Index Rules and Methodology | May 23, 2022

NYSE® FANG+® Index: Consultation on Potential Methodology Updates

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Overview

This consultation covers the following index:

NYSE FANG+ Index (NYFANG / Index)

To comment on the proposed changes outlined in this consultation, send an email to ICENYSEIndices@ice.com with "NYFANG Consultation Response" in the subject line. **Comments should be submitted by June 20, 2022.**

After carefully considering all responses received, ICE Data Indices, LLC ("IDI") at its sole discretion, will make a final decision on any changes to be implemented. IDI will announce a summary of the findings and final methodology updates, if any, shortly after the end of the consultation. Any one or more of the potential changes considered in this consultation may be modified or eliminated completely from the final methodology changes. Similarly, other changes not proposed in this consultation may be introduced in the final adopted changes, in accordance with IDI's Consultation Policy and subject to approval by the IDI Governance Committee.

The implementation of adopted changes, if any, is anticipated to take effect with the quarterly reconstitution effective September 19, 2022.

All rule changes are subject to review and approval by the IDI Governance Committee. All responses will be treated as confidential. No response will be published nor shall any respondent be identified.

Background

The NYSE FANG+ Index (methodology) undergoes a reconstitution quarterly after the close of the third Friday in March, June, September and December. The reference date and announcement date for all reconstitutions is the second Friday of the reconstitution month.

At the quarterly Index reconstitutions, each constituent is attributed an equal target weight in the Index (i.e., if the Index contained 10 constituents, each would be attributed a weight of 10%). This weight is converted to Index constituent shares using information from the close of the third Friday of the reconstitution month.

In the quarterly Index reconstitutions, a set of criteria relating to security type, exchange listing, sector classification, market capitalization, liquidity and seasoning (6 months) is first applied before the final constituents are selected by an Index Advisory Committee based on general guidelines provided in the Index methodology. The Index Advisory Committee's selections are subject to the review and approval of the IDI Governance Committee. The Index constituent count is variable with a minimum of 10 constituents, and the Index has historically been maintained at 10 constituents.

Proposals

This consultation makes the following proposals:

1. Modify the Index qualification criteria to be entirely rules-based and remove the responsibilities of the Index Advisory Committee. This would be achieved by implementing the following proposed changes:
    a. The Index methodology would include a rule that 6 securities in the Index would be comprised of the "FAANMG" companies: Meta Platforms Inc. (FB), Apple Inc. (AAPL), Amazon.com Inc. (AMZN), Netflix Inc. (NFLX), Microsoft Corp. (MSFT), and Alphabet Inc. Class A (GOOGL). These companies are representative of the "FANG" theme based on their revenue exposures;
    b. The Index methodology would be modified to include a more granular filter to select constituents belonging to specific sub-industries in the Consumer Discretionary, Media & Communications or Technology sectors based on the ICE Uniform Sector Classification schema. The specified sub-industries contain companies more likely to be representative of the "FANG" theme, and
    c. The constituents selected for inclusion in the Index would be based on rankings incorporating the below factors, while also implementing a buffer rule to reduce turnover:
        i. Full company market capitalization
        ii. ADTV on the specific share class
        iii. Price-to-sales ratio (LTM)
        iv. 1-year net sales growth (LTM)
2. Modify the reference date for the Index reconstitutions:
    a. The proposed new reference date would be the last Index Business Day of the month preceding the reconstitution month, and
    b. The announcement date would not change and would remain the second Friday of the reconstitution month.

    This proposed change would conform the rules to include a more standard period between the reference and announcement dates used to oversee and review the input data used in the qualification process.
3. Modify the date on which target weights are converted to Index constituent shares in the Index reconstitutions:
    a. The proposed methodology would use information from the second Index Business Day preceding the third Friday of the reconstitution month (normally the Wednesday preceding the third Friday) to convert the equal percentage constituent weights to Index constituent shares.

    b. This change would result in the actual reconstitution effective weights drifting from their equal percentage target weight based on the constituents' relative market appreciation or depreciation on the remaining Index Business Days prior to effectiveness.
    c. This is a standard rule and outcome for reconstitutions of equal-weighted indices in the market. This drift would occur over a limited period of two Index Business Days.
    d. The change is intended to help users of the Index plan and execute any required trades to match the Index constituents and weights in the quarterly reconstitutions. This may also result in reduced trading costs and decreased tracking error with the Index.
4. Modify the required seasoning period from 6 months to 60 calendar days.
    a. This change would allow for recent IPOs and new listings to be eligible for the Index, while also requiring enough trading to occur to properly assess a company's market capitalization and liquidity profile.
5. Fix the Index constituent count at 10 constituents.
    a. While the currently methodology allows for a variable number of constituents with a minimum of 10, the Index has historically been maintained at 10 constituents.
    b. This proposed change is intended to add certainty for users in the methodology and to maintain focused exposure to the FAANMG companies along with other selected FANG-like names selected in accordance with the proposed new rules.

A more detailed methodology incorporating all the proposals outlined above is found in Appendix 1. Hypothetical historical projections of the (4) non-FAANMG Index constituents are found in Appendix 2.

Questions

Participants in this consultation are asked to respond to the following questions and provide any other feedback pertaining to this topic:

1. Do you agree with the proposed changes to the Index to:
    a. Modify the Index qualification criteria to be completely rules-based, and remove the responsibilities of the Index Advisory Committee?
    b. Modify the reference date for the Index reconstitutions?
    c. Modify the date on which target weights are converted to Index constituent shares in the Index reconstitutions?
    d. Modify the required seasoning period for Index constituents?
    e. Fix the Index constituent count at 10 constituents?
2. If the proposed changes are adopted, do you agree with the proposed implementation date?
3. Do you have any other comments regarding the proposed change outlined above?

Appendix 1

The NYSE FANG+ Index (Index) is a rules-based, equal-weighted equity benchmark designed to track the performance of highly-traded growth stocks of technology and tech-enabled companies in the technology, media & communications and consumer discretionary sectors.

The Index undergoes a reconstitution quarterly after the close of the third Friday in March, June, September and December. The reference date for all reconstitutions is the last Index Business Day of the month preceding the reconstitution month. The reconstitution announcement date is the second Friday of the reconstitution month. Information from the second Index Business Day preceding the third Friday of the reconstitution month is used to convert the 10% constituent weights to Index constituent shares in the quarterly reconstitutions.

The starting universe from which Index constituents are selected is comprised of common stocks, ADRs, and GDRs of companies that are listed on the following U.S. exchanges:

Exchange	Country
New York Stock Exchange	United States of America
NASDAQ	United States of America
NYSE American	United States of America
NYSE Arca	United States of America
Cboe BZX	United States of America

To be considered for inclusion in the Index, securities must:

(i) have a full company market capitalization (including all listed and unlisted share classes) of at least $5 billion;[1]

(ii) been actively trading for at least 60 calendar days on the specific share class included in the Index;

(iii) have an average daily traded value (ADTV) of $50 million or greater over the preceding 6-month period, or over the applicable trading period of the security, if its available trading history is less than 6 months, as of the reference date, and

(iv) must be classified within one of the following sub-industries belonging to the Consumer Discretionary, Media & Communications or Technology sectors based on the ICE Uniform Sector Classification schema. These sub-industries are more likely to include qualifying companies that have significant revenue exposures to one or more of the areas of search, social networking, autonomous driving, electric vehicles, smartphones, mobile payments, e-commerce, online games, streaming media, online entertainment, cryptocurrencies, blockchain, big data, artificial intelligence, machine learning, digital advertising, cloud services and other innovative technologies:

ICE Equity Sub-Industry	ICE Equity Sector
Car & Light Truck Manufacturers	Consumer Discretionary
Consumer Electronics	Consumer Discretionary
Leisure Goods	Consumer Discretionary
Online & Direct Retail	Consumer Discretionary
Specialized Consumer Services	Consumer Discretionary

[1] All dollar amounts are U.S. dollars unless otherwise indicated. Currency conversions take place at the London 4:00 PM WM/Refinitiv Spot FX rate as of the reference date.

ICE Equity Sub-Industry	ICE Equity Sector
Audio Content	Media & Communications
Social Media, Search & Online Marketing	Media & Communications
Video Content	Media & Communications
Video Games	Media & Communications
Application Software	Technology
Battery Technology	Technology
Communications Equipment	Technology
Enterprise Software	Technology
Internet Services & Infrastructure	Technology
Network Security	Technology
Platform as a Service	Technology
Semiconductors	Technology
Software as a Service	Technology
Solar Cells	Technology

The qualifying securities from the universe are ranked in descending order by the following factors as of the reference date:

1. Full company market capitalization
    a. Includes all listed and unlisted share classes
2. ADTV on the specific share class
    a. Over the preceding 6 months or available trading period for securities with less than 6 months of trading history
3. Price-to-sales ratio (LTM)
    a. Calculated by dividing the 1) price as of the reference date by the 2) net sales from the latest 12-month period
4. 1-year net sales growth (LTM)
    a. Calculated by dividing the 1) change between the net sales from the latest 12-month period and the 12-month period preceding it by the 2) absolute value of that prior 12-month period net sales

Non-restated fundamental data as of the latest reported fiscal period is used for this step. If fundamental data is not available for a company, then it is excluded from the Index. If the net sales figure for the prior 12-month period is equal to 0, it is set to 0.0001 for purposes of calculating the 1-year net sales growth.

A combined rank for each security is derived by calculating a weighted average rank across the four factors, with 35% weights attributed to the market capitalization and ADTV factors and 15% weights attributed to the price-to-sales and sales growth factors. For any securities with multiple qualifying share classes, only the most liquid share class based on the ADTV used for its ranking is included. If two or more securities are tied on their combined rank, then the security with the larger full company market capitalization receives the higher rank.

Any current Index constituents that rank within the top 10 securities based on this combined rank are included in the Index. Following that, the next highest ranked securities that are not already a part of the Index are selected for inclusion until 4 total securities are selected. For the initial reconstitution incorporating this methodology (September 2022), the top 4 securities based on this combined rank were selected for inclusion, with no buffer criteria applied.

The remaining 6 securities in the Index are comprised of Meta Platforms Inc. (FB), Apple Inc. (AAPL), Amazon.com Inc. (AMZN), Netflix Inc. (NFLX), Microsoft Corp. (MSFT), and Alphabet Inc. Class A (GOOGL). These companies are representative of the “FANG” theme with exposure to the revenue segments outlined above. If any of these 6 securities do not qualify for inclusion, then the next highest ranked securities from the steps above are selected to maintain an Index constituent count of 10 securities.

At the quarterly Index reconstitutions, each constituent is attributed a 10% weight in the Index. This weight is converted to Index constituent shares using information from the second Index Business Day preceding the third Friday of the reconstitution month.

If a corporate action leads to the removal of a security between the quarterly reconstitutions, then the next highest ranked security from the last reconstitution is added to the Index at the weight of the security being deleted.

Corporate actions were adjusted for in the backtest, however, the exact treatment in the backtest and live Index may differ due to differences in timing and knowledge of those actions. Corporate actions are adjusted for in the Index based on standard treatment applying to equal-weighted indices.

Information relating to the general publication, corporate actions, calculation, governance rules and disclaimer is provided in the ICE Equity Index Methodology, which can be accessed on the ICE Index Platform at indices.theice.com.

Appendix 2

Ticker	Name
ADBE	Adobe Inc.
AMD	Advanced Micro Devices, Inc.
AVGO	Broadcom Inc.
BABA	Alibaba Group Holding Ltd.
BIDU	Baidu Inc.
NVDA	NVIDIA Corp.
QCOM	Qualcomm Inc.
SHOP	Shopify, Inc.
SNOW	Snowflake, Inc.
TSLA	Tesla Inc.
TWTR	Twitter, Inc.
ZM	Zoom Video Communications, Inc.

Date	ADBE	AMD	AVGO	BABA	BIDU	NVDA	QCOM	SHOP	SNOW	TSLA	TWTR	ZM
9/19/2014	-	-	-	-	X	-	X	-	-	X	X	-
12/19/2014	-	-	-	-	X	-	X	-	-	X	X	-
3/20/2015	-	-	-	-	X	-	X	-	-	X	X	-
6/19/2015	-	-	-	-	X	-	X	-	-	X	X	-
9/18/2015	-	-	-	X	X	-	-	-	-	X	X	-
12/18/2015	-	-	-	X	X	-	-	-	-	X	X	-
3/18/2016	-	-	X	X	X	-	-	-	-	X	-	-
6/17/2016	-	-	X	X	X	-	-	-	-	X	-	-
9/16/2016	-	-	X	X	X	-	-	-	-	X	-	-
12/16/2016	-	-	X	X	-	X	-	-	-	X	-	-
3/17/2017	-	-	X	X	-	X	-	-	-	X	-	-
6/16/2017	-	-	X	X	-	X	-	-	-	X	-	-
9/15/2017	-	-	X	X	-	X	-	-	-	X	-	-
12/15/2017	-	-	X	X	-	X	-	-	-	X	-	-
3/16/2018	-	-	X	X	-	X	-	-	-	X	-	-
6/15/2018	-	-	X	X	-	X	-	-	-	X	-	-
9/21/2018	-	-	X	X	-	X	-	-	-	X	-	-
12/21/2018	-	-	X	X	-	X	-	-	-	X	-	-
3/15/2019	-	-	X	X	-	X	-	-	-	X	-	-
6/21/2019	X	-	-	X	-	X	-	-	-	X	-	-
9/20/2019	X	-	-	X	-	X	-	-	-	X	-	-
12/20/2019	X	-	-	X	-	X	-	-	-	X	-	-
3/20/2020	X	-	-	X	-	X	-	-	-	X	-	-
6/19/2020	X	-	-	X	-	X	-	-	-	X	-	-
9/18/2020	X	-	-	X	-	X	-	-	-	X	-	-
12/18/2020	-	-	-	X	-	X	-	-	-	X	-	X
3/19/2021	-	-	-	-	-	X	-	X	-	X	-	X
6/18/2021	-	-	-	-	-	X	-	X	-	X	-	X
9/17/2021	-	-	-	-	-	X	-	X	-	X	-	X
12/17/2021	-	-	-	-	-	X	-	X	-	X	-	X
3/18/2022	-	X	-	-	-	X	-	X	-	X	-	-
4/29/2022	-	X	-	-	-	X	-	-	X	X	-	-

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