

AKROS

Akros Index Engineering Terms of Reference

Akros Index Engineering Inc.

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Contents

1.	Introduction	3
2.	Objectives	3
3.	Scope	3
4.	Roles and Responsibilities	3
5.	Operational Guideline	4
6.	Governance and Accountability	4
7.	Compliance and Ethics	5
8.	Financial Terms	5
9.	Risk Management	6
10.	Review and Amendment	7

1. Introduction

The purpose of this document is to outline the Terms of Reference (ToR) for AIE as a financial benchmark administrator. This ToR sets out the framework and guidelines for the creation, calculation, maintenance, and governance of financial benchmarks, ensuring alignment with regulatory requirements and best practices.

2. Objectives

The objectives of this ToR are to:

- Define the roles and responsibilities within AIE related to benchmark administration.
- Establish operational guidelines and procedures for benchmark creation and maintenance.
- Ensure compliance with legal and regulatory requirements.
- Promote transparency, integrity, and reliability in benchmark administration.

3. Scope

This ToR applies to all employees, contractors, and stakeholders involved with the administration of financial benchmarks at AIE. It covers all aspects of benchmark administration, including methodology development, data collection, calculation, dissemination, and governance.

4. Roles and Responsibilities

4.1. Board of Directors

- Provide strategic direction and oversight for benchmark administration.
- Ensure compliance with relevant regulations and standards.
- Approve major decisions and policies related to benchmarks.

4.2. Compliance Officer

- Ensure adherence to regulatory requirements and internal policies.
- Conduct regular audits and reviews of benchmark administration processes.
- Report compliance issues to the Benchmark Oversight Committee.

4.3. Product Governance Committee

- Develop and maintain benchmark methodologies.
- Collect and validate data for benchmark calculations.
- Perform benchmark calculations and disseminate results.
- Monitor and review the performance of benchmarks.

5. Operational Guidelines

5.1. Methodology Development and Maintenance

- Develop clear and transparent benchmark methodologies.
- Ensure methodologies are based on sound mathematical principles and relevant market data.
- Regularly review and update methodologies to reflect market conditions and regulatory changes.

5.2. Data Collection and Validation

- Collect data from reliable and independent sources.
- Validate data to ensure accuracy, completeness, and consistency.

5.3. Benchmark Calculation

- Perform benchmark calculations in accordance with established methodologies.
- Ensure calculations are accurate and reproducible.
- Maintain records of all calculations and inputs used.

5.4. Dissemination of Benchmarks

- Disseminate benchmark values to stakeholders in a timely and transparent manner.
- Provide clear documentation on the methodology and calculation process.
- Respond promptly to queries and requests for information.

6. Governance and Accountability

6.1. Transparency and Disclosure

- Publish methodologies, changes, and rationale for changes to ensure transparency.
- Disclose any conflicts of interest and steps taken to mitigate them.
- Provide regular updates on benchmark performance and governance activities.

6.2. Stakeholder Engagement

- Engage with stakeholders to gather feedback and improve benchmark methodologies.
- Hold regular meetings with stakeholders to discuss benchmark-related issues.
- Ensure stakeholders have access to relevant information and resources.

6.3. Audit and Review

- Conduct regular internal and external audits of benchmark administration processes.
- Implement recommendations from audits to improve processes and compliance.
- Review and update governance frameworks to reflect best practices and regulatory requirements.

7. Compliance and Ethics

7.1. Legal and Regulatory Compliance

- Comply with all relevant laws, regulations, and industry standards.
- Ensure all activities are conducted in an ethical and transparent manner.
- Report any breaches of compliance to the appropriate authorities.

7.2. Ethical Conduct

- Promote a culture of integrity and ethical behavior.
- Implement a code of conduct for all employees and stakeholders involved in benchmark administration.
- Provide training and resources to support ethical decision-making.

8. Financial Terms

8.1. Market Capitalization

- Comply with all relevant laws, regulations, and industry standards.
- **Full Company Market Capitalization:** The sum of the market capitalization of all share classes.
- **Security Specific Market Capitalization:** The market capitalization of one share class of a company.
- **Full Company Float Modified Market Capitalization:** The sum-product of float percent and market capitalization of all share classes.
- **Security Specific Float Modified Market Capitalization:** Product of float percentage and market capitalization of one share class of a company.
- **Float Shares:** Shares considered to be available for trading.
- **Float Factor/Float Percentage:** The percentage of a company's shares outstanding considered to be available for trading.
- **Float Market Cap:** Market Cap based on Float Shares.

8.2. Methodology Dates

- **Snapshot Date / Selection Date:** Date when constituents are selected.
- **Record / Weight Date:** Date when shares weights are determined based on pricing at that date.

- **Rebalance Date/ Reconstitution Date:** Date when an Index is rebalanced and/or reconstituted.

8.3. Weightings and Adjustments

- **Capping:** Reducing the weight of a company to equal the maximum allowable weight of a constituent during a rebalance.
- **Smoothing:** Proportionally reducing the weight of companies above a weight threshold and redistributing that weight to avoid violating index concentration constraints.
- **Weight Adjustment Factor (WAF):** Modifies local price * fx rate * shares outstanding * float percentage into an index market capitalization for an individual constituent.

8.4. Other Relevant Terms

- **ADTV (Average Daily Traded Volume):** A measure of the average number of shares traded per day over a specified period.
- **Corporate Actions:** Changes to a company's capital structure, such as mergers, acquisitions, or stock splits.
- **Divisor:** A factor used to adjust the value of an index so that its value does not change based on events not tied to constituent performance.
- **Material Index Value Change:** A change in index performance that stakeholders would consider material based on its value relative to normal performance changes.
- **R-Score:** A liquidity calculation where $R\text{-Score} = 90\text{-day ADTV (thousands USD)} / \text{Float Market Capitalization (millions USD)}$.
- **Winsorization:** The exclusion or normalization of extreme measurements, often by limiting extreme values to reduce their impact.

9. Risk Management

9.1. Risk Identification and Assessment

- Identify and assess risks related to benchmark administration, including operational, financial, and reputational risks.
- Develop and implement risk mitigation strategies.
- Regularly review and update risk management policies and procedures.

9.2. Contingency Planning

- Develop and maintain contingency plans to address potential disruptions in benchmark administration.
- Test and update contingency plans regularly.
- Ensure all stakeholders are aware of and understand contingency plans.

10. Review and Amendment

This ToR will be reviewed annually to ensure its relevance and effectiveness. Any amendments must be approved by the Board of Directors.

11. Criteria for Selection of Committee Members

11.1. Board of Directors

- Extensive knowledge in finance, economics, or related fields.
- Demonstrated ability to guide strategic decision-making processes.
- Ability to provide unbiased oversight and guidance.
- High ethical standards and integrity.

11.2. Compliance Officer

- Bachelor's or higher degree in law, finance, or a related field.
- Familiarity with regulatory requirements and compliance frameworks.
- Ability to conduct assessments independently.
- Strong analytical and problem-solving abilities.
- Commitment to maintaining high ethical standards.

11.3. Product Governance Committee

- In-depth knowledge of financial markets, index methodologies, and regulatory requirements.
- Proven track record in managing financial products or indices.
- Ability to provide impartial oversight.
- High professional and ethical standards.
- A balanced mix of skills, experiences, and perspectives to ensure robust governance.

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