

Technical Note

Material Change Consultation: Decision on Shiller Barclays CAPE® Sector Index Family

On 30 July 2018, Barclays announced the opening of a formal stakeholder consultation on proposed material changes to the methodologies of the Shiller Barclays CAPE® Sector Index Family. The consultation process gathered feedback on proposals for dealing with the Global Industry Classification Standard (“GICS”) Sector changes, instituted by MSCI and S&P, to broaden and rename the Telecommunication Services Sector as the Communication Services Sector. Barclays Index Administration (“BINDA”) has been conducting a thorough review of the proposed changes, supporting rationale and stakeholder feedback. This announcement confirms the decision of BINDA following the end of the consultation. The material changes outlined below will be implemented by Barclays on 28 September 2018.

Decision

BINDA has decided to implement changes to the Shiller Barclays CAPE® Sector Index Family substantially as proposed in the 30 July 2018 announcement. These changes are summarised below. The only point of difference with changes previously proposed is a wider applied use of updated price and earnings data for the Shiller Barclays CAPE® US Sector Indices. Updated index rules will be available shortly to take account of these changes.

Shiller Barclays CAPE® US Sector Indices

1. **Sector Universe:** change the number of index constituents by splitting Technology Sector into Information Technology and Communication Services and thereby adding an additional Sector to the Sector Universe.
2. **Rebalancing:** use the existing standard schedules of monthly Rebalancing Dates.
3. **Update data:** use updated price and earnings data for all future index selections.

In relation to the use of updated price and earnings data, BINDA has decided that this data should be used for all Sectors, and not just the three (3) Sectors most impacted by the GICS changes (as originally proposed in the 30 July 2018 announcement). The material changes needed in response to the GICS changes present an opportune time to use more precise data, across all Sectors, which has become available since the indices were originally launched.

Additionally, BINDA notes that the rebalancing for the S&P Select Sector indices and SPDR ETFs based on those indices is going to occur according to the rebalancing schedules of those indices and currently S&P state that “...the change will become effective prior to the market open on Monday, September 24, 2018, in conjunction with the index rebalancing.”

PLEASE SEE IMPORTANT DISCLOSURES BELOW

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For reference, the result of the S&P consultation is here:

https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/697354_technologyselectsectorindexconsultationresults4.23.2018.pdf?force_download=true

Shiller Barclays CAPE® Europe Sector Indices and Shiller Barclays CAPE® Japan Sector Indices

In both cases, Telecommunication Services will be replaced by Communication Services. Additionally, BINDA notes that the changes for the MSCI Japan and MSCI Europe sectors are going to occur according to the rebalancing schedules of those indices (expected to be in late November).

For reference, the result of the MSCI consultation is here (announced on 24 May 2018):

<https://www.msci.com/index-announcements>

Shiller Barclays CAPE® Asia Pacific Ex. Japan Sector Indices

These indices will be suspended at the end of November pending further analysis.

Summary of feedback

Respondents all accepted the necessity of methodology material changes to deal with GICS Sector changes. Respondents were also supportive of the specific proposals and supporting rationale provided by Barclays.

Respondents consistently pointed out the importance of liquidity considerations. While BINDA is unable to provide details in this announcement, due to the inherent sensitivity of matters relevant to index selections and rebalancings, BINDA confirms that liquidity considerations have been taken into account in its decision and will be monitored going forward. Such considerations are important because the indices have the objective of measuring a realisable strategy performance (as opposed to a purely theoretical strategy performance). Therefore, liquidity considerations are relevant to ensuring continued fulfilment of index objectives following the material changes. BINDA is satisfied that the proposed changes provide contingencies for dealing with liquidity variables in a practicable manner for all relevant stakeholders.

More than one respondent requested that updated price and earnings data be used consistently across all Sectors in the US versions of the indices for index selections after the implementation date for the material changes. The decision by BINDA on this point reflects this feedback.

BINDA did not receive any objections to the suspension of the Asia Pacific Ex. Japan Sector Indices.

Implementation

The material changes confirmed in this announcement will be implemented by Barclays on 28 September 2018. For more information, please contact QISConsultation@barclays.com.

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