specific situation.

For prospectuses approved prior to 1 January 2018:

- Prospectuses approved under Directive 2009/65/EC should be updated at the first occasion or at the latest within 12 months after 1 January 2018, in accordance with Article 52. If by 1 January 2019 the relevant administrator is not included in the register, ESMA considers that these prospectuses should be updated to include a statement to that effect.
- Prospectuses approved under Directive 2003/71/EC are not required under BMR to be systematically updated by means of a supplement once the relevant administrator is included in the register. This is without prejudice to the obligation under Directive 2003/71/EC of the issuer, offeror or person asking for admission to trading on a regulated market to assess on a case-by-case basis the significance and/or materiality of the specific situation.

20.3 Changes to and cessation of a benchmark

Article 28(2) requires supervised entities that use a benchmark to:

“produce and maintain robust written plans setting out the actions that they would take in the event that a benchmark materially changes or ceases to be provided”.

The EU BMR requires those plans to be:

- provided to the relevant competent authority upon request; and
- reflected in the contractual relationship with clients.

20.4 Timing of compliance

Robust written plans

In its Questions and Answers issued on 14 December 2017, ESMA confirmed in Answer 7.1 that supervised entities are required to produce and maintain their robust written plans as of 1 January 2018.

Contractual relationship with clients

ESMA clarified in Answer 7.1 of its Questions and Answers issued on 14 December 2017 that supervised entities are required to:

“reflect such plans in the contractual relationship with clients in contracts entered into after 1 January 2018.”

For contracts entered into prior to 1 January 2018 and still existing at that date, ESMA clarified in Answer 7.1 of its Questions and Answers issued on 14 December 2017 that it expects supervised entities to:

“amend them where practicable and on a best-effort basis.”

20.5 Implications of non-compliance

The sanctions referred to in Question 13 apply to all parties subject to the EU BMR and therefore also apply to supervised entities using benchmarks in scope within the EU.

Section 4

Implications for contributors

21. How will the EU BMR impact administrators in relation to entities contributing input data to benchmarks?

In its Article 5 on Oversight function requirements, the EU BMR defines the establishment and maintenance by administrators of a permanent and effective oversight function. In relation to input data from contributors, it sets out certain responsibilities of the oversight function as:

- *“overseeing the administrator’s control framework, the management and operation of the benchmark, and, where the benchmark is based on input data from contributors, the code of conduct referred to in Article 15,*
- *where the benchmark is based on input data from contributors, monitoring the input data and contributors and the actions of the administrator in challenging or validating contributions of input data,*
- *where the benchmark is based on input data from contributors, taking effective measures in respect of any breaches of the code of conduct referred to in Article 15; and*
- *reporting to the relevant competent authorities any misconduct by contributors, where the benchmark is based on input data from contributors, or administrators, of which the oversight function becomes aware, and any anomalous or suspicious input data.”*

22. How will the EU BMR impact contributors?

The EU BMR establishes a precise code of conduct and requirements for contributors covering aspects of clarity of description of the input data, identification of the persons that may contribute, policies to ensure that a contributor provides all relevant input data as well as the systems and controls that a contributor is required to establish.

In particular, Article 15 defines *“where a benchmark is based on input data from contributors, its administrator shall develop a code of conduct for each benchmark clearly specifying contributors’ responsibilities with respect to the*

contribution of input data and shall ensure that such code of conduct complies with this Regulation. The administrator shall be satisfied that contributors adhere to the code of conduct on a continuous basis and at least annually and in case of changes to it.”

In addition, the provisions of Article 16 apply directly to contributors that are regulated entities. The provisions focus on the governance and systems and control requirements of such contributors.



Appendix

Official Journal of the European Union – REGULATION (EU) 2016/1011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (Text with EEA relevance)

English: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1011&from=EN>

French: <http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:32016R1011&from=FR>

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Spanish: <http://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:32016R1011&from=ES>

ESMA's Questions and Answers on the Benchmarks Regulation:

https://www.esma.europa.eu/sites/default/files/library/esma70-145-114_gas_on_bmr.pdf

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