

Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes: Update

17 December 2020

FTSE Russell would like to inform clients of the following update to the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes which is effective immediately.

· 4.4. Special dividends: Tax Adjustments

The previous language implied that only special cash dividends were subject to a tax adjustment - we have clarified that special distributions payable in cash or/and shares will be reviewed for a possible tax adjustment (update in bold):

*Where the special **dividend** distribution (**payable in cash and/or shares**) is 10% or greater against the share price (measured against the cum price), and subject to FTSE Russell identifying that there are withholding tax implications, a compensating negative XD adjustment will be applied to provide the correct return net-of-tax. FTSE Russell withholding tax rates are used to calculate the adjustment. There is also an associated adjustment to the Total Return Index to reflect the tax liability. Note: tax adjustments for special cash dividends are not implemented within the Russell 3000E Index Series and the FTSE/JSE Africa Index Series.*

· Section 4.7: Scrip Issues & Stock Distributions (additional language)

The table has been updated to include treatment of a Scrip Issue of an asset for which there are significant barriers to trade (e.g. distribution of digital asset crypto currency).

· 4.17: Deletions

Previously, companies moving into Chapter 11 Bankruptcy Protection (US) and Administration (UK) were retained until bankruptcy or insolvency was confirmed (and monitored in accordance with the suspended companies' rule if not trading). Going forward, companies filing for Chapter 11 or Administration (within its country of assigned nationality within the FTSE Russell indexes) will be removed immediately with notice (updates in bold):

*A stock will be deleted as a constituent if it is delisted from all eligible exchanges. **A stock will be deleted if FTSE Russell becomes aware (in its country of its assigned nationality) that it has become bankrupt, has filed for bankruptcy protection, enters administration, is insolvent or is liquidated, or where evidence of a change in circumstances makes it ineligible for index inclusion.***

For example, if FTSE Russell becomes aware that a U.S. company has filed for Chapter 7 bankruptcy, Chapter 11 bankruptcy protection, or a liquidation plan, it will be removed from the FTSE Russell indexes at the time of filing. Similarly, if a UK company has moved into administration or has been declared insolvent, it will be removed with notice. If a constituent is being removed pursuant to rule 4.17 and is not trading, FTSE Russell will remove the stock at a nominal price of 0.0001. If a price on an ineligible market (e.g. OTC) is available, the constituent may be removed using this price.

A stock which has been deleted from FTSE Russell indexes as a result of bankruptcy protection or insolvency will only be re-considered for index eligibility after a period of 12 months from when it comes out of bankruptcy protection.

A stock will also be deleted if FTSE Russell becomes aware (at a quarterly review) that the price of an existing constituent is considered reaching its minimum permissible trade price. The constituent will be removed from the index in line with the review subject to it still being at the minimum permissible trade price up to the start of the quarterly review lock down period. As illustration, Indonesian constituents that have reached the minimum permissible trade price of IDR 50 per share are captured under this rule. The stock will only be re-considered for index eligibility after a period of 12 months.

4.18 Suspended Companies (revised treatment)

Previously, a suspended company was retained within the index for a period of 60 business days, and if removed, the deletion would be implemented in conjunction with the following quarterly index review. Going forward, a security that is suspended for 20 business days will be placed "on notice" for a further 20 days. If at the conclusion of the notice period (i.e. after being suspended for 40 business days), the security will be removed from the FTSE Russell indexes immediately, with two days' notice:

If FTSE Russell becomes aware that a constituent is suspended, index treatment will be determined as follows:

- *If a constituent is declared bankrupt without any indication of compensation to shareholders, the last traded price will be adjusted down to zero value and it will subsequently be removed from the index with appropriate notice (typically T+2).*
- *In all other cases, the constituent will continue to be included in the index for a period of up to 20 business days at its last traded price.*
 - *If the constituent continues to be suspended at the end of that period (the suspension period), it will be subject to review. FTSE Russell will take into account the stated reasons for the suspension. These reasons may include announcements made by the company regarding a pending acquisition or restructuring, and any stated intentions regarding a date for the resumption of trading. If following review, a decision is taken to remove the constituent, FTSE Russell will provide notice (via an Informative Notice for those index series which are supported by the index notice service*) of 20 business days (the notice period) that it intends to remove the constituent, at zero value, at the conclusion of the notice period**. If the security has not resumed trading at the conclusion of the notice period, it will be removed with two days' notice.*

**For the avoidance of doubt, constituents of those index series not supported by the index notice service will be removed at the conclusion of 40 business days, with two days' notice.*

***If during the notice period further details are disclosed as to the reason for a company's suspension, those reasons (and any possible resumption of trade date) will be taken into account when determining if the company should remain on notice.*

- *If a suspended constituent resumes trading on or before the last business day of the notice period, the deletion notice will be rescinded and the constituent will be retained in the index. However, where the constituent resumes trading after the 40th business day of suspension, the constituent will continue to be removed from the index as previously announced but in these circumstances the deletion will instead be implemented at market value unless there are barriers that render a market value irreplicable. In this event, the company will continue to be removed at zero.*
- *If the notice period expires in the week preceding an index review, the company will be removed in conjunction with the index review.*
- *In certain limited circumstances where the index weight of the constituent is significant and FTSE Russell determines that a market-related value can be established for the suspended constituent, for example because similar company securities continue to trade, deletion may take place at the market-related value instead. In such circumstances, FTSE Russell will set out its rationale for the proposed treatment of the constituent at the end of the suspension period. The company would then*

be removed at that value at the end of the notice period.

- If a constituent has been removed from the index and trading is subsequently restored, the constituent will only be re-considered for inclusion after a period of 12 months from its deletion. For the purposes of index eligibility, it will be treated as a new issue.

· **Section 5: Changes to Shares Outstanding and Free Float**

Going forward, updates will be implemented if discovery of an event occurs within five business days after the close of the offering. Previously, the deadline for discovery was two business days (updates in bold):

5.2 Intra-Quarter Updates

Outside of the quarterly update cycle, shares and free float will be updated with at least two days' notice if occasioned by primary or secondary offerings IF:

- *There is a USD 1bn investable market cap change related to a primary/secondary offering measured by multiplying the change to index shares by the subscription price;*

OR

There is a resultant 5% change in index shares related to a primary or secondary offerings AND a USD 250m investable market cap change measured by multiplying the change to index shares by the subscription price. These changes will be implemented after the close on the day that the subscription period closes, assuming two days notice can be provided; if two days' notice cannot be provided prior to the end of the subscription period, the change will still proceed with two days' notice and will be implemented at the earliest opportunity.

For example: Subscription close is Monday 4 April and discovery of the event is Friday 1 April. Therefore, implementation will occur with two days' notice, effective on Wednesday 6 April (i.e. close of business Tuesday 5 April).

*If discovery of the event occurs more than **five business days** after the close of the subscription period, the changes will be deferred until the quarterly review cycle.*

For example: Subscription close is Monday 4 April and discovery of the event is Monday 11 April. Therefore, implementation will occur with two days' notice, effective on Thursday 14 April (i.e. close of business Wednesday 13 April). However, if discovery occurred after Monday 11 April, the update will be deferred until the next quarterly review.

*In the absence of a disclosed subscription period, the pricing date will serve as the trigger for implementation; i.e. once FTSE Russell is aware that an offering has priced (confirmed via an appropriate publicly disclosed announcement or filing), the update will be implemented with two days' notice from market close (contingent on the thresholds described above being triggered). If discovery of the pricing date occurs more than **five business days** after the pricing date, the update will be deferred until the next quarterly review.*

An updated copy of the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes (v5.0) is now available using the following link: [Corporate_Actions_and_Events_Guide.pdf](#)

Or on the FTSE Russell website: www.ftserussell.com

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