

FTSE Emerging Markets All Cap China A Inclusion Index Methodology Overview

Background

China is the second-largest economy by GDP and the second-largest equity market by market value, but the weight of China in global equity benchmarks is relatively small. Historically, due to limited quota availability only a small number of international investors have had access to A-shares that are listed in mainland China. As China continues to take steps to open its market to international investors, market participants are starting to prepare for the inclusion of China A-shares in FTSE’s global benchmarks. FTSE has developed the FTSE China A Inclusion Indexes to help market participants with sufficient quota to benchmark their China A-shares and increase their China index exposure over time.

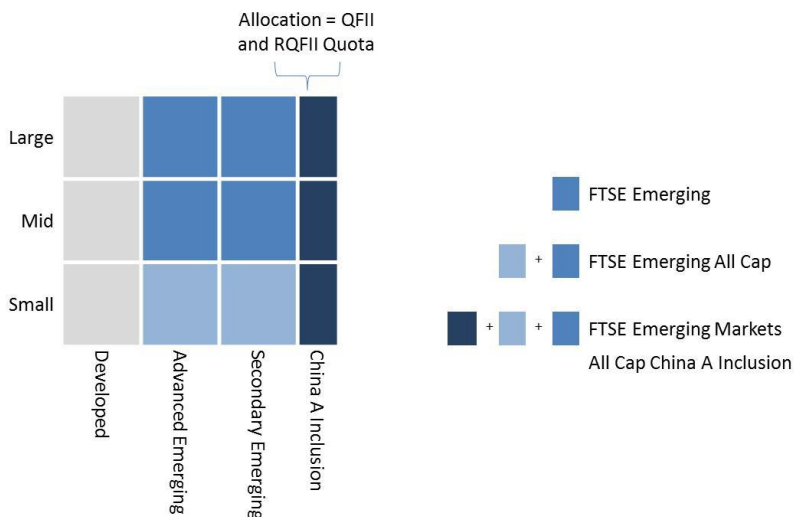
FTSE Emerging Markets All Cap China A Inclusion Index

The FTSE Emerging Markets All Cap China A Inclusion Index is a member of the FTSE Global China A Inclusion Index Series. The FTSE Emerging Markets All Cap China A Inclusion Index includes China A-shares at a weighting equivalent to the aggregate QFII/RQFII approved quota for international investors.

The A Share weighting will increase as total R/QFII allocations increase and the transitional indexes will merge seamlessly with the standard FTSE Emerging Markets indexes when China A-shares fully meet FTSE’s country classification criteria for emerging markets.

A built-in mechanism ensures that the allocation of China A-shares is adjusted proportional to the changes in the approved quota and is in line with the accessibility available to international investors. This approach covers not only the currently available quota schemes (QFII and RQFII), but also those from any other existing and future schemes that increase market access, such as the Shanghai-Hong Kong Stock Connect programme.

Index Construction



FEATURES

Share Description

A-shares are securities of Chinese incorporated companies that trade on either the Shanghai or Shenzhen stock exchanges. They are quoted in Renminbi (Chinese Yuan). They can only be traded by residents of the People’s Republic of China or under the Qualified Foreign Institutional Investor rules and Stock Connect schemes.

Methodology

Index construction is based on the FTSE Global Equity Index Series methodology.

Constituents are adjusted for free float, foreign ownership limits and QFII / RQFII quota limits.

The China A Inclusion factor is updated quarterly in March, June, September and December to reflect the latest QFII & RQFII quota available.

The China A-shares selected as part of the review process will eventually become constituents of FTSE GEIS when China A-shares are classified as secondary emerging.

Liquidity

Stocks are screened to ensure that the index is tradable.

Transparency

The index uses a transparent, rules-based construction process. Index Rules are freely available on the FTSE website.

Availability

The index is calculated based on price and total return methodologies, both real time and end-of-day.

Updating the Weight of China A-shares at the Quarterly Reviews

The FTSE Emerging Markets All Cap China A Inclusion Index started calculation on 31 December 2005. At its inception China A-shares were included based on an aggregated allocated quota size of USD 5.8 billion, equivalent to a weight of 0.27 per cent in the FTSE Emerging Markets All Cap China A Inclusion Index.

At each quarterly review any additional allocated quota is aggregated and applied into the index calculation. In between reviews the weight of China A-shares will rise and fall in line with share price movements. An example of how the quota is applied is shown below.

- 1 The allocated quota since the previous quarterly review is aggregated
- 2 The incremental aggregated quota amount is added to the adjusted market capitalisation of China A-shares at the cut-off date in the FTSE Emerging Markets All Cap China A Inclusion Index
- 3 The total market capitalisation in 2) above is divided by the market capitalisation of China A-shares adjusted for free float and foreign ownership restrictions to create the China A Inclusion Factor
- 4 The China A Inclusion Factor is applied to the new market capitalisations at the review implementation date to calculate the new weight of China A-shares in the FTSE Emerging Markets All Cap China A Inclusion Index.

Aggregate Allocated quota



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Data definitions available from info@ftse.com

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