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# FTSE China 50 Index

v3.4

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## Section 1

# Introduction

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### 1.0 Introduction

1.1 This document sets out the Ground Rules for the construction and management of the FTSE China 50 Index. Copies of the Ground Rules are available from FTSE Russell (see Appendix F) and [www.ftserussell.com](http://www.ftserussell.com). These Ground Rules should be read in conjunction with the FTSE Global Equity Index Ground Rules which can be accessed using the following link:

[FTSE Global Equity Index Series.pdf](#)

1.2 The FTSE China 50 Index is designed to represent the performance of Chinese companies that are listed on the Hong Kong Stock Exchange. H Shares, P Chips and Red Chips are eligible for inclusion in the FTSE China 50 Index. Other China share classes are ineligible. For definitions of Chinese share classes please refer to

[Guide to Chinese Share Classes.pdf](#)

1.3 The FTSE China 50 Index is calculated and published in Hong Kong and US dollars.

1.4 The FTSE China 50 Index is calculated in real-time and published on an intra-second streaming basis.

1.5 A Total Return Index is published and includes income based on ex dividend adjustments. All dividends are applied as declared in the FTSE Total Return Index. A net of tax Total Return Index is also calculated.

1.6 The FTSE China 50 Index is capped as detailed in Appendix D.

### 1.7 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 MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC and The Yield Book Inc.

### 1.8 IOSCO

1.8.1 FTSE International Limited (FTSE) considers that the FTSE China Index Series meets the IOSCO Principles for Financial Benchmarks as published in July 2013.

Full details can be accessed at [www.iosco.org](http://www.iosco.org).

Details of FTSE Russell's Statement of Compliance with respect to the IOSCO Principles can be accessed using the following link:

[IOSCO Statement of Compliance](#).

- 1.9 FTSE Russell hereby notifies users of the index that it is possible that factors, including external factors beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.
- 1.10 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 or any members of the FTSE Russell Policy Advisory Board or FTSE Russell Asia Pacific Regional Equity Advisory Committee (or any person concerned with the preparation or publication of these Ground Rules) 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.



## 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.<sup>1</sup>

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

- maintain 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 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 index.

### 2.2 FTSE Russell Regional Advisory Committee

2.2.1 To assist in the oversight of the indexes FTSE Russell has established the FTSE Russell Asia Pacific Regional Equity Advisory Committee.

2.2.2 The Terms of Reference of the FTSE Russell Advisory Committees are set out on the FTSE Russell website.

[Terms-of-Reference](#)

### 2.3 Status of these Ground Rules

2.3.1 These Ground Rules set out the methodology and provide information about the publication of the FTSE China 50 Index.

### 2.4 Amendments to these Ground Rules

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. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory

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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).

committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

- 2.4.1 As provided for in the Statement of Principles for FTSE Russell Equity Indexes, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Rules should subsequently be updated to provide greater clarity.



## 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 Statement of Principles for FTSE Russell Equity Indexes (the Statement of Principles)

Indexes need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the 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 the FTSE Russell Product Governance Board.

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

[Statement of Principles.pdf](#)

#### 3.2 Queries, Complaints and Appeals

A constituent or prospective constituent company (or professional advisor acting on behalf of the company), a national organisation or a group of no fewer than ten users of the Indexes from different organisations acting in their professional capacity may appeal against decisions taken by FTSE Russell.

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

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

FTSE Russell's Appeal Process can be accessed using the following link:

[Appeals Against Decisions.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**

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.pdf](#)

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

3.5.1 The FTSE China 50 Index is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE China 50 Index are notified through appropriate media.

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

[Recalculation Policy and Guidelines Equity Indexes.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](#)





## Section 4

# Eligible Securities

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### 4.0 Eligible Securities

- 4.1 The constituents of the FTSE China 50 Index are derived from the FTSE All-World Index universe and shall be current constituents of this Index. H Shares, P Chips and Red Chips that are listed on the Hong Kong Stock Exchange are eligible for inclusion in the FTSE China 50 Index subject to conforming with the FTSE All-World Index eligibility criteria (see also [Guide to Chinese Share Classes.pdf](#) and Appendix A)
- 4.2 The entire quoted equity capital of a constituent company is included in the calculation of its market capitalisation, subject to the following free float restrictions outlined below.
- 4.3 FTSE Russell calculates free float from the perspective of a portfolio shareholder. This allows FTSE Russell indexes to take into account the true opportunity set available to an investor.
- 4.4 In order to calculate the free float of a company Russell FTSE will screen all publicly available shareholder information, regardless of the size of holding, and identify them as either restricted or unrestricted holdings.
- 4.4.1 Further details on free float restrictions can be accessed using the following link:  
[Free Float Restrictions.pdf](#)
- 4.4.2 Free float 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.

#### A. Quarterly Updates June Updates

In June, a constituent's free float will be updated regardless of size. No buffers are applied.

#### Free float example – determining the initial free float

Shareholder type	Shareholding %
Government controlled	26.65
Corporate Investment	5.52
Employee share incentive scheme	0.76
Director/Senior management holding	0.14
<b>Free float</b>	<b>66.93</b>

The table above shows the free float structure of a company, in particular the restricted shareholders, as highlighted in Rule 4.4.1. Almost 27% of the company's shares are in the control of the government with a further 5.5% held by a corporate investment. In total the company's restricted shareholders account for 33.07% of its shares. The free float of the company is 66.93% (100 - 33.07).

- 4.4.3 Foreign ownership limits, if any, will be applied after calculating the free float restriction, as detailed in Rule 4.4.2.

FTSE Russell's index methodology takes account of the restrictions placed on the equity holdings of foreigners in a company where these have been imposed by governments or regulatory authorities, for example on strategically sensitive industrial sectors such as defence and telecommunications, or where they have been explicitly set out in a company's constitution.

Where the presence of foreign ownership restrictions creates a limit on foreign ownership (the Foreign Ownership Limit or FOL) that is more restrictive than the calculated free float for a company, the precise Foreign Ownership Limit is used in place of the free float for the purposes of calculating the company's investability weight.

If the foreign ownership limit is less restrictive or equal to the free float restriction, the free float restriction is applied, subject to Rules 4.4.2 and 4.4.3.

- 4.5 Where a company's shares are issued partly, or nil, paid and the call dates are already determined and known, the market price will, for the purposes of calculating its market capitalisation, be adjusted so as to include all such calls (i.e. the fully paid price).

- 4.6 **Convertible preference shares and loan stocks are excluded until converted.**

- 4.7 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) which are assumed by the Industry Classification Benchmark as Subsector equity investment instruments and Non-equity investment instruments which are assumed by the Industry Classification Benchmark as Subsector non-equity investment instruments will not be eligible for inclusion. For further details on the Industry Classification Benchmark (ICB), please visit the FTSE Russell website.

- 4.8 Securities must be sufficiently liquid to be traded. The following criteria which are part of the FTSE All-World Index eligibility criteria are used to ensure that illiquid securities are excluded:

- A. Price - There must be an accurate and reliable price for the purposes of determining the market value of a company.

Liquidity - Each security will be tested for liquidity on a semi-annual basis in March and September by calculation of its monthly median of daily trading volume as part of the FTSE All-World Index review. When calculating the median of daily trading volume 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.

- B. The liquidity test will be applied on a pro-rata basis where the testing period is less than 12 months.
- a) A non-constituent which does not turnover at least 0.05% of their shares in issue (after the application of any free float weightings) based on their median daily trading volume per month in ten of the twelve months prior to a full market review, will not be eligible for inclusion in the Index.
  - b) An existing constituent which does not turnover at least 0.04% of its shares in issue (after the application of any free float weightings) based on its median daily trading volume per month for at least eight of the twelve months prior to a full market review will be removed from the Index.
  - 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.

\*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.

- C. At the sole discretion of FTSE Russell, the above percentage figures may be adjusted by up to 0.01% at the March and September reviews so that, in FTSE Russell'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.
- D. At the March and September reviews of the FTSE All-World Index, newly listed companies will have their liquidity assessed on a pro-rata basis.
- E. New issues, which do not qualify as early entrants will become eligible for inclusion at the March and September reviews of the FTSE All-World Index 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 4.8.0) C.

The inclusion of early entries will not require a minimum trading record.

## 4.9 Trading Screen

4.9.1 Existing and non-constituent securities which have not traded on 60 or more trading days during the past year (up to and including the review cut-off date), will not be eligible for index inclusion. Regular/ad-hoc market holidays, and unscheduled market closures will not count towards the total; otherwise, the reason(s) for a security's non-trading will not be considered. If a security does not have a full year of trading, the 60 day period will be pro-rated according to the number of available trading days passed since its listing. Please note:

- All standard trading days will be incorporated within the calculation (Friday and Sundays as appropriate)
- Ad-hoc non-standard trading days will not be incorporated within the calculation (e.g. ad-hoc Saturday trading will not be considered)
- Where a pro-rata calculation is necessary, the number of available trading days on the underlying market during the previous year up to and including the review cut-off date will be used as the basis of the calculation. E.g. Market ABC has 253 available trading days for the annual period to the review cut-off date; therefore the security would not be eligible if for 23.7% (60/253) or more of its available trading days since listing, it did not trade.

- A security which has been removed from an index as a result of this screen 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

# Index Algorithm and Calculation Method

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### **5.0 Index Algorithm and Calculation Method**

#### **5.1 Prices**

- 5.1.1 The FTSE China 50 Index uses actual trade prices for securities with local stock exchange quotations.
- 5.1.2 The FTSE China 50 Index receives share prices in real time.

#### **5.2 Foreign Exchange Rates**

- 5.2.1 Reuters real time cross exchange rates are used during the intra-day calculation period for the FTSE China 50 Index.
- 5.2.2 The WM/Reuters Closing Spot Rates <sup>TM</sup> are used in the calculation of the end of day index values in Hong Kong dollars and US dollars.

#### **5.3 Dividend Treatment**

- 5.3.1 The Total Return Index is based on ex dividend adjustments. All dividends are applied as declared in the FTSE Total Return Index.
- 5.3.2 A net of tax Total Return Index is also calculated based on the maximum withholding tax rates applicable to dividends received by institutional investors who are not resident in the same country as the remitting company and who do not benefit from double taxation treaties.

#### **5.4 Algorithm**

- 5.4.1 The index algorithm and calculation method are detailed in Appendix C.



## Section 6

# Periodic Review of Constituents

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### 6.0 Periodic Review of Constituents

#### 6.1 Review Dates

- 6.1.1 The quarterly review of the FTSE China 50 Index constituents takes place in March, June, September and December. The constituents will be reviewed using data from the close of business on the Monday following the third Friday in February, May, August and November. Where there is a market holiday in either China or Hong Kong on the Monday following the third Friday, the close of business on the last trading day prior to the Monday after the third Friday, where both markets are open, will be used. Any constituent changes will be implemented after the close of business on the third Friday of March, June, September and December.
- 6.1.2 At the quarterly review, the constituents of the FTSE China 50 Index are capped using prices adjusted for corporate actions as at the close of business on the second Friday in March, June, September and December. The capping is implemented after close of business on the third Friday in March, June, September and December based on the constituents, shares in issue and free float on the next trading day following the third Friday of the review month.
- 6.1.3 Quarterly changes are published after the close of business on the Wednesday before the first Friday of March, June, September and December to give users of the index sufficient notification of the changes before their implementation.

#### 6.2 Rules for Insertion and Deletion at the Quarterly Review

- 6.2.1 The rules for inserting and deleting companies at the quarterly review are designed to provide stability in the selection of constituents of the FTSE China 50 Index while ensuring that the index continues to be representative of the market by including or excluding those companies which have risen or fallen significantly.
- 6.2.2 At review, all constituents of the FTSE China 50 Index must be existing or pending constituents to the FTSE All-World Index, i.e. the review will take into consideration any constituent changes to the FTSE All-World Index as announced by FTSE Russell and will therefore be conducted before the implementation date of these changes.
- 6.2.3 In determining the full market capitalisation of a company, all share classes are included, while only the eligible share classes are included in the index weighting. Please see [Guide to Chinese Share Classes.pdf](#) for the share class description.

- 6.2.4 A company will be inserted into the FTSE China 50 Index at the periodic review if it rises to 40<sup>th</sup> position or above when the eligible companies are ranked by full market capitalisation (before the application of any investability weightings).
- 6.2.5 A company in the FTSE China 50 Index will be deleted at the periodic review if it falls to 61<sup>st</sup> position or below when the eligible companies are ranked by full market value (before the application of any investability weightings).
- 6.2.6 A constant number of constituents will be maintained for the FTSE China 50 Index. Where a greater number of companies qualify to be inserted in the Index than those qualifying to be deleted (see Rules 6.2.4 and 6.2.5), the lowest ranking constituents presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted (see Rules 6.2.4 and 6.2.5), the securities of the highest ranking companies which are presently not included in the index will be inserted to match the number of companies being deleted at the periodic review.
- 6.2.7 The FTSE China 50 Index is capped as detailed in Appendix D. The constituents of the Index normally are capped only at the time of the quarterly review or at the time of a Fast Entry (see Rule 8.6). Following capping, the weight of each constituent in the index moves freely in line with price movements.
- 6.3 **Reserve Lists**
- 6.3.1 FTSE Russell is responsible for publishing the five highest ranking non-constituents of the FTSE China 50 Index following each quarterly review. This Reserve List will be used in the event that one or more constituents is deleted from the FTSE China 50 Index during the period up to the next quarterly review of the index. Companies on the Reserve List will be constituents of the FTSE All-World Index.
- 6.3.2 Where a company is removed from the index after the changes to the index have been announced but before the periodic changes have been implemented, the highest ranking company by full market capitalisation from the new Reserve List (excluding current Index constituents) will replace the deleted company.



## Section 7

# Changes to Constituent Weightings

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### 7.0 Changes to Constituent Weightings

#### 7.1 Changes in Free Float

The FTSE China 50 Index will be periodically reviewed for changes in free float. These reviews will coincide with the quarterly reviews FTSE China 50 Index. Implementation of any changes will happen at close of trading on the third Friday in March, June, September and December.

A constituent's free float will also be reviewed and adjusted if necessary:

- by identifying information which necessitates a change in free float weighting;
- following a corporate event; or
- expiry of a lock-in clause.

If a corporate event includes a corporate action which affects the index, any change in free float will be implemented at the same time as the corporate action.



## Section 8

# Corporate Actions and Events

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### 8.0 Corporate Actions and Events

8.1 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.

### 8.2 Shares in Issue

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

### 8.3 Investability Weightings

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

### 8.4 Removal and Replacement

8.4.1 If a constituent is delisted, or ceases to have a firm quotation, or is subject to a takeover offer which has been declared wholly unconditional or has ceased to be a viable constituent as defined by the Ground Rules, it will be removed from the list of constituents and replaced by the highest ranking company by full market capitalisation eligible on the Reserve List (see Rule 6.3) as at the close of the index calculation two days prior to the deletion.

8.4.2 The removal and replacement are effected simultaneously with the provision of a minimum two days' notice period.

## 8.5 Mergers, Restructuring and Complex Takeovers

- 8.5.1 If the effect of a merger or takeover is that one constituent is absorbed by another constituent in the FTSE China 50 Index, the resulting company will remain a constituent of the index and a vacancy will be created. This vacancy will be filled by selecting the highest ranking security by full market capitalisation from the Reserve List (see Rule 6.3) as at the close of the index calculation two days prior to the deletion.
- 8.5.2 If a constituent company is taken over by a non-constituent company, the original constituent will be removed and replaced by the highest ranking non-constituent by full market capitalisation on the Reserve List. Any eligible company resulting from the takeover will be eligible to become the replacement company if it is ranked higher than any company on the Reserve List as at the close of the index calculation two days prior to completion of the acquisition, based on the combined full market value of the company after the merger.
- 8.5.3 If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents in the FTSE China 50 Index based on their respective full market capitalisation(s) i.e. before the application of any investability weighting and if they qualify in all other respects. If a FTSE China 50 Index constituent splits into two or more companies, one or more of these companies may remain in the FTSE China 50 Index. Where one or more of the new companies are eligible to remain in the FTSE China 50 Index, the smallest FTSE China 50 Index constituent(s) will be deleted.
- 8.5.4 Index constituent changes resulting from the split will be determined based on market values at close on day one of trading and applied using market values at close on day two of trading, following the split becoming effective. Consequently the FTSE China 50 Index may have more than 50 companies for 2 days.

## 8.6 New Issues

- 8.6.1 Where an eligible non constituent of the FTSE China 50 Index undertakes an Initial Public Offering of a new equity security, that security will be eligible for fast entry inclusion to the FTSE China 50 Index providing it meets the following conditions:
- (a) if it is a Fast Entry into the FTSE All-World Index
  - (b) If its full market capitalisation (shares in issue \* price) when ranked in descending order is in 20<sup>th</sup> position or higher.

The full market capitalization will be based on the closing price on the first day of trading and the security's inclusion will be implemented after the close of business on the fifth day of trading.

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).

Where a fast entrant is added to the FTSE China 50 Index the lowest ranking constituent by full market capitalisation of the FTSE China 50 Index will be selected for removal using the closing prices on the first day of trading and implemented after the close of business on the fifth day of trading.

In the event of the fifth day of trading being in close proximity to an index review, FTSE Russell may use its discretion to include a fast entrant at the index review date following advance notice.

- 8.6.2 Following the announcement of a Fast Entry constituent, the FTSE China 50 Index is capped using prices adjusted for corporate events as at the close of business on the third day of official trading based on the constituents, shares in issue and free float on the next trading day following the fifth day of official trading as detailed in Appendix D.

- 8.6.3 Newly issued securities which do not qualify for early entry under Rule 8.5.1 (but which meet the criteria for eligible securities set out in Section 4) will be eligible for inclusion at the next quarterly review, if large enough to become a constituent of the FTSE China 50 Index at that time. The security may also qualify for inclusion to the FTSE China 50 Index Reserve List (see Rule 6.3).
- 8.6.4 If FTSE Russell decides to include a new security as a constituent security other than as part of the normal periodic review procedure, this decision will be publicly announced at the earliest practicable time.
- 8.6.5 Variable and best effort 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.

Direct listing IPOs will be eligible for consideration for fast entry inclusion if there is confirmation, before the close of trading on the first day of listing, of the number of shares that have been made available (e.g. specific holders have publicly disclosed a commitment to sell a number of shares). If there is no disclosure before the close of trading on the first day of listing, the company will not be considered as a potential fast entry addition.

- 8.6.6 Variable and best effort IPOs and those direct listing IPOs (which do not qualify as a fast entrant) will be considered for index inclusion at the next quarterly review if, by the review cut-off date, a public disclosure\* is available confirming either the actual number of shares sold during the offering or the post IPO shareholder structure. Index inclusion remains subject to meeting all other eligibility criteria. If the number of shares sold during the IPO, or the post IPO shareholder structure, remains unknown on the review cut-off date, the evaluation of the company will be deferred to a subsequent quarterly review.

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

## 8.7 **Suspended Companies**

- 8.7.1 Suspension of dealing rules can be found within the Corporate Actions and Events Guide.
- 8.7.2 Where the company is removed from the FTSE China 50 Index it will be replaced with the highest ranking company, by full market capitalisation, on the Reserve List eligible to be included in the index as at the close of the index calculation on the day preceding the inclusion of the replacement company. This change will be effected after the close of the index calculation and prior to the start of the index calculation on the following day.



## Section 9

# Industry Classification Benchmark System

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### 9.0 Industry Classification Benchmark System

#### 9.1 Industry Classification Structure

- 9.1.1 The FTSE China 50 Index constituents are classified into Industries, Supersectors, Sectors and Subsectors, as defined by the Industry Classification Benchmark (ICB).
- 9.1.2 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:  
[ICB](#)



## Appendix A: Eligible Markets, Exchanges & Exchange Rates

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Markets eligible for the FTSE China 50 Index and sources of trading volume data used in accordance with Rule 4.8(0):

Region	Country	Exchange Locations	Market Sections
Asia / Pacific	Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong)	Hong Kong	Total Main Market

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### Foreign Exchange Rates

The foreign exchange rates used in the intra-day calculation of the FTSE China 50 Index are Reuter's real-time spot rates.

The FTSE China 50 Index is calculated in Hong Kong and US dollars. Non Hong Kong dollar denominated constituent prices are converted to Hong Kong dollars in order to calculate the Index.

The real-time foreign exchange rates are used throughout the period of calculation (see Appendix B). Therefore foreign exchange movements are taken into account in the Index calculation for each constituent even though the underlying market for that constituent may be closed.

The WM/Reuters Closing Spot Rates™ are used to calculate the final Index levels and are termed the "closing FTSE China 50 Index foreign exchange rates".



## Appendix B: Index & Market Opening and Closing Hours

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Index	Open	Close
FTSE China 50 Index (HKD)	09:30	16:15*
Stock Market Trading Times:		
Hong Kong	09:30 13:00	12:00 16:00

All times are Local Hong Kong Time

The index will not be calculated on Hong Kong Public Holidays.

\* the official closing index value in US dollars will be calculated after receipt of the WM/Reuters Closing Spot Rates™ at 16:00 UK time. The index will disseminate continuously up until 16:11 HK time and then pause dissemination until 17:00 UK time when the official closing index values are disseminated.

## Appendix C: Index Algorithm and Calculation Method

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The index is calculated using the algorithm described below.

$$\sum_{i=1}^N \frac{(p_i \times e_i \times s_i \times f_i \times c_i)}{d}$$

Where,

- $i=1,2,\dots,N$
- $N$  is the number of securities in the index.
- $p_i$  is the latest trade price of the component security (or the price at the close of the Index on the previous day).
- $e_i$  is the exchange rate required to convert the security's currency into the index's base currency.
- $s_i$  is the number of shares in issue used by FTSE Russell for the security, as defined in these Ground Rules.
- $f_i$  is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE Russell for each security in the underlying index.
- $c_i$  is the Capping Factor to be applied to a security to correctly weight that security in the index. This factor maps the investable market capitalisation of each stock to a notional market capitalisation for inclusion in the Index (see Appendix D).
- $d$  is the divisor, a figure that represents the total issued share capital of the index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index.



## Appendix D: Capping Methodology

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### Application of Capping at the Quarterly Reviews

#### Capping Target

Capping is applied to the constituents of the FTSE China 50 Index at each review so that:

- All companies that have a weight greater than 4.5% in aggregate are no more than 38% of the index.
- No individual company in the index has a weight greater than 9% of the index.

#### Capping Methodology

The index is capped by the following methodology:

##### Step 1: Cap at 9%

Any company whose index weight is greater than 9% is capped at 9%. The weights of the remaining index constituent companies are increased as a consequence of reducing the weights of the larger companies. The weights of uncapped constituent companies are then checked and if they exceed 9% they are also capped at 9%. This process is repeated until no company weight exceeds 9%.

If the weights after the 9% capping satisfies the capping target, they then become the final weights of the index. Otherwise, the capping proceeds to next step and the weights that are capped at 9% are discarded.

##### Step 2: Cap at 4.5%

The companies in the index are capped at 4.5% based on their uncapped weights. This is used as an intermediate portfolio for the following steps.

##### Step 3: Adjust weights for the top five companies

Let  $w_i$  be the uncapped weight for company  $i$ ,  $w_i'$  be the 4.5% capped weight of company  $i$  and  $G$  denote the collection of the five largest companies by uncapped index weights:

$$G = \{i: w_i \text{ is one of the top 5 companies}\} \quad (\text{E.1})$$

The top five companies that belong to group  $G$ , are then elevated proportionally from the weights capped in Step 2, i.e.  $w_i'$ .

$$w_i^* = w_i' + (0.38 - \sum_{j \in G} w_j') \frac{|w_i' - w_i|}{\sum_{j \in G} |w_i' - w_j|}, \quad i, j \in G \quad (\text{E.2})$$

If all five companies weights are no greater than 9%, i.e.  $w_i^* \leq 0.09, \forall w_i \in G$ , then the capping proceeds to Step 4. Otherwise, update the weights as:



$$w_i^* := \begin{cases} 0.09 & , w_i^* \geq 0.09 \\ w_i^* + \left(0.38 - \sum_{w_j < 0.09} w_j^* - 0.09N\right) \frac{|w_i^* - w_j^*|}{\sum_{w_j < 0.09} |w_j^* - w_j^*|} & , w_i^* < 0.09 \end{cases}, \quad i, j \in G \quad (E.3)$$

Where N is the number of companies with weights equal to or greater than 9%. (E.3) is repeated until all five company weights are no greater than 9%.

In extreme market conditions where the top four companies have a combined weight of greater than 33.5% in group G all five companies will be assigned an equal weight in group G (i.e.  $w_i^* = 7.6\%$ ).

#### Step 4: Adjust the weights of the remaining companies

The final step of capping adjusts the weights of all the remaining companies whose uncapped weights are not one of the five highest companies in group G. Let T denote the collection of these companies:

$$T = \{i: w_i \text{ is NOT one of the top 5 companies}\} \quad (E.4)$$

Then all the companies in T are adjusted as:

$$w_i^* = (1 - 0.38) \left( \frac{w_i}{\sum_{j \in T} w_j} + a \times d_i \right), \quad i \in T \quad (E.5)$$

Where

$$d_i = \frac{w_i}{\sum_{j \in T} w_j} - \frac{w_i^*}{\sum_{j \in T} w_j^*}, \quad i, j \in T \quad (E.6)$$

is the normalised weight difference between 4.5% capped and uncapped weights, and

$$a = \frac{1}{d_h} \left( \frac{0.045}{1 - 0.38} - \frac{w_h}{\sum_{i \in T} w_i} \right), \quad i, j \in T \quad (E.7)$$

is an adjustment scalar with h denoting the company with the highest uncapped weight in group T.

The capping concludes with final weights  $w_i^*$  for company i in the Index.

In order to weight the companies in the index a Capping Factor  $c_i$  is calculated for each company i (see Appendix C).

$$c_i = \frac{w_i^*}{w_i} \quad (E.8)$$



## Appendix E: Status of Index

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The FTSE China 50 Index is calculated in real time and may exist in the following states:

A) **Firm**

The index is being calculated using trade prices from the Hong Kong stock exchange for all constituents during the hours of the Official Index Period (see Appendix B).

The Official Closing Index for the FTSE China 50 Index is the last index value calculated at the end of the firm period.

B) **Closed**

When the index has ceased all calculations for the day, the message '**CLOSED**' is displayed against the index value.

C) **Held**

During the firm period, the index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message '**HELD**' is displayed against the last index value calculated.

D) **Indicative**

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the index is being calculated, the index will be declared indicative. The message '**IND**' will be displayed against the index value.

The official opening and closing hours of the FTSE China 50 Index are set out in Appendix B. Variations to the official hours of the indexes are published by FTSE Russell as appropriate.

The FTSE China 50 Index will not be calculated on Hong Kong Public Holidays.



## Appendix F: 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 China 50 Index are available from FTSE Russell.

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

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

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