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# IOSCO Statement of Compliance

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## Morningstar Indexes

January 2022

Morningstar Indexes claims compliance with the International Organization of Securities Commissions' Principles for Financial Benchmarks for Morningstar-branded indexes. For each benchmark, the IOSCO principles cover the governance arrangements intended to ensure the benchmark's integrity, the quality of its design, and its methodology.

The following IOSCO compliance report includes Morningstar's responses to the 19 IOSCO principles and the outcome of Morningstar's audit. It is structured as follows:

**Section I** contains an overview of Morningstar, company history, business, and descriptions of major index families that comply with IOSCO.

**Section II** contains the independent auditor's report issued by Morningstar.

**Section III** includes the management's statement of compliance with the IOSCO principles.

**Section IV** details Morningstar's responses to individual IOSCO principles followed by the procedures administered by Morningstar.

### **Section I: Overview**

#### **About Morningstar, Inc.**

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The Company offers an extensive line of products and services for individual investors, financial advisors, asset managers and owners, retirement plan providers and sponsors, and institutional investors in the debt and private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, debt securities, and real-time global market data. Morningstar also offers investment management services through its investment advisory subsidiaries, with approximately \$250 billion in assets under advisement and management as of June 30, 2022. The Company has operations in 29 countries.

#### **Morningstar Indexes**

Launched in 2002, Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating long-term opportunities across all major asset classes, styles and strategies. From

assessing risk and return with traditional benchmarks to effectively incorporating ESG objectives into the investment process, our range of index solutions spans an investment landscape as diverse as investors themselves. We help investors answer today's increasingly complex questions so that they can more easily reach tomorrow's goals. Please visit [indexes.morningstar.com](https://indexes.morningstar.com) for more information.

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### Exhibit 1 Our Leadership

<b>Executive Management</b>	Title
Joe Mansueto	Executive Chairman
Kunal Kapoor	Chief Executive Officer
Jason Dubinsky	Chief Financial Officer
Daniel Dunn	Chief Revenue Officer
Bevin Desmond	Chief Talent & Culture Officer
Frannie Besztery	Head of Direct
Ron Bundy	President, Morningstar Indexes
John Gabbert	Founder and Chief Executive Officer, Pitchbook
Michael Holt	Chief Strategy Officer
Brock Johnson	President, Retirement and Workplace Solutions
Haywood Kelly	President, Morningstar Research
Pat Maloney	General Counsel
Bob Mann	President, Sustainalytics
Daniel Needham	President and Chief Investment Officer, Investment Management
James Rhodes	President, Data, Research and Enterprise Solutions & Chief Technology Officer
Detlef Scholz	President, Credit Ratings
David Williams	Chief Design Officer
<b>Board of Directors</b>	Board Member Since
Kunal Kapoor	2017
Joe Mansueto	1984
Robin Diamonte	2015
Cheryl Francis	2002
Stephen Joynt	2019
Steven Kaplan	1999
Gail Landis	2013
Bill Lyons	2007
Doniel Sutton	2021
Caroline Tsay	2017

## **Morningstar Index Families**

### **Equity Indexes**

From traditional beta indexes covering equity markets, segments, sectors, and styles globally to strategic beta solutions enhanced by Morningstar's unique IP, Morningstar offers a wide range of equity indexes used for making asset allocation decisions, benchmarking investment performance, and creating index-linked investable products.

### **Morningstar Global Markets Indexes**

Designed to facilitate performance benchmarking and efficient portfolio construction, the Morningstar Global Markets Indexes represent the top 97% of the investable global equity market and provide extensive building blocks across geographical regions, developed and emerging markets, individual countries, sectors, and currencies. The indexes are built and maintained according to a transparent set of rules, and only liquid stocks that are readily available to institutional investors are included, ensuring accurate and objective representation of the investment opportunity set for active managers and mitigating transaction costs for passive investors.

### **Morningstar Target Market Exposure Indexes**

Designed to facilitate performance benchmarking and efficient portfolio construction, the Morningstar Target market Exposure Indexes represent the top 99% of the investable global equity market and provide extensive building blocks across geographical regions, developed and emerging markets, individual countries, sectors, and currencies. The indexes are built and maintained according to a transparent set of rules, and only liquid stocks that are readily available to institutional investors are included, ensuring accurate and objective representation of the investment opportunity set for active managers and mitigating transaction costs for passive investors.

### **Morningstar Broad Styles Indexes**

Morningstar has been a leader in style investing and analysis since the introduction of the Morningstar Style Box in 1992, and the Morningstar Broad Style Indexes were built on this expertise to facilitate accurate benchmarking of active strategies. The Morningstar Broad Style Indexes represent 99.5% of the US investable equity market, providing a comprehensive view of the opportunity set for style investors. The indexes utilize the same metrics as the Morningstar Style Box to segment the market into value and growth segments, resulting in a consistent frame of reference and holistic measurement of style.

**Morningstar Global Sector Indexes**

The Morningstar Global Sector Indexes are designed to facilitate accurate performance benchmarking and efficient portfolio construction across 11 sectors and 145 industries as defined by the Morningstar Global Equity Classification Structure (GECS), a single, unified sector classifications scheme that categorizes companies based on their primary lines of business.

**Morningstar Moat Focus Indexes**

Shaped by the forward-looking insights of Morningstar's equity research analysts, the Morningstar Moat Focus Indexes use rules-based index construction methodology to deliver portfolios of stocks with durable competitive advantages and attractive valuations.

**Morningstar Dividend Yield Focus Indexes**

The Morningstar Dividend Yield Focus Indexes are designed to track high-yielding, qualified dividend-paying stocks of companies with durable competitive advantages. The indexes employ a fundamental weighting methodology through which constituents are weighted in proportion to the value of their dividend payments. This approach is designed to increase the representation of stocks in the index as they become cheaper relative to their dividends.

**Morningstar Pitchbook Listed Private Equity Indexes**

Designed to track the performance of publicly traded companies with significant private equity exposure, the indexes leverage unique data sets from PitchBook for constituent selection and weighting. Companies included in the indexes are involved in venture capital, private equity buyout, private equity growth, and mezzanine financing. An important index weighting input is the purity adjustment, which relies on PitchBook expertise and ensures that pure-play private equity firms are represented more heavily in the indexes.

**Fixed Income Indexes**

Morningstar's fixed income indexes provide an accurate, broad depiction of the performance and fundamental characteristics of bond markets globally. The indexes are transparent and rules-based, and they are constructed and maintained with methodology designed to strike the right balance between comprehensive market coverage and investability. The indexes offer discrete exposure to specific underlying bond sectors without overlap, reducing concentration risk for users employing collections of indexes to build customized portfolios.

**Morningstar Global Core Bond Indexes**

Designed to represent the broad investable universe for fixed income investors across various geographies and major world currencies, the Morningstar Global Core Bond Indexes reflect the characteristics of the investment grade credit market in terms of yield, sector composition, credit quality, and interest rate sensitivity.

**Morningstar Global High Yield Bond Indexes**

Designed to track the performance of the below-investment-grade, fixed-rate global corporate bond market, the Morningstar Global High Yield Bond Indexes include coverage of Canada, the Eurozone, the US, and the UK. A global multi-currency composite is also available.

**Sustainable Investing Index Solutions**

Morningstar offers a full range of equity, fixed income, and multi-asset sustainable investing index solutions, providing a framework for evaluating opportunities and risks across a variety of approaches. Morningstar's flagship sustainable investing indexes, the Morningstar Global Sustainability Indexes (equity) and the Morningstar Corporate Bond Sustainability Indexes, leverage company-level data and ratings from Sustainalytics, a Morningstar company, to highlight companies that are effectively managing their ESG-related risks. Both index families aim to deliver a similar risk-return profile to their parent broad-market indexes while significantly reducing ESG risk. Additional solutions developed to support investors across a diverse range of objectives include the Morningstar EU Climate Indexes, the Morningstar Gender Diversity Indexes, and the Morningstar Sustainability Moat Focus Indexes.

**Multi-Asset Indexes**

Morningstar has been an industry leader in asset-allocation research and holdings-based analysis for over thirty years. This deep expertise and unique intellectual property is reflected in a range of multi-asset index solutions designed to serve investors across an unprecedented range of investment goals. The newest additions to Morningstar's lineup of multi-asset index solutions are the Morningstar Target Allocation Indexes, which were developed to give investors an unbiased tool for benchmarking the performance of multi asset-investments across different risk tolerances. Regional versions for Australia/New Zealand, Canada, Europe, Japan, the United Kingdom, and the United States are available, reflecting home country bias, currency exposure, and local asset class preferences.

## Section II: Independent Auditor's Report

**To:** Morningstar Indexes

**From:** Conan Wiersema, Chief Audit Executive  
Colleen McGowan, Senior Internal Audit Manager

**Date:** October 31, 2022

**Subject:** Morningstar Indexes IOSCO Compliance Review

### Background

In 2013, the International Organization of Securities Commissions (IOSCO) published its *Principles for Financial Benchmarks*. The goal is to create an overarching framework of principles for benchmarks used in financial markets. Specifically, IOSCO seeks to articulate policy guidance and principles for benchmark activities that will address governance and accountability as well as the quality and transparency of benchmark design and methodologies. These 19 principles set forth a comprehensive set of objectives and standards on how index providers should operate.

Morningstar Indexes engaged Morningstar's Internal Audit Services to perform an independent assessment of Morningstar Indexes' compliance with the IOSCO *Principles for Financial Benchmarks* as of January 1, 2022.

Reporting to the Audit Committee of the Board of Directors, Morningstar's Internal Audit Services provides independent assurance to the board of directors and executive management on the effectiveness of the company's governance, risk management, and internal control processes. Internal Audit Services' purpose is to offer independent, objective assurance and consulting services designed to add value and improve the company's operations.

### Objective, Scope and Methodology

The objective of this compliance review was to independently assess the business processes and internal controls in place within the Morningstar Index operations to address the IOSCO best practice guidance and provide assurance that the business is complying with the *Principles for Financial Benchmarks* and to ensure these business processes and internal controls are properly reflected in the company's IOSCO Statement of Compliance.

The scope and methodology of this review consisted of the following:

- Inquire and obtain documentation representing Morningstar Indexes' business processes, governance practices and internal control structure supporting the benchmark determination process;
- Evaluate Morningstar Indexes' IOSCO Statement of Compliance to confirm it is fairly stated and accurately presents the business processes and internal controls in place;
- Assess the design and operational effectiveness of Morningstar Indexes' operations as of January 1, 2022, in accordance with the IOSCO *Principles for Financial Benchmarks*; and
- Identify any gaps in compliance or opportunities for improvement based on best practice guidance and document overall compliance assessment.

Internal Audit Services conducted this review in conformance with the *International Standards for the Professional Practice of Internal Auditing* as issued by the Institute of Internal Auditors.

### **Statement of Compliance**

We found that the business processes and internal controls in place within the Morningstar Index operations complied with the IOSCO *Principles for Financial Benchmark* as of January 1, 2022. Additionally, we confirmed that the IOSCO Statement of Compliance as documented by Morningstar Indexes is fairly stated and accurately presents the business processes and internal controls in place within the benchmark determination process.

### Section III: Morningstar Indexes President's Message

We are pleased to share with the market and key stakeholders an update on our ongoing compliance with guidance from the International Organization of Securities Commissions. The IOSCO guidelines are an important way to ensure we maintain global index standards of transparency, regulation, enforcement and oversight.

Our fundamental mission for Morningstar Indexes is to empower and deliver more value to investors. Founded in 2002, our global multi-asset family of indexes draws on the global strengths and insights of Morningstar to deliver index tools for our clients to pursue a range of investment outcomes.

Morningstar's unique intellectual property powers our global index family. Examples include a deep heritage in the financial advisor community with innovations such as the Morningstar Style Box reflected in our Broad Style Indexes, global equity research capabilities reflected in our Moat and thematic equity indexes, the leading ESG ratings and analysis of Sustainalytics reflected in our ESG, climate and impact indexes and the strengths of Pitchbook reflected in our private equity indexes.

We believe investors today are looking for better value from their index provider. This means two things. First, core beta indexes for benchmarking purposes, arguably now a commodity, should be inexpensive. Second, strategic beta indexes for investable products, of growing importance to all investors, should be unique, research-driven, differentiated and deliver better outcomes to investors. We are responding to this need by offering a best-in-class core beta benchmark offering that delivers our Morningstar research and insights through our unique and differentiated strategic beta indexes.

And, above all, these indexes need to be delivered in a responsible and transparent way. We applaud IOSCO's work to create and maintain a global framework to ensure we all deliver value to our clients.

Sincerely yours.



Ronald J. Bundy



## Section IV: Morningstar Responses to IOSCO Principles

### 1. Overall Responsibility of the Administrator

The administrator should retain primary responsibility for all aspects of the benchmark determination process. This includes:

- A. Development: The definition of the benchmark and benchmark methodology;
- B. Determination and dissemination: Accurate and timely compilation, publication, and distribution of the benchmark;
- C. Operation: Ensuring appropriate transparency over significant decisions affecting the compilation of the benchmark and any related determination process, including contingency measures in the event of absence of or insufficient inputs, market stress or disruption, failure of critical infrastructure, or other relevant factors, and;
- D. Governance: Establishing credible and transparent governance, oversight, and accountability procedures for the benchmark determination process, including an identifiable oversight function accountable for the development, issuance, and operation of the benchmark.

### Morningstar Indexes Response

Morningstar Indexes, as the administrator, holds responsibility for all aspects of the management of Morningstar Indexes through all stages including the development, determination, dissemination, operation, and governance of the benchmark. Policies and processes of each index are further discussed in their individual methodologies/rulebooks.

### 2. Oversight of Third Parties

Where activities relating to the benchmark determination process are undertaken by third parties—for example, collection of inputs, publication, or where a third party acts as a calculation agent—the administrator should maintain appropriate oversight of such third parties. The administrator (and its oversight function) should consider adopting policies and procedures that:

- A. Clearly define and substantiate through appropriate written arrangements the roles and obligations of third parties that participate in the benchmark determination process well as the standards the administrator expects these third parties to comply with;
- B. Monitor third parties' compliance with standards set out by the administrator;
- C. Make available to stakeholders and any relevant regulatory authority the identity and roles of third parties that participate in the benchmark determination process, and;
- D. Take reasonable steps, including contingency plans, to avoid undue operation risk related to the participation of third parties in the benchmark determination process.

This principle does not apply in relation to a third party from whom an administrator source data if that third party is a regulated market or exchange.

### **Morningstar Indexes Response**

- A. Where Morningstar Indexes is sourcing data from a third party data vendor, the provision of this data is pursuant to a written contract between Morningstar and the third party data vendor. Morningstar Indexes works with Morningstar Data Procurement to contract with third party data vendors. The majority of data vendor relationships, with the exception of exchanges, are managed by the Morningstar Data Procurement team.
- B. The Index Oversight Committee is responsible for overseeing the quality controls that monitor third parties' input to ensure that: (1) data inputs meet the standards required by the benchmark methodologies, (2) that all third party data inputs are covered by written license agreements, and (3) a robust process is followed for the selection of third party data inputs. File delivery times and other quality-assurance checks are in place to actively track the integrity of third-party services. In the event of data discrepancy or delayed deliverables, Morningstar will contact the third-party vendor's client-services representative.
- C. Stakeholders in Morningstar Indexes are provided all relevant information such as the identity and roles of third parties involved in the benchmark determination process.
- D. Morningstar Indexes ensures through its controls framework that potential operational risks arising from third parties are duly managed. Principle 4 details the prescribed procedures Morningstar Indexes practices to avoid such undue risks.

### **3. Conflicts of Interest**

To protect the integrity and independence of benchmark determinations, administrators should document, implement, and enforce policies and procedures to identify, disclose, manage, mitigate, or avoid conflicts of interest.

Administrators should review and update their policies and procedures as appropriate. Administrators should disclose any material conflicts of interest to their users and any relevant regulatory authority. The framework should be appropriately tailored to the level of existing or potential conflicts of interest identified and the risks that the benchmark poses and should seek to ensure:

- A. Existing or potential conflicts of interest do not inappropriately influence benchmark determinations;
- B. Personal interests and connections or business connections do not compromise the administrator's performance of its functions;
- C. Segregation of reporting lines within the administrator, where appropriate, to clearly define responsibilities and prevent unnecessary or undisclosed conflicts of interest or the perception of such conflicts;
- D. Adequate supervision and sign-off by authorized or qualified employees before releasing benchmark determinations;
- E. The confidentiality of data, information and other inputs submitted to, received by, or produced by the administrator, subject to the disclosure obligations of the administrator;
- F. Effective procedures to control the exchange of information between staff engaged in activities involving a risk of conflicts of interest or between staff and third parties, where that information may reasonably affect any benchmark determinations; and

G. Adequate remuneration policies that ensure all staff who participate in the benchmark determination are not directly or indirectly rewarded or incentivized by the levels of the benchmark.

An administrator's conflict-of-interest framework should seek to mitigate existing or potential conflicts created by its ownership structure or control, or due to other interests the administrator's staff or wider group may have in relation to benchmark determinations.

To this end, the framework should:

- a. Include measures to avoid, mitigate or disclose conflicts of interest that may exist between its Benchmark determination business (including all staff who perform or otherwise participate in Benchmark production responsibilities), and any other business of the Administrator or any of its affiliates; and
- b. Provide that an Administrator discloses conflicts of interest arising from the ownership structure or the control of the Administrator to its Stakeholders and any relevant Regulatory Authority in a timely manner.

### **Morningstar Indexes Response**

Morningstar Indexes is committed to achieving the highest standards of professionalism and ethical conduct in its operations and activities. As such, it expects all employees to conduct their business according to the highest ethical standards of conduct and to comply with all applicable practices.

Morningstar Inc.'s group Code of Ethics is used as the basis for Morningstar Indexes Group Conflicts of Interest Policy. The wider Indexes Group conflicts of interest framework and any incorporated documents (including Conflicts of Interest Policy) are reviewed periodically by the Morningstar Indexes Oversight Committee (IOC); the IOC also reviews any related training and any associated documentation made available to Indexes Group employees.

Regarding relevant activities within each respective suggestion for the principle, Morningstar Indexes has implemented the following policies and procedures to identify, disclose, manage, mitigate, or avoid conflicts of interest.

A., B., a, b. Potential and/or existing employee conflicts of interest are logged and maintained by Morningstar, Inc.'s Compliance Team, through an internal reporting system. Any potential or realized interest, connection, and/or conflict is reviewed by the Compliance Team to ensure that the integrity of the Indexes Team is maintained at the highest level, and that all benchmark determinations are free from influence. Morningstar Indexes is committed to disclose material conflicts of interest to its stakeholders and to relevant regulatory authorities on request.

C., D., A. The Indexes Group ensures that specific roles and duties within the associated business lines are assigned appropriately and, as required, accordingly segregated. The responsibility to appropriately assign and segregate duties remains with Indexes Group senior management, overseen by the

Morningstar Indexes Oversight Committee. Morningstar Indexes ensures adequate supervision and approval by authorized or qualified employees before releasing benchmark determinations.

E., F., G. Included within Morningstar Indexes' Conflicts of Interest policy addresses the confidentiality necessary for data and other sensitive information. All Indexes Group employees are also subject to a securities trading and disclosure policy, including a blackout period during proforma periods prior to the rebalance/reconstitution of an Index. All Indexes Group employees are bound by this control to ensure all necessary data remains confidential and is not used in a way that would violate the Conflicts of Interest policy. The Indexes Group remuneration structure is not linked to the performance of any index or benchmark product.

#### 4. Control Framework

An administrator should implement an appropriate control framework for the process of determining and distributing the benchmark. The control framework should be tailored to the materiality of the potential or existing conflicts of interest identified to the extent of the use of discretion in the benchmark setting process and to the nature of benchmark inputs and outputs.

The control framework should be documented and available to any relevant regulatory authorities. A summary of its main features should be published or made available to stakeholders.

This control framework should be reviewed periodically and updated as appropriate. The framework should address the following areas:

- A. Conflicts of interest in line with Principle 3 on conflicts of interests;
- B. Integrity and quality of benchmark determination:
  - i. Arrangements to ensure that the quality and integrity of benchmarks is maintained, in line with principles 6 to 15 on the quality of the benchmark and methodology;
  - ii. Arrangements to promote the integrity of benchmark inputs, including adequate due diligence on input sources;
  - iii. Arrangements to ensure accountability and complaints mechanisms are effective, in line with principles 16 to 19; and
  - iv. Providing robust infrastructure, policies, and procedures to manage risk, including operational risk.
- C. Whistleblowing mechanism: Administrators should establish an effective whistleblowing mechanism to facilitate early awareness of any potential misconduct or irregularities. This mechanism should allow for external reporting of such cases where appropriate.
- D. Expertise: I. Ensuring that benchmark determinations are made by personnel who possess the relevant levels of expertise, with a process for periodic review of their competence; and II. Staff training, including ethics and conflicts-of-interest training, and continuity and succession planning for personnel.

### **Morningstar Indexes Response**

Morningstar's Index Team is committed to achieving the highest standards of professionalism and ethical conduct in its operations and activities, and it expects its employees to conduct their business per the highest ethical standards of conduct and to comply with all applicable laws. To achieve these aims, Morningstar Indexes has implemented a robust conflict-of-interest policy. A more detailed description of this policy can be found in Principle 3.

- A. Morningstar Indexes is confident that its current makeup as it relates to corporate structure and daily work performed by members of the Indexes Team mitigates conflicts of interests. Our conflicts of interest framework ensures that Morningstar Indexes remains independent from all internal and external partners, mitigating risks or potential/perceived conflicts of interest. Controls that address potential conflicts of interest are detailed in Principle 3.
- B. The Morningstar Index Team has specific processes and controls in place to promote index integrity and ensure data input quality:
- i. To promote index quality:  
*Index restatement process:* Morningstar Indexes strives to deliver the highest-quality data. Despite Morningstar's focus on excellence, index-level and/or constituent inaccuracies may occur. These inaccuracies may arise as a result of a late or missed dividend, a pricing error, an incorrect application of methodology, or any other missed/incorrectly applied data input. If a vendor, client, or internal member of the indexes group identifies a possible benchmark inaccuracy, Morningstar Indexes conducts a thorough restatement of the index. This restatement process can be found in the [Morningstar Indexes Recalculation Guidelines](#).  
*Index QA Processes:* Morningstar Indexes employs a wide range of data QA processes, including variance reporting, rebalancing and reconstitution QA, and missing data alerts to minimize operational risks.
  - ii. To ensure data integrity:  
*Data protection framework:* Morningstar Indexes follows a host of processes to ensure that data is protected. This includes an employee exit procedure, mandatory periodic password updates, data transmission and collection processes, and a new data vendor selection process.  
To ensure that the complaints procedure is effective:  
*Client Escalation framework:* The Morningstar Client Service & Implementation Team has an escalation framework and is responsible to manage and ensure that processes are properly followed.  
*Morningstar code of ethics:* Morningstar Indexes employees must comply with standards detailed in Principle 4 and in the Morningstar code of ethics. Employees annually certify that they have read, understood, and comply with the Morningstar code of ethics.
  - iii. To ensure accountability:  
Morningstar Indexes has a client service process and system managed by the client services team, to ensure that all queries raised are tracked and addressed on a timely basis. Morningstar Indexes also has a formal complaints policy, administered by the compliance officer.
  - iv. To ensure business continuity:

Morningstar Indexes has implemented a complete disaster recovery framework and disaster recovery site to allow for proper backup procedures.

- C. To help ensure that the Morningstar Index Team follows all prescribed ethical and professional standards, a twofold whistleblowing and ethics hotline process is employed. Employees are educated on how to use this policy during Morningstar Inc.'s annual Code of Ethics training.
- D. To ensure that all employees of Morningstar Indexes are properly qualified:
  - i. All Morningstar Indexes personnel undergo an annual review.
  - ii. All Morningstar employees annually certify that they have read, understood, and comply with the Morningstar code of ethics.

### 5. Internal Oversight

Administrators should establish an oversight function to review and challenge all aspects of the benchmark determination process. This should include consideration of the features and intended, expected, or known usage of the benchmark and the materiality of existing or potential conflicts of interest identified. Oversight should be carried out either by a separate committee or other governance arrangements. The oversight function and its composition should provide effective scrutiny of the administrator. Such oversight could consider groups of benchmarks by type or asset class, provided that it otherwise complies with this principle. An administrator should develop and maintain robust procedures regarding oversight, which should be documented and available to any relevant Regulatory authorities. The main features of the procedures should be made available to stakeholders. These procedures should include:

- A. The terms of reference of the oversight function;
- B. Criteria to select members of the oversight function;
- C. The summary details of membership of any committee or arrangement charged with the oversight function, along with any declarations of conflicts of interest and processes for election, nomination or removal and replacement of committee members.

The responsibilities of the oversight function include:

- A. Oversight of the benchmark design:
  - i. Periodic review of the definition of the benchmark and its methodology;
  - ii. Taking measures to remain informed about issues and risks to the benchmark, as well as commissioning external reviews of the benchmark (as appropriate);
  - iii. Overseeing any changes to the benchmark methodology, including assessing whether the methodology continues to appropriately measure the underlying interest, reviewing proposed and implemented changes to the methodology, and authorizing or requesting the administrator to consult with stakeholders where known or its subscribers on such changes as per Principle 12; and
  - iv. Reviewing and approving procedures for termination of the Benchmark, including guidelines that set out how the Administrator should consult with Stakeholders about such cessation
- B. Oversight of the integrity of Benchmark determination and control framework:

- i. Overseeing the management and operation of the Benchmark, including activities related to Benchmark determination undertaken by a third party;
- ii. Considering the results of internal and external audits, and following up on the implementation of remedial actions highlighted in the results of these audits; and
- iii. Overseeing any exercise of Expert Judgment by the Administrator and ensuring Published Methodologies have been followed.

### **Morningstar Indexes Response**

The Morningstar Index Oversight Committee (MIOC) is responsible for governance over the creation and maintenance of all Morningstar branded Indexes, ensuring the highest standards are continuously met. The MIOC works with additional Morningstar, Inc. committees, soliciting suggestions and feedback as needed. All groups are comprised of informed and qualified professionals who seek to challenge information provided to them and/or make recommendations based on information provided to them. The oversight function is part of the organizational structure of Morningstar but is separate and independent from the Index business, Index Management, and the other Index Committees such as the Index Product Committee and the Index Methodology Committee.

The Chair and Members of the committees are selected by the Morningstar Indexes Leadership Team. The committee members are selected based on their relevant experience within Index Governance, Compliance and Data Integrity. The committee will have at least 3 voting members, these members will not be directly involved in Index administration or be part of the Morningstar Index Team or Morningstar Inc. Executive Leadership Team.

As warranted, the MIOC may escalate issues to Morningstar Board of Directors Nominating and Corporate Governance Subcommittee on Indexes. The Committee is responsible for reviewing its terms of reference.

At its discretion, the MIOC can invite experts with relevant index and research knowledge from within the Index team and across Morningstar to attend MIOC meetings. Representatives of Index Leadership and the Index Subcommittee of the NCGC Morningstar Inc Board of Directors will not be MIOC members but may be invited to attend meetings by the oversight function in a non-voting capacity. Changes to voting members are appointed by the Index Leadership and/or MIOC and ratified by the Index Subcommittee of the Nominating Committee and Governance Committee of the Morningstar Board of Directors.

In regards to IOSCO's recommendations (A. (i-iv), the MIOC oversees index design. Specifically, it is responsible for ensuring an annual review of index methodology is carried out on each benchmark to assess whether the methodology continues to appropriately measure the Index's objective. The committee ensures methodological changes have followed the methodology change process. The oversight committee can require the index team to undertake a consultation with a stakeholder(s) on material changes. The committee reviews and approves procedures for termination of an index.

In regards to IOSCO's recommendations (B. i-iii), the Indexes Committee oversees the Morningstar Indexes control framework, and ensures the identification and possible resolutions of risks to the management and operation of Morningstar Indexes. Furthermore, the committee is responsible for periodically reviewing internal controls associated with Principle 4 and maintaining the results and subsequent action items for any internal or external audit.

## 6. Benchmark Design

The design of the benchmark should seek to achieve and result in an accurate and reliable representation of the economic realities of the interest it seeks to measure, and eliminate factors that might distort the price, rate, index, or value of the benchmark.

Benchmark design should take into account the following generic nonexclusive features, and other factors should be considered, as appropriate to the particular interest:

- A. Adequacy of the sample used to represent the interest;
- B. Size and liquidity of the relevant market (for example whether there is sufficient trading to provide observable, transparent pricing);
- C. Relative size of the underlying market in relation to the volume of trading in the market that references the benchmark;
- D. The distribution of trading among market participants (market concentration); and
- E. Market dynamics (to ensure that the benchmark reflects changes to the assets underpinning a benchmark, for example).

## Morningstar Indexes Response

For over twenty years, Morningstar has been developing indexes to understand market performance across regions, styles, and asset classes. With stable methodologies and index design, investors use Morningstar Indexes to analyze market performance. Custom benchmarks are also licensed by clients to create distinct index-linked investable products. Given these business needs, Morningstar designs its benchmarks while considering the IOSCO design recommendation. Details of an index's individual design, calculation, and maintenance procedures are set in the index rulebooks available at [indexes.morningstar.com](https://indexes.morningstar.com).

## 7. Data Sufficiency

The data used to construct a benchmark determination should be sufficient to accurately and reliably represent the interest measured by the benchmark and should:

- A. Be based on prices, rates, indexes, or values that have been formed by the competitive forces of supply and demand in order to provide confidence that the price discovery system is reliable; and
- B. Be anchored by observable transactions entered into at arm's length between buyers and sellers in the market for the interest the benchmark measures in order for it to function as a credible indicator of prices, rates, indexes, or values.



This principle requires that a benchmark be based on, or anchored in, an active market having observable bona fide, arm's-length transactions. This does not mean that every individual benchmark determination must be constructed solely of transaction data. Provided that an active market exists, conditions in the market on any given day might require the administrator to rely on different forms of data tied to observable market data as an adjunct or supplement to transactions. Depending on the administrator's methodology, this could result in an individual benchmark determination being based predominantly, or exclusively, on bids and offers or extrapolations from prior transactions. This is further clarified in Principle 8.

Provided that subparagraphs a. and b. above are met, Principle 7 does not preclude benchmark administrators from using executable bids or offers as a means to construct benchmarks where anchored in an observable market consisting of bona fide, arm's-length transactions. This principle also recognizes that various indexes may be designed to measure or reflect the performance of a rule-based investment strategy, the volatility or behavior of an index or market or other aspects of an active market. Principle 7 does not preclude the use of non-transactional data for such indexes that are not designed to represent transactions and where the nature of the index is such that non-transactional data is used to reflect what the index is designed to measure. For example, certain volatility indexes, which are designed to measure the expected volatility of an index of securities transactions, rely on non-transactional data, but the data is derived from and thus "anchored" in an actual functioning securities or options market.

### **Morningstar Indexes Response**

Morningstar Indexes measures and calculates the sufficiency of all data inputs for its indexes to assure that the accuracy of a benchmark is sufficiently met. These determinations may include, but are not limited to, those measurements listed in A. and B. Each index's methodology document, will dictate the treatment of data used in the calculation, generally aligned to the asset class type of the index. Index rulebooks are publicly available at [indexes.morningstar.com](https://indexes.morningstar.com).

### **8. Hierarchy of Data Inputs**

An administrator should establish and publish or make available clear guidelines regarding the hierarchy of data inputs and exercise of expert judgment used for the determination of benchmarks.

In general, the hierarchy of data inputs should include:

- A. Where a benchmark depends on submissions, the submitters' own concluded arm's-length transactions in the underlying interest or related markets;
- B. Reported or observed concluded arm's-length transactions in the underlying interest;
- C. Reported or observed concluded arm's-length transactions in related markets;
- D. Firm (executable) bids and offers; and
- E. Other market information or expert judgments.

Provided that the data sufficiency principle is met (that is, an active market exists), this principle is not intended to restrict an administrator's flexibility to use inputs consistent with the administrator's

approach to ensuring the quality, integrity, continuity, and reliability of its benchmark determinations, as set out in the administrator's methodology.

The administrator should retain flexibility to use the inputs it believes are appropriate under its methodology to ensure the quality and integrity of its benchmark. For example, certain administrators may decide to rely on expert judgment in an active albeit low-liquidity market, when transactions may not be consistently available each day.

IOSCO also recognizes that there might be circumstances (a low-liquidity market, for example, when a confirmed bid or offer might carry more meaning than an outlier transaction). Under these circumstances, nontransactional data such as bids and offers and extrapolations from prior transactions might predominate in a given benchmark determination.

### **Morningstar Indexes Response**

Morningstar Indexes are based on prices sourced from regulated trading venues, including those for equities and fixed income. For our end-of-day equity indexes we use the official closing prices from exchanges via data vendors, as detailed in our [Morningstar Indexes Closing Prices](#) document. If a price is missing for a certain day, we use the last available closing price.

For our real-time equity indexes, we also use real-time prices from exchanges via data vendors. All closing values of Morningstar indexes are translated using an average WM/Reuters bid and ask price at 16:00 GMT, unless otherwise stated in the index methodology book.

## **9. Transparency of Benchmark Determinations**

The administrator should describe and publish with each benchmark determination, to the extent reasonable without delaying an administrator publication deadline:

- A. A concise explanation, sufficient to facilitate a stakeholder's or market authority's ability to understand how the determination was developed, including, at a minimum, the size and liquidity of the market being assessed (meaning the number and volume of transactions submitted, the range and average volume and range and average of price, and indicative percentages of each type of market data that have been considered in a benchmark determination; terms referring to the pricing Methodology should be included (i.e., transaction-based, spread-based or interpolated/extrapolated.);
- B. A concise explanation of the extent to which and the basis upon which expert judgment if any, was used in establishing a benchmark determination.

### **Morningstar Indexes Response**

- A. Morningstar publishes index methodology documents at [indexes.morningstar.com](https://indexes.morningstar.com). Indexes are typically based on data sourced from regulated markets or exchanges. Index methodology documents clearly describe the benchmark determination process and are publicly available. These documents provide sufficient transparency for stakeholders or market authorities to understand how the benchmark determination was developed.

Morningstar clients have access to data files via FTP relevant to their product that contain adequate information to validate the benchmark determination calculations for an index.

- B. For indexes that may include expert judgment in establishing a benchmark determination, the explanation of this involvement is disclosed in the index rulebook.

#### 10. **Periodic Review**

The administrator should periodically review the conditions in the underlying interest that the benchmark measures to determine whether the interest has undergone structural changes that might require changes to the design of the methodology. The administrator also should periodically review whether the interest has diminished or is nonfunctioning such that it can no longer function as the basis for a credible benchmark.

The administrator should publish or make available a summary of such reviews where material revisions have been made to a benchmark, including the rationale for the revisions.

#### **Morningstar Indexes Response**

The Morningstar Index Methodology Committee (IMeC) conducts an annual review of existing index methodologies in accordance with EU BMR, ensuring that index methodologies remain fit for purpose under the direction of the Index Oversight Committee. The IMeC will review and address any issues or risks brought to its attention, escalating major methodology issues and risks to the Index Product Committee for review. The IMeC will report the results of the annual review to the Index Oversight Committee.

When a material methodology change is undertaken, Morningstar will publish a methodology change statement on the Indexes website covering the methodology change, rationale for the change, a list of affected indexes and an impact analysis if appropriate, and an effective date of the approved change.

#### 11. **Content Methodology**

The administrator should document and publish or make available the methodology used to make benchmark determinations. The administrator should provide the rationale for adopting a particular methodology. The published methodology should provide sufficient detail to allow stakeholders to understand how the benchmark is derived and to assess its representativeness, its relevance to particular stakeholders, and its appropriateness as a reference for financial instruments. At a minimum, the methodology should contain:

- A. Definitions of key terms;
- B. All criteria and procedures used to develop the benchmark, including input selection, the mix of inputs used to derive the benchmark, the guidelines that control the exercise of expert judgment by the administrator, priority given to certain data types, minimum data needed to determine a benchmark, and any models or extrapolation methods;
- C. Procedures and practices designed to promote consistency in the exercise of expert judgment between benchmark determinations;

- D. The procedures that govern benchmark determination in periods of market stress or disruption, or periods where data sources may be absent (theoretical estimation models, for example.);
- E. The procedures for dealing with error reports, including when a revision of a benchmark would be applicable;
- F. Information regarding the frequency for internal reviews and approvals of the methodology. Where applicable, the published methodologies should also include information regarding the procedures and frequency for external review of the methodology;
- G. The circumstances and procedures under which the administrator will consult with stakeholders, as appropriate and;
- H. The identification of potential limitations of a benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.

### **Morningstar Indexes Response**

Morningstar publishes methodology documents for all its indexes at [indexes.morningstar.com](https://indexes.morningstar.com). The public rulebooks highlight Morningstar's rationale behind the methodology and calculation for each index.

Morningstar key terms are defined in the indexes' fact sheets, which are publicly available to stakeholders. The index methodologies within the rulebooks detail all criteria and procedures such as eligibility requirements, weightings, and calculations used for the determination of the benchmarks. The methodologies provide stakeholders with sufficient information to understand how the index is calculated and its relevance to the market as an instrument for financial measurement. If expert judgment is considered in the benchmark determination, all analysis is provided in the index rulebook.

Contingency plans triggered by market stress or disruption will be resolved at the discretion of the Morningstar Index Methodology Committee and will follow the Morningstar governance process. Information regarding the frequency for internal reviews and approvals of the methodology are available in published methodology rulebooks. Any methodology changes are made public on [indexes.morningstar.com](https://indexes.morningstar.com). Additionally, stakeholders are contacted about any changes and their impact to the index.

### **12. Changes to Methodology**

An administrator should publish or make available the rationale for any proposed material change in its methodology and the procedures for making such changes. These procedures should clearly define what constitutes a material change and the method and timing for consulting or notifying subscribers (and other stakeholders when appropriate, taking into account the breadth and depth of the benchmark's use. of changes. The procedures should be consistent with the overriding objective of ensuring the continued integrity of an administrator's benchmark determinations. When changes are proposed, the administrator should specify exactly what these changes entail and when they are intended to apply.

The administrator should specify how changes to the methodology will be scrutinized by the oversight function.

The administrator should develop stakeholder consultation procedures in relation to changes to the methodology that are deemed material by the oversight function and that are appropriate and proportionate to the breadth and depth of the benchmark's use and the nature of the stakeholders. Procedures should:

- A. Provide advance notice and a clear time frame that gives stakeholders sufficient opportunity to analyze and comment on the impact of such proposed material changes, having regard to the administrator's assessment of the overall circumstances; and
- B. Provide for stakeholders' summary comments and the administrator's summary response to those comments to be made accessible to all stakeholders after any given consultation period, except where the commenter has requested confidentiality.

### **Morningstar Indexes Response**

Changes to the methodology of indexes are governed by the [Morningstar Indexes Methodology Change Policy document](#). Any changes that affect the methodology of an index will be publicly published, and all relevant stakeholders will be notified. Morningstar's governance structure ensures that such changes are reviewed by the Morningstar Index Methodology Committee, major changes are escalated to the Morningstar Index Product Committee, and that all stakeholders are notified of when and how changes will take effect.

### **13. Transition**

Administrators should have clear written policies and procedures to address the possible cessation of a benchmark because of market structure change, product definition change, or any other condition that makes the benchmark no longer representative of its intended interest. These policies and procedures should be proportionate to the estimated breadth and depth of contracts and financial instruments that reference a benchmark and the economic and financial stability impact that might result from the cessation of the benchmark. The administrator should take into account the views of stakeholders and any regulatory and national authorities to determine what policies and procedures are appropriate for a particular benchmark.

These written policies and procedures should be published or made available to all stakeholders. Administrators should encourage subscribers and other stakeholders who have financial instruments that reference a benchmark to ensure that:

- A. Contracts or other financial instruments that reference a benchmark have robust fallback provisions in the event of material changes to, or cessation of, the referenced benchmark; and
- B. Stakeholders are aware that various factors, including external factors beyond the control of the administrator, might require material changes to a benchmark.

Administrators' written policies and procedures to address the possibility of benchmark cessation could include the following factors, if determined to be reasonable and appropriate by the administrator:

- A. Criteria to guide the selection of a credible alternative benchmark such as, but not limited to, criteria that seek to match to the extent practicable the existing benchmark's characteristics (credit quality, maturities, and liquidity of the alternative market, for example., differentials between benchmarks, the extent to which an alternative benchmark meets the asset/liability needs of stakeholders, whether the revised benchmark is investable, the availability of transparent transaction data, the impact on stakeholders, and the impact of existing legislation.
- B. The practicality of maintaining parallel benchmarks (e.g., where feasible, maintain the existing benchmark for a defined period of time to permit existing contracts and financial instruments to mature and publish a new benchmark) in order to accommodate an orderly transition to a new benchmark;
- C. The procedures that the administrator would follow if a suitable alternative cannot be identified;
- D. If a benchmark or a tenor of a benchmark will be discontinued completely, the policy defining the period of time in which the benchmark will continue to be produced in order to permit existing contracts to migrate to an alternative benchmark if necessary; and
- E. The process by which the administrator will engage stakeholders and any market and national authorities, as appropriate, in the process for selecting and moving toward an alternative benchmark, including the time frame for any such action commensurate with the tenors of the financial instruments referencing the benchmarks and the adequacy of notice that will be provided to stakeholders.

### **Morningstar Indexes Response**

The Morningstar Index Team has clearly documented internal and external index cessation procedures. Although decommissioning an index is uncommon, circumstances may arise that call for the cessation of a Morningstar index, including, but not limited to: market structure change, geopolitical events, regulatory changes, product definition change, inadequate supply of data, and/or other external factors beyond the control of Morningstar.

As outlined in the Morningstar Indexes Cessation Policy, available at [indexes.morningstar.com](https://indexes.morningstar.com), index cessation proposals are brought before the Morningstar Index Methodology Committee, who will assess the circumstances, number of potentially impacted stakeholders, as well as the economic and financial impact of the cessation, as necessary. The Index Methodology Committee will approve any index cessation that has minimal client impact and recommend any index cessation with client impact to the Index Product Committee for final approval.

Morningstar will announce to Index subscribers, vendors, and to the public the intended Index cessation at least three months prior to cessation date. All notifications of an index cessation and other announcements are made publicly available at [indexes.morningstar.com](https://indexes.morningstar.com).

Before any index is decommissioned, the Morningstar Index Team evaluates the potential cessation impact and consults with all stakeholder subscribers, if applicable, to determine best suitable course of action. Given the cessation impact as well as takeaways from the stakeholder consultation, the Morningstar Index Methodology Committee will determine if and how Morningstar Indexes will provide specific transition assistance. Transition assistance could be (but is not limited to) the continued calculation of an index for a specified time period, until a suitable alternative index has been identified.

#### 14. Submitter Code of Conduct

When a benchmark is based on submissions, the following additional principle also applies: The administrator should develop guidelines for submitters, a code of conduct, that should be available to any relevant regulatory authorities and published or made available to stakeholders. The administrator should only use inputs or submissions from entities that adhere to the submitter code of conduct, and the administrator should monitor and record adherence from submitters. The administrator should require submitters to confirm adherence to the code of conduct annually and whenever a change to the code has occurred. The administrator's oversight function should be responsible for the continuing review and oversight of the submitter code of conduct. The code of conduct should address:

- A. The selection of inputs;
- B. Who may submit data and information to the administrator;
- C. Quality control procedures to verify the identity of a submitter and any employee of a submitter who reports data or information and the authorization of such persons to report market data on behalf of a submitter;
- D. Criteria applied to employees of a submitter who are permitted to submit data or information to an administrator on behalf of a submitter;
- E. Policies to discourage the interim withdrawal of submitters from surveys or panels;
- F. Policies to encourage submitters to submit all relevant data; and
- G. The submitters' internal systems and controls, which should include:
  - i. Procedures for submitting inputs, including methodologies, to determine the type of eligible inputs, in line with the administrator's methodologies;
  - ii. Procedures to detect and evaluate suspicious inputs or transactions, including intergroup transactions, and to ensure the bona fide nature of such inputs, where appropriate;
  - iii. Policies guiding and detailing the use of expert judgment, including documentation requirements;
  - iv. Record-keeping policies;
  - v. Presubmission validation of inputs, and procedures for multiple reviews by senior staff to check inputs;
  - vi. Training, including training with respect to any relevant regulation (covering benchmark regulation or any market abuse regime.);
  - vii. Suspicious submission reporting;
  - viii. Roles and responsibilities of key personnel and accountability lines;
  - ix. Internal sign-off procedures by management for submitting inputs;
  - x. Whistleblowing policies (in line with Principle 4); and

- xi. Conflicts-of-interest procedures and policies, including prohibitions on the submission of data from front-office functions unless the administrator is satisfied that there are adequate internal oversight and verification procedures for front-office function submissions of data to an administrator (including safeguards and supervision to address possible conflicts of interests as per paragraphs (v) and (ix) above., the physical separation of employees and reporting lines where appropriate, the consideration of how to identify, disclose, manage, mitigate, and avoid existing or potential incentives to manipulate or otherwise influence data inputs (whether or not in order to influence the benchmark levels), including, without limitation, through appropriate remuneration policies and by effectively addressing conflicts of interest that may exist between the submissions (including all staff who perform or otherwise participate in benchmark submission responsibilities) and any other business of the submitter or of any of its affiliates or any clients or customers.

#### **Morningstar Indexes Response**

Morningstar indexes are calculated based on data from regulated trading venues and are therefore not based on submissions, except for the Morningstar Hedge Fund Nexus Index, according to the terms of IOSCO principles. Morningstar currently excludes this index from IOSCO compliance.

#### **15. Internal Controls Over Data Collection**

When data is collected from any external source, the administrator should ensure that there are appropriate internal controls over the collection and transmission processes. These controls should address the process for selecting the source, collecting the data, and protecting the integrity and confidentiality of the data. When administrators receive data from employees of the front-office function, the administrator should seek corroborating data from other sources.

#### **Morningstar Indexes Response**

As referred to in Principle 4, the Morningstar Index Team follows a host of processes to ensure that data is protected. This includes an employee exit procedure, mandatory periodic password updates, data transmission and collection processes via secured data portals, and a new data vendor selection process. In addition, Morningstar maintains a full Disaster Recovery site, along with ensuring a properly established segregation of duties between members of the team.

#### **16. Complaints Procedures**

The administrator should establish and publish or make available a written complaints procedures policy by which stakeholders may submit complaints, including whether a specific benchmark determination is representative of the underlying interest it seeks to measure, applications of the methodology in relation to specific benchmark determinations, and other administrator decisions in relation to a benchmark determination.

The complaints procedures policy should:



- A. Permit complaints to be submitted through a user-friendly complaints process such as an electronic submission system;
- B. Contain procedures for receiving and investigating complaints made about the administrator's benchmark determination process timely and fairly by personnel who are independent of anyone who may be or may have been involved in the subject of the complaint, advising the complainant, and other relevant parties of the outcome of its investigation within a reasonable period and retaining all records concerning complaints;
- C. Contain a process for escalating complaints, if needed, to the administrator's governance body; and
- D. Require all documents relating to a complaint, including those submitted by the complainant as well as the administrator's own record, to be retained for a minimum of five years, subject to applicable national legal or regulatory requirements.

Disputes about a benchmarking determination, which are not formal complaints, should be resolved by the administrator by the appropriate standard procedures. If a complaint results in a change in a benchmark determination, that should be published or made available to subscribers and published or made available to stakeholders as soon as possible as set out in the methodology.

- A. The exercise of Expert judgment made by the administrator in reaching a benchmark determination;
- B. Other changes in or deviations from standard procedures and methodologies, including those made during periods of market stress or disruption;
- C. The identity of each person involved in producing a benchmark determination; and
- D. Any queries and responses relating to data inputs.

If these records are held by a regulated market or exchange, the administrator may rely on these records for compliance with this principle, subject to appropriate written record-sharing agreements.

When a benchmark is based on submissions, the following additional principle also applies:

Submitters should retain records for five years subject to applicable national legal or regulatory requirements on:

- A. The procedures and methodologies governing the submission of inputs;
- B. The identity of any other person who submitted or otherwise generated any of the data or information provided to the administrator;
- C. Names and roles of individuals responsible for submission and submission oversight;

### **Morningstar Indexes Response**

To ensure that all Morningstar Indexes' clients and prospects receive accurate, timely, and detailed responses to any Morningstar index-related inquiry or complaint, we employ a global support framework. All client queries raised to [Indexes@morningstar.com](mailto:Indexes@morningstar.com) are tracked and responded to by the client services team. Morningstar Indexes also has a [formal complaint policy](#) administered by our compliance officer.

- A. All complaints or queries regarding index methodology, reconstitution/rebalance results, corporate actions, publication, and other special requests can be submitted via email or phone.
- B. All queries and complaints are logged and evaluated by the client service team who further disseminate or escalate the issues. In accordance with Morningstar's internal complaints and inquiries procedure, all critical issues are responded to within one business day, while all standard issues are responded to within three business days.
- C. The internal inquiries and complaints procedure contains a process to escalate issues up to the Morningstar Index Oversight Committee.
- D. All documents relating to a complaint or inquiry are logged electronically and are retained for at least five years.

If a vendor or client submits an inquiry or complaint that identifies a benchmark inaccuracy, the Morningstar Index Team will evaluate and handle according to the Morningstar Indexes Recalculation Guidelines, which can be found at [indexes.morningstar.com](https://indexes.morningstar.com).

#### **17. Audit**

The administrator should appoint an independent internal or external auditor with appropriate experience and capability to periodically review and report on the administrator's adherence to its stated criteria and with the principles. The frequency of audits should be proportionate to the size and complexity of the administrator's operations. Where appropriate to the level of existing or potential conflicts of interest identified by the administrator (except for benchmarks that are otherwise regulated or supervised by a national authority other than a relevant regulatory authority), an administrator should appoint an independent external auditor with appropriate experience and capability to periodically review and report on the administrator's adherence to its stated criteria and with the principles. The frequency of audits should be proportionate to the size and complexity of the administrator's operations. Where appropriate to the level of existing or potential conflicts of interest identified by the administrator (except for benchmarks that are otherwise regulated or supervised by a national authority other than a relevant regulatory authority), an administrator should appoint an independent external auditor with appropriate experience and capability to periodically review and report on the administrator's adherence to its stated methodology. The frequency of audits should be proportionate to the size and complexity of the administrator's benchmark operations and the breadth and depth of benchmark use by stakeholders.

#### **Morningstar Indexes Response**

The Index Oversight Committee may elect to use Morningstar's compliance and/or internal audit department to periodically review and report on the index team's adherence to its stated policy, procedures, and practices. The frequency of such reviews is based on several factors, including complaints received, the identified conflicts of interests, and the complexity in the operations and administration of an index.

When warranted, Morningstar's Index Oversight Committee may appoint an independent external auditor with appropriate experience and capability to periodically review and report on the adherence to

its stated methodologies. Similar to above, the frequency of such reviews is based on factors like the size and complexity of the index team's operations and the identified conflicts of interests.

#### **18. Audit Trails**

Written records should be retained by the administrator for five years, subject to applicable national legal or regulatory requirements on:

- A. All market data, submissions and any other data and information sources relied upon for benchmark determination;
- B. The exercise of expert judgment made by the administrator in reaching a benchmark determination;
- C. Other changes in or deviations from standard procedures and methodologies, including those made during periods of market stress or disruption;
- D. The identity of each person involved in producing a benchmark determination; and
- E. Any queries and responses relating to data inputs.

If these records are held by a regulated market or exchange, the administrator may rely on these records for compliance with this principle, subject to appropriate written record-sharing agreements. When a benchmark is based on submissions, the following additional principle also applies: Submitters should retain records for five years subject to applicable national legal or regulatory requirements on:

- A. The procedures and methodologies governing the submission of inputs;
- B. The identity of any other person who submitted or otherwise generated any of the data or information provided to the administrator;
- C. Names and roles of individuals responsible for submission and submission oversight;
- D. Relevant communications between submitting parties;
- E. Any interaction with the administrator;
- F. Any queries received regarding data or information provided to the administrator;
- G. Declaration of any conflicts of interests and aggregate exposures to benchmark-related instruments;
- H. Exposures of individual traders/desks to benchmark-related instruments in order to facilitate audits and investigations; and
- I. Findings of external/internal audits, when available, related to benchmark submission remedial actions and progress in implementing them.

#### **Morningstar Indexes Response**

Morningstar Indexes is committed to maintaining the necessary requirements for all auditable information necessitated by IOSCO. This includes:

- A. All data used in index determination and maintenance kept for at least five years, with data replication to be stored in a backup location in accordance with a disaster recovery plan.
- B, C. The use of expert judgment and the changes and/or deviations in policy or methodology are kept on record within the meeting minutes of all Index Committee meetings, as determined by the Index Committee. Each Index Committee's meeting is recorded and kept for a minimum of five years.
- D. All Morningstar employees and teams involved in the determination of an index are documented, including role, function, and relevant human resources data.

- E. All communication related to Morningstar Indexes' data, methodologies, and/or queries are stored for a minimum of five years.

**19. Cooperation with Regulatory Authorities**

Any relevant documents or audit trails shall be made available to any regulatory authorities performing their regulatory or supervisory duties and handed over promptly upon request.

**Morningstar Indexes Response**

Morningstar Indexes will cooperate with all regulatory authorities in relation to relevant and legitimate requests or investigations, barring any applicable legal constraints, including, but not limited to, confidentiality.

## Appendix

**Administrator:** An organization or legal person that controls the creation and operation of the benchmark administration process, whether or not it owns the intellectual property relating to the benchmark. In particular, it has responsibility for all stages of the benchmark administration process, including

- A. The calculation of the benchmark;
- B. Determining and applying the benchmark methodology; and
- C. Disseminating the benchmark.

**Calculation agent:** A legal entity with delegated responsibility for determining a benchmark through the application of a formula or other method of calculating the information or expressions of opinions provided for that purpose, in accordance with the methodology set out by the administrator.

**Expert judgment:** Refers to the exercise of discretion by an administrator or submitter with respect to the use of data in determining a benchmark. Expert judgment includes extrapolating values from prior or related transactions, adjusting values for factors that might influence the quality of data such as market events or impairment of a buyer or seller's credit quality, or weighting firm bids or offers greater than a particular concluded transaction.

**FTP (File Transfer Protocol):** A standard network protocol used to transfer computer files between a client and server on a computer network.

**Methodology:** The written rules and procedures according to which information is collected and the benchmark is determined.

**Stakeholder:** Refers to subscribers and other people or entities who own contracts or financial instruments that reference a benchmark.

**Submissions:** Prices, estimates, values, rates, or other information that is provided by a submitter to an administrator for the purposes of determining a benchmark. This excludes data sourced from regulated markets or exchanges with mandatory post-trade transparency requirements.

**Submitter:** A legal person providing information to an administrator or calculation agent required in connection with the determination of a benchmark.

**Subscriber:** A person or entity that purchases benchmark determination services from an administrator.



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