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## Letter of Compliance with the IOSCO Principles for Financial Benchmarks

25 October 2018

The objective of the IOSCO Principles for Financial Benchmarks is to create an overarching regulatory framework for benchmarks used in global financial markets. The internationally valid guidelines focus on the methodology, transparency and overall quality of benchmarks, as well as the overall governance arrangements and accountability for index providers and other relevant bodies.

In line with the requirement to publically disclose compliance with the Principles on an annual basis, Numis has reviewed the administration of the Numis-branded indices, and warrants that the administration remains in compliance with the recommendations, in line with the principle of proportionality set forth in the IOSCO principles.

Below is the full list of the principles and how Numis ensures compliance with them.

### 1. Overall responsibility of the administrator

Numis assumes primary responsibility for all stages of index administration for all Numis labelled indices. Numis's overall responsibilities include the following:

- Development: Numis retains primary responsibility for the definition and maintenance of the Numis indices methodology. Any changes of definition are undertaken in conjunction with the owners of the copyright of the indices, Professors Dimson and Marsh;
- Determination and Dissemination: Numis retains primary responsibility for compilation and publication and distribution of the Numis indices;
- Operation: Numis is responsible for ensuring appropriate transparency over significant decisions affecting the compilation of the Numis indices;
- Governance: Numis is responsible for establishing appropriate governance, oversight and accountability procedures for the index determination process

### 2. Oversight over third parties

The primary third parties involved in the Numis indices are Professor Paul Marsh and Scott Evans, who are responsible for index calculation and production, and London Business School, which provides access to its share price database and computing facilities for use in index production. Professor Paul Marsh is a highly regarded academic with a long history of production of a range of financial indices, while Scott Evans has both academic and practitioner experience in the field. Numis believes they collectively bring a very high level of skill and experience to the overall provision of the Numis indices.

Numis has written agreements in place with Professor Paul Marsh and Scott Evans and with LBS in relation to the provision of these services, detailing the specific deliverables and their timing. There are processes in place designed to ensure continuity of delivery from third parties, including processes to ensure appropriately trained people are always available to undertake the benchmark calculation and distribution, and business continuity arrangements for IT systems used by Numis and third parties. The index calculation has on a large number of occasions been replicated, giving comfort on computational accuracy.

### 3. Conflicts of interest for administrators

The Numis indices are rule driven and based on published stock prices, with virtually no scope for judgemental input. Furthermore, Numis does not issue, market, trade or clear securities or financial products based on its indices. No party involved in the production of the indices has been identified as having any financial interest in the level of or movements in the Numis indices. Numis currently has not identified any potential material conflicts of interest arising from its administration of the Numis indices. Numis is committed to disclose any material conflicts of interests should they arise.

#### **4. Control framework for administrators**

Numis has in place a control framework for the process of determining and distributing the Numis indices. This control framework is documented and available to relevant Regulatory Authorities, and to subscribers to the indices on request. The control framework addresses conflicts of interest, integrity and quality of benchmark determination, quality of the methodology, and arrangements to ensure accountability and complaints mechanisms are effective.

#### **5. Internal oversight**

The IOSCO principles allow for proportional implementation. The Numis indices business is of limited scale, and there is an absence of identified conflicts of interest or systemic risk. Numis does not therefore run a separate oversight committee in relation to the index. The indices are managed by the Numis Research Department, with internal oversight provided by the NSL Board. The control framework for the indices is subject to periodical internal audit.

#### **6. Benchmark design**

Stock price indices calculated by Numis are designed to accurately reflect actual market conditions in the UK mid and smaller companies sectors, and for UK Alternative Markets.

#### **7. Data sufficiency**

Stock prices used for index calculation are determined in the regulated on-exchange market. Stock price data are delivered by a long established and reputable provider, alongside data on dividends, corporate actions, etc. Thorough daily data verification checks are undertaken by LBS, including appropriate checks against alternative data sources. Additional checks are carried out each month end. The index outputs are delivered to Numis both by email and through upload onto an ftp server.

#### **8. Hierarchy of data inputs**

Stock price indices calculated and published by Numis are not based on submission. These stock price indices are calculated based on a transparent, published methodology using fair prices determined in the regulated on-exchange market.

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

The Methodology of the Numis indices is made available to subscribers on request.

#### **10. Periodic review**

Numis, along with Professor Elroy Dimson and Professor Paul Marsh (the owners of the IP behind the Numis benchmark), have committed to reviewing annually that the Numis indices continue to measure appropriately the performance of UK mid and smaller companies, and UK Alternative Markets.

#### **11. Content of the methodology**

Numis makes available the calculation methodology for its indices to stakeholders to the index on request. Numis considers the methodology documentation provided to be sufficiently detailed.

#### **12. Changes to the methodology**

The methodology of the indices has remained essentially unchanged since inception in 1987. Numis Research Department would seek broad user comments before making changes to index methodologies which are expected to have a significant impact on users. Any such material change in methodology would be subject to agreement both by Professors Dimson and Marsh, and by the NSL Board.

#### **13. Transition**

Numis does not plan to suspend the calculation of current stock price indices. However, Numis is committed to inform index users and take other appropriate action should it be required to suspend such calculation for any reason. This process would include identification of users of the index, giving notice to vendors and clients of at least three months prior to the proposed decommissioning date, and follow up vendor/client notices as deemed appropriate including a final notice.

#### **14. Submitter Code of Conduct**

Stock price indices calculated and published by Numis are not based on submission.

#### **15. Internal controls over data collection**

The stock prices and other corporate activities underlying the Numis indices are sourced from the London Share Price Database, operated by LBS. This longstanding database is subject to rigorous checks by LBS staff.

#### **16. Complaints procedures**

Written complaints about the indices should be addressed to The Head of Research at Numis, copied to the Numis Compliance Department. Complaints will be dealt with in accordance with the Numis Complaints Policy, as documented on Numis's website.

#### **17. Audits**

Numis's internal audit function periodically audits the adherence of the indices process to these principles.

#### **18. Audit trail**

Records of the daily indices calculation, and the share prices underlying those calculations, are retained indefinitely.

#### **19. Co-operation with Regulatory Authorities**

Numis is prepared as necessary and promptly to submit documents and prepared to provide assistance to the appropriate Regulatory Authorities, upon request by those Regulatory Authorities.