

**Ground Rules**



**FTSE  
Russell**

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# **FTSE Australian Equity Index Series**

v4.2

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## Section 1

# Introduction

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## 1.0 Introduction

### 1.1 FTSE Australian Equity Index Series

1.1.1 The FTSE Australian Equity Index Series are a comprehensive and complimentary series of tax-exempt, tax-adjusted, and unadjusted indices that provide Australian domestic investors with a more accurate representation of performance. In particular the indices;

- take into account different tax positions of investors
- allow the number of constituents to expand and contract with the market
- measure the performance of the major capital segments of the Australian market.

1.2 The FTSE Australian Equity Index Series does not take account of ESG factors in its index design.

1.3 The FTSE Australian Equity Index Series is comprised of two series

#### 1.3.1 FTSE Australian Companies Index Series

The FTSE Australian Companies Index Series contains non-tax-adjusted indices.

#### 1.3.2 FTSE ASFA Australia Index Series

The FTSE ASFA Australia Index Series are calculated in partnership with the Association of Superannuation Funds of Australia (ASFA), and contains tax-exempt and tax-adjusted indices.

### 1.4 Indices included in the FTSE Australian Companies Index Series

The following indices are included in the FTSE Australian Companies Index Series on a non-tax-adjusted basis (for a complete list of indices included in the FTSE Australian Companies Index Series please see Appendix A).

#### 1.4.1 FTSE Australia All-Share Index

This index will comprise of all companies within the top 98% of the eligible universe when ranked by full market capitalisation that meet the stated eligibility requirements.

#### 1.4.2 FTSE Australia 100 Index

This index comprises the 100 largest companies by full market capitalisation of the FTSE Australia All-Share Index.

### 1.4.3 FTSE Australia 200 Index

The index comprises the 200 largest companies by full market capitalisation of the FTSE Australia All-Share Index

### 1.4.4 FTSE Australia 300 Index

This index comprises the 300 largest companies within the eligible universe when ranked by full market capitalisation that meet the stated eligibility requirements.

### 1.4.5 FTSE Australian Small Cap Companies Index

This index comprises the companies in the FTSE Australia All-Share Index, but excludes the companies in the FTSE Australia 200 Index

### 1.4.6 FTSE Australian Companies Sector Indices

The FTSE Australian Companies Sector Indices are calculated on all the indices within the FTSE Australian Companies Index Series and are based on the Industry Classification Benchmark.

## 1.5 Indices included in the FTSE ASFA Australia Index Series

The FTSE ASFA Australia Index Series comprises the same indices and constituent companies as the FTSE Australian Companies Index Series but incorporates the additional calculation elements of (1) income tax treatment, (2) franking credits and (3) off-market buy-backs. For a complete list of indices included in the FTSE ASFA Australia Index Series please see Appendix A.

## 1.6 FTSE Russell

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.

1.7 FTSE Russell hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

1.8 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation of the Index or any constituent data.

## 1.9 These Ground Rules

1.9.1 These Ground Rules provide information about the publication of the FTSE Australian Equity Index Series and set out the methodology underlying the FTSE Australian Equity Index Series. Copies of the Ground Rules are available from FTSE Russell on the website [www.ftserussell.com](http://www.ftserussell.com).

## Section 2

# Management Responsibilities

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## 2.0 Management Responsibilities

### 2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series.<sup>1</sup>

2.1.2 FTSE is responsible for the daily calculation, production and operation of the Index Series and will:

- maintains records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the Index Series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indices.

2.1.3 Daily index profiles of the real time and end of day indices are identical. Constituent weightings in the real time indices are used in the calculation of the end of day indices.

2.1.4 FTSE is responsible for monitoring the performance of the indices within the FTSE Australian Equity Index Series throughout the trading day and determines whether the status of each Index is Firm, Indicative or Held (see Appendix B).

### 2.2 FTSE Russell External Advisory Committees

2.2.1 To assist in the oversight of the indices, FTSE Russell has established the following advisory committees, consisting of senior market practitioners, providing guidance (as stipulated in their terms of reference) to ensure FTSE Russell indices continue to reflect their underlying market:

- FTSE Russell Asia Pacific Regional Equity Advisory Committee
- FTSE Nationality Advisory Committee
- FTSE Russell Industry Classification Advisory Committee
- FTSE Russell Policy Advisory Board

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<sup>1</sup> The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation).

2.2.2 The Terms of Reference of the FTSE external advisory committees are set out on the FTSE Russell website and can be accessed using the following link:

[Terms of Reference](#)

[FTSE\\_Russell\\_Policy\\_Advisory\\_Board.pdf](#)

### 2.3 **Amendments and to These Ground Rules**

2.3.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

## Section 3

# FTSE Russell Index Policies

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### 3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

#### 3.1 Corporate Actions and Events Guide

- 3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

#### 3.1 Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by FTSE Russell's Product Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

#### 3.2 Queries and Complaints

FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark Determination Complaints Handling Policy.pdf](#)

#### 3.3 Index Policy for Trading Halts and Market Closures

- 3.3.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

#### 3.4 Index Policy in the Event Clients are Unable to Trade a Market or a Security

- 3.4.1 Details of FTSE Russell's treatment can be accessed using the following link:

[Index Policy in the Event Clients are Unable to Trade a Market or a Security.pdf](#)

### 3.5 **Recalculation Policy and Guidelines**

3.5.1 The indices within the FTSE Australian Equity Index Series are recalculated whenever significant errors or distortions occur. Users of the Index Series are notified through appropriate media.

For further information refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting [info@ftserussell.com](mailto:info@ftserussell.com)

[Recalculation Policy and Guidelines Equity Indices.pdf](#)

### 3.6 **Policy for Benchmark Methodology Changes**

3.6.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

### 3.7 **FTSE Russell Governance Framework**

3.7.1 To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks<sup>2</sup>, the European benchmark regulation<sup>3</sup> and the UK benchmark regulation<sup>4</sup>. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

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<sup>2</sup> IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013

<sup>3</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds

<sup>4</sup> The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019



## Section 4

# Treatment of Eligible Securities

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### 4.0 Treatment of Eligible Securities

#### 4.1 Determining Eligible Companies

4.1.1 FTSE normally assigns a company to the country in which it is incorporated and has its primary listing. A Company incorporated in Australia and listed on the Australian Securities Exchange is usually eligible for inclusion in the Index Series review universe. A company's index country assignment is reviewed whenever there is a material change.

4.1.2 If a company is not incorporated in Australia but has its primary listing as determined by liquidity in Australia, FTSE normally allocates that company to Australia. However, FTSE may also take other factors into account including, but not limited to, the investor protection regulations under which the company is governed, the country in which the company is resident for tax purposes, market perception and currency of trading.

4.1.3 The country allocation of a company is reassessed at the periodic reviews, whenever there is a material change in its geographic status.

#### 4.2 Classes Included

4.2.1 FTSE periodically reviews the classes of eligible securities.

#### 4.3 Eligible Securities

Australian companies with Ordinary and preferred equity securities listed on the Australian Securities Exchange are eligible for inclusion in the Index Series, subject to Rule 4.1.

#### 4.4 Ineligible Securities

The following are not considered as eligible securities:

- CHESS Depositary Receipts
- Convertible preference shares and loan stocks
- Companies whose primary business is to hold equity and other investments (an Industry Classification Benchmark (ICB) classification of 8980) (New ICB Classification 302040).
- Exchange Traded Funds (ETFs) and companies whose share price is a direct derivation of the values of its holdings (e.g. mutual funds).

#### 4.5 **Stapled Units**

4.5.1 Where a stapled unit comprises an eligible security and a non eligible security (such as non equity or an Investment Trust structure) the unit will not be eligible for inclusion.

#### 4.6 **Tracking Stocks**

4.6.1 For treatment of tracking stocks please see Corporate Actions and Events Guide.

#### 4.7 **Minimum Voting Rights**

4.7.1 Companies assigned a developed market nationality are required to have greater than 5% of the company's voting rights (aggregated across all of its equity securities, including, where identifiable, those that are not listed or trading) in the hands of unrestricted shareholders or they will be deemed ineligible for index inclusion. Emerging market securities are not subject to this requirement.

4.7.2 Existing constituents with a developed market nationality who do not currently meet the above requirement have a 5 year grandfathering period to comply. If subsequently they continue to fail the minimum voting rights requirement they will be removed from FTSE Russell indices at the September 2022 review.

4.7.3 The percentage of a company's voting rights in public hands is calculated as:

$$\frac{\text{The number of votes in the hands of shareholders that are unrestricted as determined by the application of FTSE Russell free float definitions}}{\text{The total number of votes conferred by the shares outstanding of all the company's voting securities including those that have not been admitted to trading on a regulated venue}}$$

**For example**, Company A has 100m listed Class A shares each conferring one vote, free float is 65%. It also has 300m unlisted Class B shares each conferring 10 votes.

The test to assess whether the listed Class A line has the required greater than 5% of the company's voting rights is as follows:

$$\frac{65\text{m (i. e. 100m Class A voting rights * 65\% float)}}{3.1\text{bn (i. e. 100m Class A + 3bn Class B)}} = 2.097\% \text{ of the company's voting rights in public hands}$$

## Section 5

# Qualification Criteria and Periodic Review of Constituents

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### 5.0 Qualification Criteria and Periodic Review of Constituents

Each index in the FTSE Australian Companies Index Series and its corresponding index in the FTSE ASFA Australia Index Series will comprise the same constituent companies.

The constituents for each index in the FTSE ASFA Australia Index Series will be updated at the same time as the corresponding index in the FTSE Australian Companies Index Series as set out in Sections 5, 6 and 7.

#### 5.1 Review Dates

5.1.1 All indices under the FTSE Australian Equity Index Series are reviewed on a semi-annual basis in March and September.

Constituent changes are implemented after the close of business on the third Friday of the review month (i.e. effective Monday). Data used in the review process is taken after the close of business on the Monday 4 weeks prior to the review effective date of the review month.

#### 5.2 Review Process

5.2.1 The review universe is comprised of all eligible securities that satisfy Rule 4.3.

5.2.2 Companies are ranked by their full market capitalisation (i.e. before the application of any investability weightings) in descending order.

5.2.3 Following the application of the three screens detailed below, the remaining securities form the Index Universe.

#### 5.3 Screen One - Size

5.3.1 At the March and September reviews, companies whose full market capitalisation falls within the top 98% of the full market capitalisation of the review universe (see Rule 5.2.1) are added to the FTSE Australia All-Share Index, providing they meet all the relevant eligibility criteria (see Rules 5.3 to 5.6).

5.3.2 Companies whose full market capitalisation is less than the bottom 1% of the full market capitalisation of the review universe (see Rule 5.2.1) are deleted from the FTSE Australia All-Share Index.

5.3.3 At the sole discretion of FTSE the percentage figures in Rules 5.3.1 and 5.3.2 may be adjusted by the performance of the FTSE Australian Small Cap Companies Index at the March and September

periodic review so that, in FTSE's opinion, the index better reflects the investable market. This rule will be activated by the liquidity of securities in the review universe as detailed in Rule 5.4.2.

If at the semi-annual review in September, Rule 5.4.2 is applied, the price performance of the FTSE Australian Small Cap Companies Index is used to adjust the top 98% cut-off of the full market capitalisation of the review universe. For example, if the market capitalisation of the company at the 98% cut-off in March is AUD 150 million and the FTSE Australian Small Cap Companies Index had a performance of -40%, then the 98% cut-off for the September semi-annual review is AUD 90 million (AUD 150 m \* ( 1 - 40% )). This market value is then used to determine the 98% and 99% cut-offs in Rules 5.3.1 and 5.3.2.

If at the next semi-annual review Rule 5.4.2 is not activated then the size criteria process as detailed in Rules 5.3.1 and 5.3.2 will be applied.

#### 5.4 **Screen Two – Liquidity**

##### 5.4.1 Each security is tested for liquidity on a semi-annual basis in March and September by calculation of its monthly median daily trading volume

Liquidity will be calculated for the March review from the first business day of March of the previous year to the review cut-off date in February and for the September review from the first business day of September of the previous year to the review cut-off date in August. When calculating the median of daily trading volume per month of any security for a particular month, a minimum of 5 trading days in that month must exist, otherwise the month will be excluded from the test.

For each month, the daily trading volume for each security is calculated as a percentage of the shares in issue for that day adjusted by the free float at the review cut-off date. These daily values are then ranked in descending order and the median is taken by selecting the value for the middle ranking day if there is an odd number of days and the mean of the middle two if there is an even number of days.

Daily totals with zero trades are included in the ranking; therefore a security that fails to trade for more than half of the days in a month will have a zero median trading volume for that month.

Any period of suspension will not be included in the test.

The liquidity test will be applied on a pro-rata basis where the testing period is less than 12 months.

- A. Securities which do not turnover at least 0.05% of their free float adjusted shares based on their median daily trading volume per month in ten of the twelve months prior to a semi-annual review, are not be eligible for inclusion in the Index Series.
- B. Constituents failing to trade at least 0.04% of its free float adjusted shares based on its median daily trading volume per month for more than four of the twelve months prior to a full market review are removed.
- C. New issues which do not have a twelve month trading record must have a minimum three month trading record when reviewed. They must turnover at least 0.05% of their free float adjusted shares based on their median daily trading volume each month, on a pro-rata basis since listing\*. This rule will not apply to new issues added under the Fast Entry Rule (see Rule 6.1)

\*When testing liquidity the free float weight as at the last date in the testing period will be used for the calculation for the whole of that period.

- D. In assessing liquidity, data will be obtained from the Australian Security Exchange.

##### 5.4.2 At the sole discretion of FTSE the above percentage figures may be adjusted by up to 0.01% at the March and September periodic reviews so that, in FTSE's opinion, the index better reflects the liquid

investable market of the region. This discretion may only be exercised across the whole market and may not be applied to individual securities.

This rule will be presented to the FTSE Russell Index Governance Board for endorsement when the number of securities that pass the liquidity rule in Rule 5.4.1.A is less than 300 for securities that are above 98% of the full market capitalisation of the review universe (see Rule 5.3.1). This rule, at the sole discretion of FTSE will also activate the size adjustment criteria in Rule 5.3.3.

If at the next semi-annual review 300 or more securities pass the liquidity rule as detailed above, the normal liquidity screening process will be applied (see Rule 5.4.1).

- 5.4.3 New issues, which do not qualify as early entrants as defined under Rule 6.1 will become eligible for inclusion at the next semi-annual review of constituents providing they have, since the commencement of Official non-conditional trading, a minimum trading record of at least 3 trading months prior to the date of the review and turnover as defined under Rule 5.4.1.C.

The inclusion of early entries as defined under Rule 6.1 will not require a minimum trading record.

#### 5.5 **Screen Three – Free Float**

- A. A security that has a free float of 5% or less will be ineligible for the index.
- B. A security that has a free float greater than 5% but less than or equal to 15% will be eligible for the index providing the security's full market capitalisation (before the application of any investability weight) is greater than AUD 5.0 billion.

#### 5.6 **Adjustments Applied to Eligible Securities**

Eligible companies may be subject to adjustment for free float and multiple lines; see below.

##### 5.6.1 **Investability Weighting**

Constituents of the indices within the FTSE Australian Equity Index Series are adjusted for free float.

Further details on free float restrictions can be accessed using the following link:

[Free Float Restrictions.pdf](#)

##### A. **Initial Weighting**

Free float is calculated using available published information rounded to 12 decimal places. Companies with a free float of 5% or below are excluded from the index.

## 5.6.2 Multiple Lines

Where there are multiple lines of equity capital in a company, all are included and priced separately, provided that at the FTSE Australia All-Share Index semi-annual review:

- The line passes all screens (see Rules 5.3 to 5.6).
- The secondary line's full market capitalisation is greater than 12% of the full market capitalisation of the company's main line. Should the market value of a secondary line that is already a constituent of the Index Series fall below 10% at the next semi-annual review, the secondary line is deleted from the index.
- All partly-paid classes of equity are priced on a fully-paid basis if the calls are payable at known future dates. Those recognised as being "permanently partly-paid" are priced on a partly-paid basis.

## 5.7 Rules for Insertion and Deletion at the Periodic Review

5.7.1 The rules for inserting and deleting securities at the periodic review are designed to provide stability in the selection of constituents of the indices within the FTSE Australian Equity Index Series while ensuring that such indices continue to be representative of the market by including or excluding those securities which have risen or fallen significantly.

5.7.2 A security will be inserted at the periodic review if it rises above the position stated below for the relevant index when the eligible securities for each index in the FTSE Australian Companies Index Series are ranked by full market capitalisation:

FTSE Australia 100 Index	-	Risen to 80 <sup>th</sup> or above
FTSE Australia 200 Index	-	Risen to 170 <sup>th</sup> or above
FTSE Australia 300 Index	-	Risen to 240 <sup>th</sup> or above

5.7.3 A security will be deleted at the periodic review if it falls below the position stated below for the relevant index when the eligible securities for each index in the FTSE Australian Companies Index are ranked by market capitalisation:

FTSE Australia 100 Index	-	Fallen to 121 <sup>st</sup> or below
FTSE Australia 200 Index	-	Fallen to 231 <sup>st</sup> or below
FTSE Australia 300 Index	-	Fallen to 361 <sup>st</sup> or below

5.7.4 Companies deleted from the FTSE Australia 200 Index at the periodic review that are not included in the FTSE Australia 100 Index will be included in the FTSE Australian Small Cap Companies Index. Companies added to the FTSE Australia 200 Index at the periodic review that are not deleted from the FTSE Australia 100 Index will be deleted from the FTSE Australian Small Cap Companies Index.

5.7.5 A constant number of constituents will be maintained for the FTSE Australia 100 Index, FTSE Australia 200 Index and FTSE Australia 300 Index. Where a greater number of companies qualify to enter an index than those dropping out (see Rules 5.7.2 and 5.7.3), the lowest ranking constituents presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted. Likewise, where a greater number of companies are dropping out than those qualifying to enter (see Rules 5.7.2 and 5.7.3), the securities of the highest ranking excluded companies will be inserted to match the number of companies being deleted at the periodic review.

5.7.6 A constant number of constituents will not be maintained for the FTSE Australian Small Cap Companies Index and the FTSE Australia All-Share Index. The exact size of the FTSE Australia All-Share is reviewed by FTSE with advice from the FTSE Russell Asia Pacific Regional Equity Advisory Committee (see Rules 5.3 and 5.7.9) semi-annually at its meeting in March and September and will

become effective on the next trading day after the third Friday in the review month. Securities which fall out of the FTSE Australian Small Cap Companies Index due to suspension, takeover, etc. (see Section 6) will not be replaced, nor will a constituent of the index be removed to accommodate new issues or new companies arising from restructuring of constituents, etc.

- 5.7.7 The FTSE Australian Small Cap Companies Index will consist of those companies too small to be constituents of the FTSE Australia 200 Index, but which are in the FTSE Australia All-Share Index. The FTSE Australia All-Share Index will consist of all constituents in the FTSE Australia 200 Index and the FTSE Australian Small Cap Companies Index.
- 5.7.8 Companies which are large enough to be constituents of the FTSE Australia All-Share Index (see Rules 5.3, and 5.7.9) but do not pass the liquidity test (see Rule 5.4) shall not be included in any index in the FTSE Australian Equity Index Series. At the next semi-annual review they will be re-tested against all size and investability screens.
- 5.7.9 Where a company is deleted from FTSE Australia 100 Index, FTSE Australia 200 or FTSE Australia 300 Index after the announcement of the index review but before the periodic changes have been implemented, the vacancy will not be filled until the next semi-annual review.

## Section 6

# Changes to Constituents Companies

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### 6.0 Changes to Constituents Companies

#### 6.1 New Issues

6.1.1 Where a company, whether an existing constituent or not, undertakes an Initial Public Offering (IPO) of a new equity security, that security will be eligible for fast entry inclusion to the FTSE Australian Equity Index Series if its full market capitalisation amounts to 1.0% or more of the full capitalisation of the FTSE Australia All-Share Index using the closing price on the first day of trading. FTSE will normally decide to include the new equity security as a constituent of FTSE Australia 100 Index, FTSE Australia 200 Index, and FTSE Australia 300 Index after the close of business on the first day of official trading. In all cases, advance notification confirming the timing of the inclusion of the new constituent will be given accordingly. The security which is the lowest ranking constituent of the index will be selected for removal and related indices adjusted.

Please note: Only those shares being offered for sale in the IPO will be included within the index weighting at the time of fast entry inclusion (subject to not being categorised as restricted shares as defined within the Free Float Restrictions document).

6.1.2 In the event of the first day of trading occurring during the week of the index review, an **eligible fast entrant will be added to the index concurrent with the review effective date.**

6.1.3 New equity securities which do not qualify for early entry under Rule 6.1.1 but which meet the criteria for eligible securities set out in Section 5 will be eligible for inclusion at the next semi-annual review if large enough to become constituents of the FTSE Australia All-Share Index.

6.1.4 Variable, best effort, and direct listing IPOs\* will not be considered for fast entry inclusion since FTSE Russell would be:

- unable to confirm if the minimum free float requirement has been met; and
- unable to assign an accurate free float for the purposes of the index calculation.

6.1.5 Variable, best effort, and direct listing IPOs will be considered for index inclusion at the next review if, by the review cut-off date, a public disclosure\* (which has been published post IPO) is available confirming the updated shareholder structure. Index inclusion remains subject to meeting all other eligibility criteria. If the post IPO shareholder structure has not been disclosed by the review cut-off date, the evaluation of the company will be deferred to a subsequent review.

\*A public disclosure is typically by way of a company filing, stock exchange notice or shareholding regulatory announcement.



6.1.6 If FTSE Russell decides to include a new equity security as a constituent other than as part of the normal periodic review procedure, this decision must be publicly announced at the earliest practicable time.

## 6.2 **Removal and Replacement**

6.2.1 If a constituent is delisted, or ceases to have a firm quotation, or in the opinion of FTSE is no longer a viable constituent as defined by the Ground Rules, it will be removed from the index. In the case of FTSE Australia 100 Index, FTSE Australia 200, and FTSE Australia 300 Index, it will be removed and not replaced until the next semi-annual review.

6.2.2 All changes to the FTSE Australia 200 Index and FTSE Australian Small Cap Companies Index are made automatically in the FTSE Australia All-Share Index.

6.2.3 In the event where a company has been deleted from the index following a takeover but retains a listing with a float greater than 5% it will be considered for index eligibility as a new issue following a period of 12 months.

## Section 7

# Corporate Actions and Events

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### 7.0 Corporate Actions and Events

7.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

A Corporate ‘Action’ is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- Scrip issues (Capitalisation or Bonus Issue)

A Corporate ‘Event’ is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index. Where an index adjustment is required FTSE will provide notice advising of the timing of the change.

### 7.2 Shares in Issue

7.2.1 Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide.

7.2.2 Off-market buy-backs will be applied to the FTSE ASFA Australia Index Series on the next trading day following the ex-date of the event. A security must be a constituent of the index for at least 45 days prior to the announcement of an off-market buy-back to have the off-market buy-back effects included in the total return calculations of the FTSE ASFA Australia Index Series. The off-market buy-back eligibility date is provided by the security as part of the buy-back announcement terms

### 7.3 Investability Weightings

7.3.1 Changes to free float for constituent securities are covered in the Corporate Actions and Events Guide.

#### **7.4 Mergers, Restructuring, and Complex Takeovers**

- 7.4.1 If the effect of a merger or takeover is that one constituent in the FTSE Australia 100 Index, FTSE Australia 200 Index, or FTSE Australia 300 Index is absorbed by another, the resulting company will remain a constituent of the appropriate index, and a vacancy will be created. This vacancy will not be filled until the next semi-annual review.
- 7.4.2 If a constituent company in the FTSE ASFA Australia 100 Index, FTSE ASFA Australia 200 Index, or FTSE ASFA Australia 300 Index is taken over by a non-constituent company, the original constituent will be removed. The company resulting from the takeover will enter the index if it meets the inclusion eligibility requirement. If the resulting company is ineligible for inclusion the vacancy will be filled at the next semi-annual review.
- 7.4.3 If a constituent company is split so as to form two or more companies, then the resulting companies will remain in their respective index until the next semi-annual review.

#### **7.5 Suspension of Dealing**

Suspension of dealing rules can be found within the Corporate Actions and Events Guide.

- 7.5.1 If the procedure detailed in Rules 7.4 results in the removal of a constituent of the FTSE Australia 100 Index, FTSE Australia 200 Index, or FTSE Australia 300 Index, the constituent will not be replaced until the next semi-annual review.

## Section 8

# Industry Classification Benchmark (ICB)

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### 8.0 Industry Classification Benchmark (ICB)<sup>5</sup>

#### 8.1 Classification Structure

8.1.1 The FTSE ASFA Australia Index Series constituents are classified into Industries, Supersectors, Sectors and Subsectors, as defined by the Industry Classification Benchmark (ICB).

8.1.2 Details of the Industry Classification Benchmark are available from FTSE Russell and published on the FTSE Russell website ([www.ftserussell.com](http://www.ftserussell.com)) and can be accessed using the following link:

[Industry Classification Benchmark](#)

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<sup>5</sup> FTSE indices migrated to the new ICB classification system in March 2021.

## Section 9

# Algorithm and Calculation Method

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### 9.0 Algorithm and Calculation Method

#### 9.1 Prices

9.1.1 FTSE Russell may remove a security from the FTSE Australian Equity Index Series should it consider that 'accurate and reliable' prices are not available.

9.1.2 The FTSE Australian Equity Index Series uses the Australia Securities Exchange official closing prices for the end-of-day index calculation.

9.1.3 Refinitiv prices are used in the real-time index calculations.

#### 9.2 Dividend Treatment

9.2.1 Cash dividends are included in the total return calculations of the FTSE Australian Equity Index Series based on their ex-dividend dates.

9.2.2 Special cash dividends are included in the total return calculations of the FTSE Australian Equity Index Series based on their ex-dividend dates. The treatment of special dividends in the index calculations mirrors that of the Australia tax office.

9.2.3 The imputation (franking) credits attached to dividend distributions are included in the tax adjusted total return calculations of the FTSE ASFA Australia Index Series but not in the standard total return calculations of the FTSE Australian Companies Index Series.

#### 9.3 Off-Market Buy-Back Calculation

9.3.1 In their simplest form off-market buy-backs have two main components: a capital component (the difference in the buy-back price and the originally purchase price), and an income component (the income received from the attached franking). For the tax-adjusted indices under the FTSE ASFA Australia Index Series, FTSE Russell will:

- adjust the capital index to take into account the loss in value of the shares due to the discounted buy-back, and;
- adjust the total return index for the after-tax proceeds from both sources of franked dividends and capital gain/loss.

9.3.2 A security must be a constituent of the index for at least 45 days prior to the announcement of an off-market buy-back to have the off-market buy-back effects included in the total return calculations of the FTSE ASFA Australia Index Series.

- 9.3.3 In the FTSE ASFA Australia ex Off-Market Buy-Back Indices and indices within the FTSE Australian Companies Index Series, off-market buy-backs will be applied in the index calculation at the same time as in the tax-adjusted indices. However, the index calculation will be in line with on-market buy-backs whereby the buy-back shares are removed at the official closing price of the security.
- 9.3.4 Once a security passes the holding period requirement to determine whether the index will participate in the off-market buy-back we then calculate the income component of the buy-back, where  $p_{bbi,t}$  is the buy-back price,  $fx_{i,t}$  the exchange rate used to convert from the currency of the price/dividend to the base currency of the index,  $cc_{i,t}$  the capital component,  $p_{fc,i,t}$  the associated buy-back franking credit,  $d_{bb,i,t}$  the assumed fully franked dividend,  $mt_t$  the marginal tax rate, and  $k_t$  the corporate tax rate for security  $i$  at time  $t$ .

$$income\_proceeds_{i,t} = d_{bb,i,t} + p_{fc,i,t} - (d_{bb,i,t} + p_{fc,i,t}) * mt_t \quad (1)$$

Where  $d_{bb,i,t} = p_{bbi,t} * fx_{i,t} - cc_{i,t}$  and  $p_{fc,i,t} = \frac{d_{bbi,t}}{(1-k_t)} - d_{bbi,t}$

We then calculate the capital gains component of the buy-back where  $p_{tax,i,t}$  is the tax value of the share,  $n_{i,t}$  is the nominal capital gain/loss on disposal of the share,  $cg_{disc,i,t}$  is the capital gains discount factor, and  $p_{cost,i,t}$  the cost base of the off-market buy-back assuming the share was bought 12 months prior to the buy-back date that allows the holder to receive a capital gains tax discount. The buy-back date is the date where we receive confirmation from the company of the number of shares that have been successfully bought back and at what price.

$$capital\_proceeds_{i,t} = cc_{i,t} - n_{i,t} * (1 - cg_{disc,i,t}) * mt_t \quad (2)$$

Where  $n_{i,t} = cc_{i,t} + p_{tax,i,t} - p_{bbi,t} * fx_{i,t} - p_{cost,i,t} * fx_{i,t}$

When there is an off-market buy-back and the company was not an index member 12 months prior to the buy-back confirmation date then in the buy-back calculation the capital gains tax discount,  $cg_{disc,i,t}$  is zero, and  $p_{cost,i,t}$  the adjusted closing price one day prior to the constituent entering the index.

The total after tax proceeds,  $total\_proceeds_{i,t}$ , for the off-market buy-back is then calculated as:

$$total\_proceeds_{i,t} = income\_proceeds_{i,t} + capital\_proceeds_{i,t} \quad (3)$$

The off-market buy-back is then incorporated into the index calculation via  $XB_t$ , the buy-back index points, on the next trading day following the buy-back date. Let  $s_{bb,i,t}$  be the buy-back shares,  $iw_{i,t}$  the investability weight for security  $i$  and  $Divisor_t$  the index divisor.

$$XB_t = \frac{\sum_i (total\_proceeds_{i,t} - p_{bbi,t}) * fx_{i,t} * s_{bb,i,t} * iw_{i,t}}{Divisor_t} \quad (4)$$

Where the  $Divisor_t$  calculation is shown in equation 6.

#### 9.4 Capital Index Calculation

The capital index,  $CI_t$  is calculated by adjusting the buy-back security's market capitalisation due to the discounted buy-back shares,  $s_{bb,i}$  via the price adjustment factor  $P_{AF,i,t}$  which is then used in the calculation of the index divisor,  $Divisor_t$ , where  $p_{i,t}$  and  $s_{i,t}$  are the share price and index shares of security  $i$ , respectively.

$$P_{AF,i,t} = \frac{p_{i,t-1} * s_{i,t-1} - p_{bb,i,t-1} * s_{bb,i,t-1}}{p_{i,t-1} * (s_{i,t-1} - s_{bb,i,t-1})} \quad (5)$$

$$Divisor_t = \frac{\sum_i (p_{i,t-1} * p_{AF,i,t} * fx_{i,t-1} * s_{i,t} * iw_{i,t})}{CI_{t-1}} \quad (6)$$

$$CI_t = \frac{\sum_{i=1}^n (p_{i,t} * fx_t * s_{i,t} * iw_{i,t})}{Divisor_t} \quad (7)$$

#### 9.5 Total Return Index Calculation

Once the buy-back index points and capital index have been calculated we can then calculate the total return index. Let  $XD_t$  the ex-dividend index points,  $d_{i,t}$  the grossed-up dividends per share,  $wt_t$  the withholding tax rate of security  $i$  and  $TRI_t$ , the total return index.

$$XD_t = \frac{\sum_{i=1}^n (d_{i,t} * fx_{t-1} * (1 - wt_t) * s_{i,t} * iw_{i,t})}{Divisor_t} \quad (8)$$

$$TRI_t = \frac{CI_t}{CI_{t-1} - (XD_t + XB_t)} * TRI_{t-1} \quad (9)$$

#### 9.6 Taxation Treatment

Total return indices based on the tax brackets of two different categories of investors are calculated. The total return indices take into account taxation on dividend distributions (income tax). Total return indices on each of the index within the FTSE ASFA Australia Index Series are calculated for:

- A tax exempt investor
- A superannuation fund

## Appendix A: List of Indices

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1. The following indices are calculated as part of the FTSE Australian Equity Index Series:

FTSE Australian Companies Index Series	FTSE ASFA Australia Index Series
FTSE Australia All-Share Index	FTSE ASFA Australia All-Share Index
FTSE Australia 100 Index	FTSE ASFA Australia 100 Index
FTSE Australia 200 Index	FTSE ASFA Australia 200 Index
FTSE Australia 300 Index	FTSE ASFA Australia 300 Index
FTSE Australian Small Cap Companies Index	FTSE ASFA Australia Small Cap Index

2. The FTSE ASFA Australia Index Series will be calculated using the indices highlighted above for each of the following tax brackets:

- A tax exempt investor (Tax exempt indices)
- A superannuation fund (Superannuation indices)
- A superannuation fund but excludes franking credits (Super dividends indices)

3. The FTSE ASFA Australia ex Off-Market Buy-Back Indices will be calculated using the indices highlighted above for each of the following tax brackets:

- A tax exempt investor (Tax exempt indices)
- A superannuation fund (Superannuation indices)

4. The FTSE ASFA Australia Sector Indices will be calculated on all the indices within the FTSE ASFA Australia Index Series highlighted in items 1, 2, and 3 above, and are based on the Industry Classification Benchmark (ICB).

5. The FTSE Australian Companies Sector Indices will be calculated on all the indices within the FTSE Australian Companies Index Series highlighted in item 1 above, and are based on the Industry Classification Benchmark (ICB).



## Appendix B: Status of Indices

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1. The indices within the FTSE Australian Equity Index Series are calculated in real time. At any given moment, they may exist in one of the following four states.

**A) Firm**

The indices are calculated during Official Market Hours (see Rule 2 below). No message is displayed with the index value.

**B) Closed**

- i) Real-time calculations have ceased for the day. The message 'CLOSE' is displayed with the index value.
- ii) The Official Closing Price for indices within the FTSE Australian Equity Index Series will be the Australia Securities Exchange Official Closing Price.

**C) Held**

An index has exceeded pre-set real-time operating parameters and the calculation has been suspended pending resolution of the issue. The message 'HELD' is displayed with the last index value.

**D) Indicative**

Arises when a situation develops that affects the quality of the constituent prices during calculation. In this case, the index is declared indicative (e.g. normally when a 'fast market' exists). The message 'IND' is displayed with the index value.

2. The real time indices will be calculated during official Australia Stock Exchange trading hours. The indices will open at 10:00 and close at 16:15. The indices will not be calculated on Australian Public Holidays.

## Appendix C: Further Information

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A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:

[Glossary.pdf](#)

Further information on the FTSE Australian Equity Index Series is available from FTSE Russell.

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at [info@ftserussell.com](mailto:info@ftserussell.com).

**Website:** [www.ftserussell.com](http://www.ftserussell.com)

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