



FTSE Russell Digital Assets Advisory Committee

Tuesday 28 February 2023

ATTENDEES

Members: seven (7); apologies: two (2)

Digital Asset Research: one (1)

FTSE Russell: nine (9) including the Chairman and Committee Secretary

Attendees were reminded of their obligations in relation to confidentiality of information, conflicts of interest and competition law. There were no declarations.

1.0 Inaugural Meeting of the FTSE Russell Digital Assets Advisory Committee

1.1 The committee members were welcomed to the inaugural meeting.

1.2 FTSE Russell provided an overview of the FTSE Russell digital asset universe and indices, explaining that its digital asset index offering was launched in 2022. The product suite was likened to equity in that the universe includes large, small, and micro securities, and the eligible universe comprises securities which have passed FTSE Russell vetting and other eligibility processes. When determining which assets to add to the index, FTSE Russell prioritises consistent and clean data, hence its plan to scale back the size of the universe at subsequent rebalances from 450 to 350.

1.2.1 FTSE Russell also highlighted the following methodologies and policies as key documents and in-scope for committee discussions. The ground rules were compared to 'recipes', which are used to ensure the index delivers the same end result/outcome, and provide for maximum transparency.

- Ground rules: [FTSE Digital Asset Index Series](#) and [FTSE Single Digital Asset Index Series](#)
- Main policies and calculation guidelines: i) [Guide to the Vetting of Digital Assets and Digital Asset Exchanges](#), ii) [Guide to the Calculation of the FTSE DAR Digital Asset Prices and FTSE DAR Reference Prices](#), iii) [FTSE Global Digital Asset Index Series Guide to Calculation Method for the Median Liquidity Test](#), iv) [Recalculation](#)

[Policy and Guidelines – Digital Assets Indices](#), v) [Recalculation Policy and Guidelines – FTSE DAR Reference Prices](#), and vi) [Network Events Guide for FTSE Digital Assets Indices](#)

- Exchange watchlists: [Participating and Watchlist Exchanges](#),
- Glossary of key terms: [Glossary of Terms used in FTSE Russell Digital Asset Documents](#)
- Rebalance timetable: [2023 FTSE Digital Asset – Rebalance Timetable](#)

2.0 Statutory Governance Matters and Committee Information

2.1 [Membership Changes](#)

2.1.1 The approach to membership appointments was detailed by the Committee Secretariat.

2.2 [Minutes](#)

2.2.1 The procedure for the approval of committee-facing and public-facing minutes was detailed by the Committee Secretariat.

2.3 [Governance](#)

2.3.1 The advisory committee endorsed the Terms of Reference.

2.3.1.1 *Post-meeting note:* the Terms of Reference [were published to the FTSE Russell website following the meeting](#).

2.4 [Key Notices and Updates](#)

2.4.1 Recent notices were highlighted for the committee's benefit.

3.0 Methodology

3.1 [Staking Return and Modelled Yield Analytics within the FTSE Digital Asset Indices](#) (presented for discussion)

3.1.1 FTSE Russell described its aim as focused on the enhancement of the concept of return in the digital asset index offering to capture the economic reality of assets that are staking, and then generate risk metrics and probabilistic analytics.

3.1.2 A discussion ensued and the attendees made comments. FTSE Russell then thanked the committee members for their contributions and said it would continue to work on its model.

3.2 [Exchange Due Diligence post-FTX](#) (presented for discussion)

3.2.1 FTSE Russell and Digital Asset Research (DAR) noted that FTX's collapse has led many industry players and market participants to question their approach and system for performing due diligence, as well as frameworks for assessing counterparty risk. In conjunction with DAR, FTSE Russell vets digital asset exchanges based on 21 criteria as outlined in the [Guide to the Vetting of Digital Assets and Digital Asset Exchanges](#), which FTSE Russell developed to identify the best digital asset exchanges in a new and growing industry. The framework was designed to accommodate new players, merger and acquisition activity, and the expectation that exchanges will mature and become more sophisticated over time. Two approaches comprise the framework: the data approach and the client approach, and were outlined for the committee's benefit.

3.2.2 Separately, FTSE Russell explained that it published notices on the removal of FTX and FTX.US as Watchlist Exchanges and on 15 November 2022, FTSE Russell removed Liquid as a Participating Exchange as the company failed the following rule:

3.2.2 Immediate Loss of Eligibility In circumstances where pricing fidelity is in doubt (e.g. Rule 3.1.4 d), there is a significant security breach, or some other deleterious event that questions

the validity of an Exchange, then the Exchange may lose eligibility. The offending Exchange will be removed as a digital asset pricing source used in the calculation of the FTSE DAR Digital Asset Prices and the FTSE DAR Reference Prices with immediate effect.

- 3.2.3 FTX and FTX.US never reached Participating Exchange classification since the beginning of the vetting process in 2019. Liquid was a Participating Exchange which was purchased by FTX latterly. Liquid was removed from the cohort eligible exchanges when trading halted on the exchange as a result of the bankruptcy filing of the parent exchange, FTX.
- 3.2.4 FTSE and DAR applied the joint framework when assessing the risks associated with FTX when the exchange was still in operation. This led to a series of discoveries, which were highlighted for the committee's benefit.
- 3.2.5 The committee was kindly requested to consider and provide feedback on:
- How FTSE Russell can shape best practice in the industry and strengthen its vetting framework, and whether there any key requests for policy makers who are considering rules for exchanges.
 - The committee members' thoughts on proportionate risk assessments in a new industry where these assessments may create barriers to entry.
 - In particular, FTSE Russell and DAR would like to continue to raise the vetting process bar and welcomed committee members' thoughts on this.
- 3.2.6 A discussion ensued and the attendees made comments. FTSE Russell then thanked the committee members for their contributions.
- 3.3 Digital Asset Security Offerings (presented for discussion)
- 3.3.1 FTSE Russell introduced the item by remarking that a lack of clarity from regulators had led to questions on how and when to classify digital assets as securities. The global nature of these assets makes it complicated to maintain a non-domiciled approach to providing institutional quality measurements of the digital asset market.
- 3.3.2 FTSE Russell and DAR do not make security classification a requirement for inclusion or exclusion in the digital asset universe; the aim is to work collaboratively with the industry to create greater transparency and begin to create a schema by which assets can be deemed or classified as securities. The partners do, however, publish a [taxonomy](#) to classify activities in the digital asset ecosystem; this includes digital currencies, computational platforms, and financial instruments. Currently, the US has an enforcement-led approach, whilst the EU and UK have proposed legislation to regulate certain digital asset activities as part of overarching financial regulation. FTSE Russell presented two case studies, Ripple (XRP) and the Kraken Staking Program.
- 3.3.3 FTSE Russell then asked the committee for their responses to and feedback on:
- FTSE Russell's clients will need to be aware and have access to index holdings if the index is being used for products for retail clients. Today, digital asset products are available in Europe – the products are not UCITS compliant but are UCITS eligible dependent on local regulators in single EU member states. What additional information, data or tools could FTSE Russell provide to help clarify questions around security classification?
 - The information contained in earlier segments of this paper focus on risk management. As FTSE Russell (and DAR) has been evaluating the digital asset space since 2019, we have been mindful of our role and that we are not a credit agency for digital assets. Are there other metrics which could be provided or be

used to improve our provision of data, or meaningful measurements to help clients manage risk?

- Regarding the regulatory assessment in the Guide to Vetting Exchanges, is there anything we should be considering?

3.3.4 A discussion ensued and the attendees made comments. FTSE Russell then thanked the committee members for their comments and said that it would reflect on the feedback received.

4.0 AOB

4.1 There was no other business.

5.0 Actions

5.1 None.

6.0 Meeting Date

6.1 2023: 07 September

For more information about our indices, please visit ftserussell.com.

© 2023 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, “FTSE Canada”), (4) FTSE Fixed Income Europe Limited (“FTSE FI Europe”), (5) FTSE Fixed Income LLC (“FTSE FI”), (6) The Yield Book Inc (“YB”) and (7) Beyond Ratings S.A.S. (“BR”). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB and BR. “FTSE®”, “Russell®”, “FTSE Russell®” “FTSE4Good®”, “ICB®”, “The Yield Book®” “Beyond Ratings®” and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB or BR.

FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of FTSE Russell indices or the fitness or suitability of FTSE Russell indices for any particular purpose to which it might be put. Indices cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group index data and the use of their data to create financial products require a licence from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB, BR and/or their respective licensors.

About FTSE Russell

FTSE Russell is a leading global index provider creating and managing a wide range of indices, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indices offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indices to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indices also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit ftserussell.com.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office:

EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo + 81 (3) 6441 1440

Sydney +61 (0) 2 8823 3521