

Construction Rules for the Morningstar Transatlantic Banks Index



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Overview

The Morningstar® Transatlantic Banks Index is designed to target specific regional exposure to Eurozone and US countries along with specific exposure to certain Banking sector industries.

This index does not incorporate environmental, social or governance criteria.

Index Inception and Performance Start Date

The index inception date is March 15, 2023 and the performance start date, when the first back-tested index value was calculated, is June 20, 2008.

Index Construction

Methodology Summary

Starting Universe

- Select securities from the Morningstar Global Markets Index.

Eligibility

- Select securities with Country of Classification (CoC) in Eurozone countries or the US
- Select securities that belong to one of the target Banking Industries.
- Select securities that belong to the Large Cap or Mid Cap Size Segment.

Portfolio Construction

- A 50% weight regional basket allocation, between Eurozone and US, is maintained
- Within regional basket, Securities are float market-weighted

Morningstar
Transatlantic Banks
Index

Assigning Stocks to the Index

Starting Universe

At each reconstitution, securities for the Morningstar Transatlantic Banks Index are derived from the Morningstar Global Markets Index (benchmark). For more details on benchmark construction, refer to the Construction rules for the [Morningstar Global Markets Index](#).

Security Selection

To be eligible for inclusion in the Index, all constituents must meet the following criteria:

- Country of Classification in
 - Austria
 - Belgium
 - Germany
 - Spain
 - Finland
 - France
 - Greece
 - Ireland
 - Italy
 - Netherlands
 - Portugal

- United States
- Sector¹ as determined by GECS Industries in
 - Before December 2019
 - Banks – Regional – Europe
 - Banks – Global
 - Including and after December 2019
 - Banks – Diversified
 - Banks – Regional
- Size segment in
 - Large Cap
 - Mid Cap

Number of Stocks

The number of stocks in the index is variable, subject to the selection and eligibility criteria at the time of semi-annual reconstitution

Index Weighting

The index is free-float market capitalization weighted. Additionally, the weight of each regional basket (Eurozone and US) in the Index is scaled to 50% at each reconstitution and rebalance. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

¹ Morningstar GECS is periodically reviewed and updated, so for maintaining representativeness and continuity of the history for the index strategy, these changes may be backfilled retrospectively where appropriate for indexes created after the effective date of such changes.

Index Maintenance and Calculation

Scheduled Maintenance

The index is reconstituted, where the membership is reset, semi-annually. Adjustments are made on the Monday following the third Friday of June and December. The market data used for reconstitution is as of the last trading day of April and October.

The index is rebalanced quarterly and implemented after the close of business on the third Friday of March and September and is effective the following Monday. The market data used for rebalancing is as of the last trading day of February and August.

Index files are published according to the Global calendar schedule. For more information, please refer to the [Morningstar Indexes Holiday Calendar](#).

Corporate Actions

The treatment of corporate actions will be as per the float market capitalization weighted indexes. For more details, please refer to the “Treatment for float market capitalization indexes” section in the [Morningstar Indexes Corporate Actions Methodology rulebook](#)

Index Calculation and Price Data

Details about index calculations and price data can be found in their respective rulebooks: [Morningstar Indexes Calculation Methodology](#) and [Equity Closing Prices Used for Index Calculation](#).

Methodology Review and Index Cessation Policy

The index methodology is continually reviewed to ensure it achieves all stated objectives. These reviews consider corporate action treatment, selection, and maintenance procedures. Subscribers to the index will be notified before any methodology changes are made. For more details, refer to the [Morningstar Index Methodology Change Policy](#).

Morningstar Indexes notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to, or a possible cessation of, the index. These circumstances are generally not within Morningstar's control and may include significant changes to the underlying market structure, inadequate access to necessary data, geo-political events, and regulatory changes. In addition, factors such as low usage or methodology convergence may result in the cessation of an index.

Because the cessation of the index or benchmark index could disrupt subscriber products that reference this index, all subscribers are encouraged to have robust fallback procedures if an index is terminated. For more details, refer to the [Morningstar Index Decommissioning Policy](#).

Data Correction and Precision

Intraday Index Data Corrections

Commercially reasonable efforts are made to ensure the accuracy of data used in real-time index calculations. If incorrect price or corporate action data affects index calculations, corrections are applied prospectively.

Index-Related Data and Divisor Corrections

Incorrect pricing and corporate action data for individual issues in the database will be corrected upon detection. In addition, an incorrect divisor of an index, if discovered if discovered within two days of its occurrence will be fixed retroactively on the day it is discovered to prevent an error from being carried forward. Commercially reasonable efforts are made to correct an older error subject to its significance and feasibility.

For more details, refer to the [Recalculation Guidelines](#).

Exceptions

While Morningstar will seek to apply the methodology as described within this document, the market environment, supervisory, legal, financial, or tax reasons may require an alternative approach to be adopted. A decision to take an alternative approach will be made by the Morningstar Index Methodology Committee, and in all instances, the application of a nonstandard process will be reported to the Morningstar Index Oversight Committee.

Appendixes

Appendix 1: Glossary

Term	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.
Rebalance	During each rebalance, the weights are adjusted for updated free-float and shares outstanding data.

Appendix 2: Decrement Variants

Index Name	Underlying Index	Base value	Base Date	Performance Inception Date	Inception Date
Morningstar Transatlantic Banks Decrement 50 Point GR EUR	Morningstar Transatlantic Banks	1,000	Sept. 29 2017	June. 20, 2008	March. 15, 2023
Morningstar Transatlantic Banks Decrement 5% NR EUR	Morningstar Transatlantic Banks	1,000	Sept. 29 2017	June. 20, 2008	March. 15, 2023

Appendix 3: Decrement Levels

The index levels are adjusted by deducting a predetermined value of index points from the gross return (GR) or fixed percentage point from the net return (NR) levels of the base index. These constant markdowns are applied to the base Index daily.

Return Variant of the Base Index	Base Currency	Decrement Type	Decrement Frequency	Decrement Application	Decrement Value	Day Count Convention
Net Total Return Gross Total Return	EUR	Fixed Percentage Decrement or Fixed Point Decrement based on the index version.	Daily	Geometric application for both decrement types.	5% decrement based on the Net Total Return 50-point decrement based on Gross Total Return	*ACT/365

Formula for Fixed Point Decrement Geometric Decrement Calculation

$$IV_t = (IV_{t-1} \times (U_t \div U_{t-1})) - (D \times (\text{Act}(t-1, t) \div \text{DayCount}))$$

Where:

IV_t/IV_t = The value of the Fixed Point Decrement Index for calculation day t

IV_{t-1}/IV_{t-1} = The value of the Fixed Point Decrement Index for day t-1

U_t = The value of the base Index for calculation day t

U_{t-1} = The value of the base Index for calculation day t-1

$\text{Act}(t-1, t)$ = Number of calendar days between calculation day t-1 and calculation day t

D = The Decrement value expressed in Index points

DayCount = Set to 365

Formula for Fixed Percentage Decrement Geometric Decrement Calculation

$$IV_t = IV_{t-1} \times ((U_t \div U_{t-1}) - (c \times (\text{Act}(t-1, t) \div \text{DayCount}))) / IV_t = IV_{t-1} \times ((U_t \div U_{t-1}) - (c \times (\text{Act}(t-1, t) \div \text{DayCount})))$$

Where:

IV_t/IV_t = The value of the Fixed Percentage Decrement Index for calculation day t

IV_{t-1}/IV_{t-1} = The value of the Fixed Percentage Decrement Index for day t-1

U_t = The value of the base Index for calculation day t

U_{t-1} = The value of the base Index for calculation day t-1

$\text{Act}(t-1, t)$ = Number of calendar days between calculation day t-1 and calculation day t

c = The Decrement value expressed in Fixed Percentage

DayCount = Set to 365

Appendix 4: Modifications to the Rulebook

Section	Description of Change	Update Date
Corporate Action	Updated link to Morningstar Standard Methodology	July 2024
Data Correction & Precision	Computational and Reporting Precision section removed	September 2024

About Morningstar Indexes

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 investment opportunities across major asset classes, styles, and strategies. From traditional benchmarks and unique IP-driven indexes to index design, calculation, and distribution services, our solutions span an investment landscape as diverse as investors themselves.

Morningstar Index Methodology Committee

The Morningstar Index Methodology Committee oversees all new index development, index methodology changes, and cessation of indexes for any indexes where Morningstar owns the intellectual property. This committee is also charged with ensuring that indexes align with Morningstar Research principles and values. The group comprises members of the index team with index research, product development, product management, client service, index implementation, and operation expertise who provide the first layer of governance over index design and methodology.

Morningstar Indexes Operations Committee

The Morningstar Index Operations Committee governs the processes, systems, and exception handling of the day-to-day management of all live indexes, including index rebalancing and reconstitution, restatements, market classification, and contingency management. The committee oversees the annual review of index methodology (as required by U.K. and EU benchmark regulations, or BMR), ensuring that methodologies remain fit for purpose and continue to achieve their stated investment objectives. The group comprises members of the index team with data, operations, corporate actions, product development, index launch, client service, and index management experience who provide the first layer of governance over index operations.

Morningstar Index Oversight Committee

The Morningstar Index Oversight Committee is responsible for the index oversight function as per the requirements of the U.K. and European BMR, providing independent oversight of all aspects of the governance of benchmark administration as required by the relevant BMR. Its remit extends to all calculation and administration-related business activities of Morningstar Indexes, including administration of Morningstar-owned benchmarks as well as client-owned benchmarks and index calculation. 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.

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