

## FTSE Global Factor Index Series - Ground Rule Update

03 September 2020

FTSE Russell would like to inform clients of the following updates to the FTSE Global Factor Index Series Ground Rules which are effective immediately.

### Section 5: Factor Construction

#### Rule 5.3 Financials and Real Estate

Securities within each eligible universe that are classified as Financials and Real Estate (Old ICB Industry Code 8000/ New ICB Industry Code 30 & 35), utilise ROA as the sole measure of Quality. Certain Quality measures such as operating cash flow and accruals cannot meaningfully be calculated or are not applicable to financial and real estate companies.

### Section 6: Index Construction

#### Rules 6.4 and 6.7 have been updated as follows:

Rule 6.4 Capacity, Maximum and Minimum Weight Tilt has been updated as follows:

- 6.4.1 A capacity and maximum weight tilt is applied to the weights resulting from the country and industry tilt described in 6.3:

$$W_{3i} = \Phi_i \times W_{2i} \quad (18)$$

Let  $X_i$  and  $Y_i$  be the maximum and minimum weights for the  $i^{th}$  stock.  $Y_i$  is initially set to zero but will later be set to a positive minimum weight in 6.7.2. Let  $C$  be the maximum stock capacity ratio which is set to 20 unless otherwise explicitly stated. The weight  $W_{3i}$  is then found by iterating:

$$\hat{W}_i = \text{Max}[\text{Min}[W_{3i}, C * W_{Mi}, X_i], Y_i]; \quad W_{3i} = \hat{W}_i / \sum_{i \in N} \hat{W}_i$$

(19)

with a starting value  $W_{3i} = W_{2i}$ , to convergence. The value for the tilt is then defined by:

$$\Phi_i = \frac{W_{3i}}{W_{2i}}$$

(20)

#### 6.7 Minimum Stock Weight

- 6.7.1 A minimum security level weight threshold is applied to each final factor index. Any security level factor index weight that is less than the minimum weight threshold is treated as having a zero weight in the relevant FTSE Global Factor Index. Any resulting excess weight will be redistributed

amongst the remaining constituents and may cause small changes in the active weights and exposures of the final index.

#### 6.7.2 Target Exposure Indexes:

The weights resulting from 6.7.1 are used as starting weights, replacing  $W_{M_i}$  in equations (9) and (10). Operations in 6.2, 6.3, 6.4 and 6.5 are repeated but with the parameter  $Y_i$  in equation (19) changed to the minimum security weight only for those stocks with non-zero weights. The iteration is continued until each of the conditions (27), (28) and (29) are satisfied. This process ensures that the targeted active exposures and constraints are consistent with the minimum security weight. If the solution is infeasible then the weights obtained in 6.7.1 are retained as the final index weights.

An updated copy of the FTSE Global Factor Index Series Ground Rules (v5.4) is now available using the following link: [FTSE\\_Global\\_Factor\\_Index\\_Series\\_Ground\\_Rules.pdf](#)

Or on the FTSE Russell website: [www.ftserussell.com](http://www.ftserussell.com)

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