

**S&P Dow Jones  
Indices**

A Division of **S&P Global**

# **S&P/TSX Preferred Share Index** *Methodology*

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# Introduction

## Index Objective and Highlights

The S&P/TSX Preferred Share Index® measures the performance of the Canadian preferred stock market.

The index is comprised of preferred shares trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity, issuer rating, and exchange listing. Constituents are weighted based on a market capitalization weighting scheme.

## Partnership

The S&P/TSX indices are calculated and managed by S&P Dow Jones Indices. The TMX Group Inc. (TMX) is the owner and distributor of all S&P/TSX equity index data.

## Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

| Supporting Document  | URL   |
|--|---|
| S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology | <a href="#">Equity Indices Policies &amp; Practices</a> |
| S&P Dow Jones Indices' Index Mathematics Methodology                   | <a href="#">Index Mathematics Methodology</a>           |
| S&P Dow Jones Indices' Float Adjustment Methodology                    | <a href="#">Float Adjustment Methodology</a>            |

This methodology was created by S&P Dow Jones Indices to achieve the aforementioned objective of measuring the underlying interest of each index governed by this methodology document. Any changes to or deviations from this methodology are made in the sole judgment and discretion of S&P Dow Jones Indices so that the index continues to achieve its objective.

# Eligibility Criteria

## Index Eligibility

The index is comprised of preferred shares listed on and trading on the Toronto Stock Exchange that meet criteria relating to size, liquidity, and issuer rating.

## Eligibility Factors

**Exchange Listing.** Preferred shares listed on the Toronto Stock Exchange and trading in Canadian Dollars are eligible.

**Type of Issuance.** Preferred shares issued by a company to meet its capital or financing requirements are eligible. These include floating and fixed rate preferreds, cumulative and non-cumulative preferreds, preferred shares with a callable or conversion feature, and trust preferreds. Split preferreds, which are packaged securities linked to baskets of shares, are not included.

## Inclusion Criteria

**Maturity or Conversion Schedule.** Preferred shares that do not have a mandatory conversion or scheduled maturity within the next 12 months are eligible.

**Market Capitalization.** The preferred shares must have total market capitalization of more than C\$ 100 million as of the rebalancing reference date, based on the volume weighted average price (VWAP) on the Toronto Stock Exchange over the last 10 trading days of the month-end prior to the quarterly review.

**Volume.** The preferred shares must have a minimum trailing three-month average daily value traded of C\$ 200,000 as of the rebalancing reference date.

**Rating.** Preferred shares must have a minimum rating of P-3 or its equivalent by S&P Global Ratings, Dominion Bank Ratings Service or Moody's Investor Service.<sup>1</sup> If more than one of the ratings agencies has issued a rating on the stock, the lowest rating is used to determine eligibility.

**Indicated Yield.** Preferred shares for which S&P Dow Jones Indices cannot determine an indicated annual dividend yield are not eligible.

**Different Lines of the Same Issuer.** There is no limit to the number of lines of a single company's preferred share allowed in the index; however, a maximum weight of 10% is set per issuer. All eligible lines for an issuer are included in the index and capped on a pro rata basis to a maximum of 10% by issuer of the index market capitalization.

## Exclusion Criteria

**Market Capitalization.** Preferred shares with total market capitalization of less than C\$ 75 million as of the rebalancing reference date are excluded from the index, based on the volume weighted average price (VWAP) on the Toronto Stock Exchange over the last 10 trading days of the month-end prior to the quarterly review.

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<sup>1</sup> The index was launched in April 2007. Prior to that time, the index was back tested using only S&P Global Ratings' ratings.

**Volume.** Preferred shares with a minimum trailing three-month average daily value traded of less than C\$100,000, as of the rebalancing reference date, are excluded from the index. No issue is removed from the index solely for the violation of liquidity requirement for 12 months following its addition effective date.

**Rating.** Preferred shares that do not have a minimum rating of P-3 or its equivalent by S&P Global Ratings, Dominion Bank Ratings Service or Moody's Investor Service are excluded from the index.<sup>2</sup> If more than one of the ratings agencies has issued a rating on the stock, the lowest rating is used to determine eligibility.

**Indicated Yield.** Preferred shares for which S&P Dow Jones Indices cannot determine an indicated dividend yield as of the rebalancing reference date are excluded from the index.

A preferred share deleted from the index is not eligible for index re-inclusion until six months after the effective date of the exclusion.

*Note: While the inclusion criteria explicitly excludes issues that have a mandatory conversion or scheduled maturity within 12 months of the rebalancing effective date, no such rule exists for continued membership.*

### **Data Sources**

Stock prices, VWAPs, and prices used to calculate QMV are prices determined by trading on the TSX.

Canadian trading volume is determined using the composite volume. Canadian trading volume includes trading on the TSX, Aequitas (Lit and Neo), Alpha, CSE (Pure Trading), Instinet Canada, Liquidnet Canada, Lynx, Nasdaq CXC, Nasdaq CXD, Nasdaq CX2, Omega and TriAct Match Now.

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<sup>2</sup> The index was launched in April 2007. Prior to that time, the index was back tested using only S&P Global Ratings' ratings.

# Index Construction

## **Approaches**

The index is based on a market capitalization weighting scheme.

## **Index Calculations**

The index is calculated by the divisor methodology used in S&P Dow Jones Indices' equity indices.

*For more information on the index calculation methodology, please refer to the S&P Dow Jones Indices' Index Mathematics Methodology.*

# Index Maintenance

## Rebalancing

Index membership is reviewed quarterly. Rebalancing occurs after the close on the third Friday of January, April, July and October. The reference date for additions to and deletions from the index is five business days prior to the first Friday of the rebalancing month.

**Additions.** Additions occur only at the quarterly rebalancing dates. There are no intra-period additions.

**Deletions.** A constituent is deleted intra-period if it is called or undergoes mandatory conversion or redemption. Index constituents are also deleted if the constituents no longer meet eligibility requirements at the quarterly rebalancing. The Index Committee exercises discretion in cases where the credit worthiness of an issue is significantly downgraded or downgraded to junk status.

## Corporate Actions

| Corporate Action   | Adjustment Made to Index  | Divisor Adjustment ? |
|--|---|----------------------|
| Shares called for cash or par value                                      | If the issuer calls a constituent, it is removed from index after the close of the call date, or the first trading date of the call period, at the closing price. Note that the issuer may choose not to call, in which case no change is necessary.                          | Yes                  |
| Shares called for conversion or automatically converted                  | The constituent is removed from the index after the close of the conversion date, or the first trading date of the conversion period, at the closing price. If the issuer chooses not to invoke the right to convert and conversion is not automatic, no change is necessary. | Yes                  |
| Delisting from the Toronto Stock Exchange                                | The constituent is removed at the closing price of the delisting date (if required, a constituent may be removed at zero price).  | Yes                  |
| Special cash distribution  | The price of the stock making the special payment is reduced by the per share special payment amount after the close of trading on the day before the ex-date.  | Yes                  |
| Rights offering on the preferred share class (rare occurrence)           | The price is adjusted to the Price of Parent shares minus the Price of Rights shares/Rights Ratio.  | Yes                  |
| Preferred stock split (rare occurrence)                                  | Index Shares are multiplied by and the price is divided by the split factor.  | No                   |
| Partial call for cash or par value                                       | On the redemption date, the constituent shares outstanding are reduced by the number of shares called and the constituent price is adjusted to the call price plus accrued interest.  | Yes                  |
| Issuance of additional shares for the preferred share class in the index | None. Shares are revised at the rebalancing.  | No                   |



*For more information, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Index Methodology document.*

### **Currency, Currency Hedged, and Risk Control Indices**

The S&P/TSX Preferred Share Index is calculated in Canadian dollars.

Additional currency, currency hedged, and risk control versions of the indices may be available. For a list of available currency, currency hedged, and risk control indices, please contact Client Services at [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

*For more information on currency, currency hedged, and risk control indices, please refer to S&P Dow Jones Indices' Index Mathematics Methodology.*

### **Base Dates and History Availability**

Index history availability, base dates and base values are shown in the table below.

| <b>Index</b>                                 | <b>Launch Date</b> | <b>First Value Date</b> | <b>Base Date</b> | <b>Base Value</b> |
|--|--------------------|-------------------------|------------------|-------------------|
| S&P/TSX Preferred Share Index (Price Return) | 06/12/2007         | 07/19/2002              | 07/19/2002       | 975.14            |
| S&P/TSX Preferred Share Index (Total Return) | 06/12/2007         | 07/19/2002              | 07/19/2002       | 975.01            |

# Index Data

## Calculation Return Types

S&P Dow Jones Indices calculates multiple return types which vary based on the treatment of regular cash dividends. The classification of regular cash dividends is determined by S&P Dow Jones Indices.

- Price Return (PR) versions are calculated without adjustments for regular cash dividends.
- Gross Total Return (TR) versions reinvest regular cash dividends at the close on the ex-date without consideration for withholding taxes.
- Net Total Return (NTR) versions, if available, reinvest regular cash dividends at the close on the ex-date after the deduction of applicable withholding taxes.

In the event there are no regular cash dividends on the ex-date, the daily performance of all three indices will be identical.

For a complete list of indices available, please refer to the daily index levels file (“.SDL”).

*For more information on the classification of regular versus special cash dividends as well as the tax rates used in the calculation of net return, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.*

*For more information on the calculation of return types, please refer to S&P Dow Jones Indices' Index Mathematics Methodology.*

# Index Governance

## Index Committee

The S&P/TSX Canadian indices are maintained by the S&P/TSX Canadian Index Committee. The Index Committee is comprised of four members representing S&P Dow Jones Indices and three members representing the Toronto Stock Exchange (TSX). The Index Committee is chaired by a member designated by S&P Dow Jones Indices. Meetings are held monthly, and from time to time, as needed.

The Index Committee is responsible for setting rules and policies for the S&P/TSX Canadian Indices, determining the composition of the indices and administering the methodology. In fulfilling its responsibilities, the Index Committee has full and complete discretion to amend, apply or exempt the application of the methodology and other index policies as circumstances may require, and add, remove or by-pass any security in determining the composition of any of the indices.

The Index Committee may rely on any information or documentation submitted to or gathered by it that the Index Committee believes to be accurate. Where a public document used by the Index Committee is available in both official languages, the Index Committee shall assume that the contents of both versions are identical. The Index Committee reserves the right to reinterpret publicly available information and to make changes to the index based on a new interpretation of that information at its sole and absolute discretion.

Index corrections and changes to index composition are implemented at such time and in such manner, as the Index Committee deems appropriate. The timing of any index change made in response to a correction shall be at the sole and absolute discretion of the Index Committee.

Stock prices, VWAPs, and prices used to calculate QMV shall be prices determined by trading on the Toronto Stock Exchange. Trading volume shall be determined by trading on the Toronto Stock Exchange and on such other Canadian trading venues which make the data available in a timely fashion.

S&P Dow Jones Indices considers information about changes to its Canadian indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

*For information on Quality Assurance and Internal Reviews of Methodology, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document.*

# Index Policy

## **Announcements**

Announcements of additions and deletions for the S&P/TSX Canadian indices are generally made after market close. Whenever possible, announcements of additions or deletions of shares or other index adjustments are made five trading days before the adjustments are implemented.

Index rebalancing announcements are made to clients after the close of trading on the first Friday of the rebalancing month, approximately ten business days before the effective date.

In addition, TMX Datalinx offers a fee-based subscription to Index Notices. The Index Notices provide the most detailed and comprehensive coverage of index changes. Complete data for index replication (including share counts, tickers and data on index levels and returns) are also available through TMX Datalinx. In order to subscribe, contact TMX Datalinx by phone at +1.416.947.4778 or by email at [marketdata@tmx.com](mailto:marketdata@tmx.com).

## **Holiday Schedule**

The S&P/TSX Canadian indices are calculated when the Canadian equity market is open.

*A complete holiday schedule for the year is available on the TMX Web site at [www.tmx.com](http://www.tmx.com).*

## **Rebalancing**

The Index Committee may change the date of a given rebalancing for reasons including market holidays occurring on or around the scheduled rebalancing date. Any such change will be announced with proper advance notice where possible.

## **Unexpected Exchange Closures**

For information on Unexpected Exchange Closures, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document.

## **Recalculation Policy**

For more information on the recalculation policy please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document.

*For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document.*

## **Contact Information**

For any questions regarding an index, please contact: [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

# Index Dissemination

The TMX Group (TMX) serves as the distributor of both real-time and historical index data. In addition, index levels are available on S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com), through major quote vendors (see codes below), through numerous investment oriented Web sites and various print and electronic media.

## Tickers

The table below lists headline indices covered by this document. All currency, currency hedged, risk control, and return type versions of the below indices that may exist are also covered by this document. Please contact [index\\_services@spglobal.com](mailto:index_services@spglobal.com) for a complete list of indices covered by this document.

| Index                         | Return Type  | Bloomberg | Reuters    |
|-------------------------------|--------------|-----------|------------|
| S&P/TSX Preferred Share Index | Price Return | TXPR      | .GSPTXPR   |
|                               | Total Return | TXPRAR    | .TRGSPTXPR |

## FTP

Daily constituent and index level data is available from the Toronto Stock Exchange on subscription. Please contact Market Data at 416-947-4778 or, by email, at [marketdata@tmx.com](mailto:marketdata@tmx.com).

*For further information, please refer to the TMX Web site at [www.tmx.com](http://www.tmx.com).*

## Web site

*For further information, please refer to S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com).*

# Appendix

## Methodology Changes

Methodology changes since January 1, 2015 are as follows:

| Change                                      | Effective Date<br>(After Close) | Methodology  |  |
|---|---------------------------------|--|--|
|   |                                 | Previous   | Updated  |
| Trading Volume for Liquidity Calculation    | 31-Jul-18                       | Canadian trading volume includes trading volume at the TSX, Aequitas (Lit and Neo), Alpha, CSE (Pure Trading), Lynx, Nasdaq CXC, Nasdaq CX2 and Omega.                               | Canadian trading volume is determined using the composite volume. Canadian trading volume includes trading on the TSX, Aequitas (Lit and Neo), Alpha, CSE (Pure Trading), Instinet Canada, Liquidnet Canada, Lynx, Nasdaq CXC, Nasdaq CXD, Nasdaq CX2, Omega and TriAct Match Now. |
| Volume Weighted Average Price (VWAP) Period | 30-Oct-17                       | Market capitalization is calculated based on the VWAP of the security on the Toronto Stock Exchange over the last three trading days of the month-end prior to the Quarterly Review. | Market capitalization is calculated based on the VWAP of the security on the Toronto Stock Exchange over the last 10 trading days of the month-end prior to the Quarterly Review.  |
| Trading Volume Marketplaces                 | 20-Aug-15                       | TSX and other Canadian trading venues which make the data available in a timely fashion.   | TSX, Aequitas (Lit and Neo), Alpha, Chi-X, CSE (Pure Trading), CX2, Lynx, TMX Select (Excluded after September 2016 review) and Omega.   |

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