

# CMC MARKETS TIERED WEIGHT SHARE BASKET METHODOLOGY

## SHARE BASKET DESCRIPTION

### 1. Definitions:

“**CMC Markets**” means CMC Markets Asia Pacific Pty Ltd (ABN 11 100 058 213, AFSL No. 238054);

“**Divisor Adjustment**” means an amendment to the Share Basket Divisor as a result of a Share Basket Disruption Event;

“**Initial Share Basket Value**” means the Share Basket Price on the Share Basket Launch Date calculated in accordance with section 3;

“**Outgoing Component**” means the affected Share Basket Component, which is substituted with another Share Basket Component as a result of a Substitution Event;

“**Price Adjustment**” means an adjustment to the price of the Share Basket Component and consequently to the Share Basket Price as a result of a Share Basket Disruption Event;

“**Qualifying Component**” means a component voted for inclusion within the Share Basket by the Share Basket Review Panel;

“**Rebalancing Date**” means the first Trading Day of the month following a Review Date;

“**Review Date**” means the third Friday of March, June, September or December of each year starting in 2019 or any other date as the Share Basket Review Panel may determine in its sole discretion;

“**Share Basket**” means the CMC Markets share basket;

“**Share Basket Component**” means one of the individual shares used to construct the Share Basket Price;

“**Share Basket Disruption Event**” means any event such as, but not limited to, an exchange holiday that results in the suspension of pricing or a change to the contract specification of any of the Share Basket Components;

“**Share Basket Divisor**” means the divisor used to set the Initial Share Basket Value at a starting base level;

“**Share Basket Launch Date**”, means the date on which the Share Basket first begins pricing and from when the base value begins;

“**Share Basket Price**” means the price of the Share Basket;

“**Share Basket Rebalancing**” means the adjustment made to a Share Basket by the Share Basket Review Panel following a Share Basket Review Panel meeting;

“**Share Basket Review Panel**” means the committee that reviews the Share Basket composition at least on the Review Date or at any other time and which is composed of at least three members of CMC Markets to be nominated and replaced from time to time by the Group Head of Trading of CMC Markets in London, 133 Houndsditch, London, EC3A 7BX;

“**Substitution Event**” means the replacement of a Share Basket Component as a result of a Share Basket Disruption Event;

“**Trading Day**” means any day that CMC Markets is open that is also a trading day on all the relevant exchanges for the Share Basket Components other than a day on which trading on any such relevant exchange is scheduled to close prior to its regular weekday closing time; and

“**Unit Adjustment**” means an amendment to the number of units held by the Share Basket Component as a result of a Share Basket Disruption Event.

## **2. Initial Share Basket Composition and Minimum Number of Share Basket Components**

On the Share Basket Launch Date, each Share Basket will initially comprise of Share Basket Components that are deemed suitable for inclusion by the Share Basket Review Panel. Each Share Basket will have up to three tiers of weighting.

With a target Initial Share Basket Value of 20,000,000 in a single underlying share currency (USD, CAD, EUR, GBP), the calculated weights will be used to assign a proportion of the Initial Share Basket Value to each Share Basket Component. This will then determine a number of units per Share Basket Component using the closing prices on the day of the Share Basket Launch Date. The number of units of each Share Basket Component is then rounded to 3 significant figures which may result in a minor difference to the target Initial Share Basket Value.

Each Share Basket will initially and at each Share Basket Rebalancing, comprise of the number of Share Basket Components, but may be subject to review if there are less than the number of Share Basket Components available, due to a Share Basket Disruption Event.

Between a Share Basket Rebalancing, a Share Basket Component can be deleted from the Share Basket due to Share Basket Disruption Events such as, but not limited to, insolvency/suspensions.

## **3. Initial Share Basket Value and Calculation Methodology**

The value of a Share Basket will have an Initial Share Basket Value of 20,000,000 in underlying share currency (as calculated below).

$$IV_{(0)} = \sum_{i=1}^n X_{(i,0)} * P_{(i,0)}$$

Where:

- $IV_{(0)}$  = Initial Share Basket Value on Trading Day  $t=0$
- $X_{(i,0)}$  = Number of units of component  $i$  in the Share Basket
- $P_{(i,0)}$  = Price of component  $i$  in the Share Basket on Trading Day  $t=0$
- $n$  = Number of components in the Share Basket on Trading Day  $t=0$

The Share Basket Price will then be calculated using the following formula:

$$IP_{(s)} = \frac{\sum_{i=1}^n X_{(i,t)} * P_{(i,s)}}{D_{(t)}}$$

Where:

- $IP_{(s)}$  = Current Share Basket Price at time  $s$
- $P_{(i,s)}$  = Last published CMC Markets bid or ask price of component  $i$  at time  $s$
- $n$  = Number of components in the Share Basket on Trading Day  $t$
- $X_{(i,t)}$  = Number of units of component  $i$  in the Share Basket on Trading Day  $t$
- $D_{(t)}$  = Share Basket Divisor on Trading Day  $t$

If a change in value of the Share Basket is expected due to a non-market driven event in relation to any of the Share Basket Components, then a new Share Basket Divisor will be calculated based on the close price of each Share Basket Component on the day before the expected event to maintain consistency of the Share Basket Price.

#### 4. Share Basket Disruption Event

If the Share Basket Review Panel determines that a Share Basket Disruption Event has occurred, the Share Basket Review Panel will decide whether to remove or continue to include the Share Basket Component within the Share Basket. Certain Share Basket Disruption Events may be classified as corporate action events and in such cases specific action may be taken, at the discretion of the Share Basket Review Panel, to amend the Share Basket. Corporate action events and possible actions are detailed below. In cases not involving a corporate action event a new Share Basket Divisor will be calculated using the prices of all Share Basket Components at the time of the last price published before the Share Basket Disruption Event of the affected Share Basket Component.

### **Corporate Actions**

Corporate action events may result in either a Price Adjustment, a Unit Adjustment, and/or a Divisor Adjustment.

The following corporate action events and likely corresponding adjustment treatment are specified below:

|    | <b>Corporate Action Event</b> | <b>Corporate Action Description</b> | <b>Adjustment Treatment</b>          |
|----|-------------------------------|-------------------------------------|--------------------------------------|
| 1  | Dividend                      | Ordinary Cash Dividend              | Price Adjustment                     |
| 2  | Dividend                      | Special Cash Dividend               | Price Adjustment                     |
| 3  | Dividend                      | Optional Dividend/DRIP/SCRIP        | Price Adjustment                     |
| 4  | Dividend                      | Bonus Issue/Stock Dividend          | Unit Adjustment & Divisor Adjustment |
| 5  | Capital Change                | Stock Split/Subdivision             | Unit Adjustment                      |
| 6  | Capital Change                | Reverse Stock Split/Consolidation   | Unit Adjustment                      |
| 7  | Capital Change                | Share Redenomination                | Divisor Adjustment                   |
| 8  | Merger & Acquisition          | Merger                              | Divisor Adjustment                   |
| 9  | Merger & Acquisition          | Acquisition/Takeover                | Divisor Adjustment                   |
| 10 | Merger & Acquisition          | De-merger/Spin-Off                  | Divisor Adjustment                   |
| 11 | Exceptional Market Condition  | Bankruptcy/Suspension               | Divisor Adjustment                   |
| 12 | Exceptional Market Condition  | Change of Listing                   | Divisor Adjustment                   |
| 13 | Exceptional Market Condition  | Share Conversion                    | Divisor Adjustment                   |
| 14 | Capital Increase              | Rights Issue                        | N/A                                  |
| 15 | Capital Increase              | Capital Return/Capital Repayment    | Price Adjustment                     |
| 16 | Capital Increase              | Share Buyback/Tender Offer          | N/A                                  |

### **Treatment Specifications**

#### i. Ordinary Cash Dividends (Price Adjustment)

Dividends are cash payments made to shareholders out of a corporation's profits. Typically, corporations will make regular periodic dividend payments throughout the financial year (quarterly, semi-annually or annually) and will therefore be classed as "**Ordinary Cash Dividends**".

##### Share Basket treatment:

Any Ordinary Cash Dividend events will be treated as a Price Adjustment within the Share Basket.

On ex-date the share price of the Share Basket Component will decrease by the approximate value of the gross Ordinary Cash Dividend. This will in turn result in an equivalent adjustment to the overall Share Basket Price based on the weighted average of the Share Basket Component.

A cash adjustment will then be made to the holder of the Share Basket for the net Ordinary Cash Dividend value.

#### ii. Special Cash Dividend (Price Adjustment)

"**Special Cash Dividends**" are dividends that are paid outside of the regular periodic dividend payments of a corporation. These are typically one-off payments that are derived from excess funds within a corporation, such as profit or the sale of assets.

##### Share Basket treatment:

Any Special Cash Dividend events will be treated as a Price Adjustment within the Share Basket. On ex-date the share price of the Share Basket Component will decrease by the approximate value of the gross Special Cash Dividend value. This will in turn result in an equivalent adjustment to the Share Basket Price based on the weighted average of the Share Basket Component. A cash adjustment will then be made to the holder of the Share Basket for the net Special Cash Dividend value.

#### iii. DRIPs & SCRIPs (Optional Dividends) (Price Adjustment)

Dividend Reinvestment Plans ("**DRIPs**") and SCRIP Dividend Schemes ("**SCRIPs**") are optional dividend events that allow shareholders to choose between receiving their Ordinary Cash Dividends in the form of a cash dividend payment or alternatively re-investing the cash dividend back into shares in the corporation from which the dividend originated, with the shareholders then receiving new shares in place of the cash dividend payment.

##### Share Basket treatment:

Any Optional Dividend Event will be treated as an Ordinary Cash Dividend Event and will therefore result in a Price Adjustment within the Share Basket.

On ex-date the share price of the Share Basket Component will decrease by the approximate value of the gross dividend value. This will in turn result in an equivalent adjustment to the Share Basket Price based on the weighted average of the Share Basket Component. A cash adjustment will then be made to the holder of the Share Basket for the net dividend value.

**iv. Bonus Issue/Stock Dividend (Unit Adjustment & Divisor Adjustment)**

A “**Bonus Issue**” is a distribution of shares to shareholders in place of a cash dividend. These distributions are typically in the same line of shares a shareholder currently holds but sometimes can be in a new cash redeemable line.

Share Basket treatment:

In instances where a redeemable line is received, the Bonus Issue will be treated as an Ordinary Cash Dividend. In all other instances an ex-date adjustment will be made to the number of units that the Share Basket Component represents by the ratio provided in the terms of the Bonus Issue. This will have an effect of offsetting the decrease in value of the Share Basket Component and will require a Divisor Adjustment to maintain the Share Basket Price.

A “**Stock Dividend**” is similar to a Bonus Issue and will receive the same treatment.

**v. Stock Split/Subdivision (Unit Adjustment)**

A “**Stock Split/Subdivision**” is an increase in the number of shares outstanding and a reduction in the share price both by the same multiplier, therefore maintaining the same market capital.

Share Basket treatment:

On ex-date the number of units of the Share Basket Component will increase by the specified multiplier, which will offset the decrease in the constituent share price. This will result in no change to the Share Basket Price.

**vi. Reverse Split/Consolidation (Unit Adjustment)**

A “**Reverse Split/Consolidation**” is a reduction in the number of shares outstanding and an increase in the share price both by the same multiplier, therefore maintaining the same market capital.

Share Basket treatment:

On ex-date the number of units of the Share Basket Component will decrease by the specified multiplier, which will offset the increase in the constituent share price. This will result in no change to the Share Basket Price.

**vii. Share Redenomination (Divisor Adjustment)**

A “**Share Redenomination**” is a change in the underlying currency of a share.

Share Basket treatment:

In a Share Redenomination, the Share Basket Component will be removed from the Share Baskets at the last available price. The Share Basket Divisor will then be adjusted to maintain the Share Basket Price.

#### viii. Mergers (Divisor Adjustment)

A “**Merger**” is when two companies merge to form one new company, with the two original companies ceasing to exist as separate entities.

##### Share Basket treatment:

On the effective date of the Merger the existing companies will be removed from the Share Basket at the last quoted price. The new company will then be added. The number of units of the new company and the entry price will be dependent on the ratio of old to new across both existing lines, for example:

Company A merges with Company B to create Company C  
Company A consists of 100,000 units trading at USD 10.00  
Company B consists of 100,000 units trading at USD 5.00  
Ratio of company A to company C is 0.66 for 1  
Ratio of company B to company C is 0.33 for 1  
Company C consists of 100,000 units trading at USD 15.00

If both Company A and Company B are existing Share Basket Components of the Share Basket, then there will be no change to the Share Basket Divisor as the total market capital of the combined company will remain the same.

If only one of the companies is an existing constituent of the Share Basket, then either:

- the existing constituent will be removed at the last quoted price and the Share Basket Divisor adjusted to maintain the Share Basket Price; or
- the existing constituent will be removed at the last quoted price and the new company will be added at the calculated price based on both constituents; the Share Basket Divisor will then be adjusted to maintain the existing Share Basket Price (required due to the increase in market capital of the new company).

#### ix. Acquisitions/Takeover (Divisor Adjustment)

An “**Acquisition/Takeover**” is when a company (acquirer) buys the entire outstanding share capital of another company (target). The terms of the takeover can be 100% cash, in which case existing shareholders of the target company will receive a cash payment in place of their shareholding, or 100% stock in which case existing shareholders will receive new shares in the acquirer in place of their shareholding. It can also be a mix of both cash and stock.

##### Share Basket treatment:

If the Acquisition is 100% cash, then the target constituent will be removed at the cash offer price. The Share Basket Divisor will then be adjusted to maintain the Share Basket Price.

If the Acquisition is 100% stock, then the target constituent will be removed at the equivalent value of a new share in the acquirer based on the terms of the offer.

If the acquirer is already a Share Basket Component, then the number of units of the acquirer will increase by the ratio of new shares given to the target shareholders. The Share Basket Divisor will then be adjusted to maintain the Share Basket Price.

If the acquirer is not already a constituent of the Share Basket, then it may be added to the Share Basket at the last quoted price and the Share Basket Divisor will be adjusted to maintain the Share Basket Price.

If it is decided that the acquirer is not to be added to the Share Basket, then the Share Basket Divisor will be adjusted to maintain the Share Basket Price.

If the Acquisition is part stock and part cash, then the target will be removed at the equivalent value of both the cash and stock terms. The acquirer will then be added at the last quoted price if not already a Share Basket Component. The Share Basket Divisor will then be adjusted to maintain the Share Basket Price.

#### **x. Demerger/Spin-Off (Divisor Adjustment)**

A “**Demerger/Spin-Off**” involves a company separating part of its business to become a standalone entity.

##### Share Basket treatment:

In the case of a Demerger/Spin-Off the price of the original Share Basket Component will decrease by the value of the demerged/spun-off company on the effective date. The demerged/spun-off line will then be added to the Share Basket at the theoretical value based on the terms of the Demerger/Spin-off. No Divisor Adjustment is required as the combined market capital of both the original constituent and the new constituent should equal the pre-adjusted market capital.

If it is decided that the demerged/spun-off line will not be added to the basket, then the Share Basket Divisor will be adjusted to maintain the Share Basket Price.

#### **xi. Bankruptcy/Suspension (Divisor Adjustment)**

Companies can be suspended from trading for a number of reasons, but typically they occur when there are serious concerns about a company’s assets or operations. These suspensions can sometimes lead to long-term suspension and/or bankruptcy proceedings.

##### Share Basket treatment:

If a Share Basket Component is suspended, then the entire Share Basket will be suspended until the reason for the suspension can be established. If the reason cannot be established within a reasonable timeframe (approx. 5 working days) or if the company is deemed to be entering a long-term suspension or bankruptcy proceedings, then the suspended Share Basket Component will be removed from the Share Basket at the last quoted price. An equity position in the suspended



constituent will be opened alongside the Share Basket for the equivalent value of the exposure of the relevant constituent within the Share Basket based on the weighted average. The client's position size of the Share Basket will reduce to reflect the exposure increase caused by the new equity position, for example:

A client holds a position of 10 units in a Share Basket trading at USD 2,000.00 (total exposure USD 20,000.00)

A constituent within the basket with a 20% weighting is suspended and subsequently removed from the basket, this constituent equating to an exposure of USD 4,000.00  $((10 \times 2,000.00) \times 0.20)$ . Therefore a new position is opened in the underlying equity at the last quoted price for a total exposure of USD 4,000.00. The Share Basket index position is then reduced to 8 units at USD 2,000.00 (total exposure USD 16,000.00).

The new equity position will receive the margin rates of the underlying instrument as already set by CMC Markets. In the case of bankruptcy proceedings CMC Markets will use reasonable endeavours to give clients 24 hours' notice that the margin will increase to 100%. In these cases both the basket and equity position will remain suspended until the process and margin increase is complete.

#### **xii. Change of Listing (Divisor Adjustment)**

A "**Change of Listing**" refers to a company moving from one exchange to another.

##### Share Basket treatment:

In these instances it will be determined by the Share Basket Review Panel whether or not the company can remain a Share Basket Component. If it is determined that the constituent must be removed, then this will be completed at the last quoted price. The Share Basket Divisor will be adjusted and the constituents rebalanced to maintain the same Share Basket Price.

#### **xiii. Share Conversion (Divisor Adjustment)**

A "**Share Conversion**" involves exchanging one form of security for another, for example preferred stock to common stock.

##### Share Basket treatment:

If there is a mandatory Share Conversion, then the existing constituent will be removed at the last quoted price. If it is determined that the new line should be added to the Share Basket, then this will be done at the last available quoted price. There will be no adjustment to the Share Basket Divisor as the market capital will remain unchanged. If it is determined that the new line should not be added to the Share Basket, then the Share Basket Divisor will be adjusted and the weightings rebalanced in order to maintain the Share Basket Price.

#### **xiv. Rights Issues**

A "**Rights Issue**" is a capital raising event when existing shareholders are given a right to purchase an additional share in the existing company at a discount to the current market price.

Share Basket treatment:

On ex-date of the Rights Issue, the number of units in the Share Basket Component will increase by the dilution factor created by the allocation of the discounted rights on the ex-date. If the rights are determined to be 'out of the money' then no action will be taken.

**xv. Capital Return/Capital Repayment (Price Adjustment)**

A "**Capital Return/Capital Repayment**" is a payment of capital back to the shareholders. This is typically the result of the company having excess capital and is normally free from tax.

Share Basket treatment:

On the ex-date of Capital Return/Capital Repayments, the price of the Share Basket Component will decrease by the approximate value of the gross return/repayment. This will in turn result in an equivalent price reduction to the Share Basket Price based on the weighted average of the Share Basket Component. A cash adjustment will then be made to the holder of the Share Basket for the return/repayment amount (this is likely to be the gross value).

**xvi. Share Buy-Back/Tender Offer**

A "**Share Buy-Back/Tender Offer**" involves the company repurchasing its own shares from shareholders. Share Buy-Backs are usually mandatory whereas Tender Offers tend to be voluntary with shareholders electing to sell their holding back to the company. Both are typically at a pre-determined price.

Share Basket treatment:

Share Buy-Backs/Tender Offers will have no impact on the Share Basket Component or Share Basket.

## 5. Quarterly Review of the Share Basket

Each Share Basket shall be reviewed by the Share Basket Review Panel on each Review Date. On the Review Dates, all Share Basket Components will be reweighted back to their tiered weighting.

On the Rebalancing Date, a new Share Basket Divisor shall be calculated. The basis for the rebalancing shall be the respective prices of the Share Basket Components on the relevant Rebalancing Date whereby the Share Basket Price on the Rebalancing Date shall be equal to the Share Basket Price before the Rebalancing Date.

If the Share Basket Review Panel determines that a Share Basket Disruption Event has occurred on any Rebalancing Date, the Rebalancing Date shall be postponed to the first succeeding Trading

Day on which the Share Basket Review Panel determines that the Share Basket Disruption Event has ceased.

## **6. Share Basket Component Substitution**

The Share Basket Review Panel will determine if each of the Share Basket Components still qualifies as a Qualifying Component at each Review Date. If a Substitution Event occurs, the Share Basket Review Panel shall substitute for such relevant Outgoing Component a new Share Basket Component with effect from the Rebalancing Date.

If no Qualifying Component exists, the Share Basket Review Panel will update the tiered weights of all remaining Share Basket Components accordingly.

The basis for the substitution shall be the respective prices of the Share Basket Components on the relevant Rebalancing Date.

The Share Basket Review Panel may add one or multiple stocks at any scheduled rebalancing event if they determine that the share basket criteria is met and therefore will update the weights of all components accordingly.

## **7. Further Information**

For further information regarding historical composition, please contact:  
[clientmanagement@cmcmarkets.co.uk](mailto:clientmanagement@cmcmarkets.co.uk).