



Reclassification of Saudi Arabia to Secondary Emerging Market Status

Implementation Plan

Commencing March 2019
v2.9



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FAQ

1.0 Transition of Saudi Arabia from Unclassified to Secondary Emerging market status

In March 2018, FTSE Russell announced the reclassification of Saudi Arabia to Secondary Emerging market status commencing from March 2019. The initial announcement detailed an implementation in five tranches as illustrated in the table below:

	Tranche One	Tranche Two	Tranche Three	Tranche Four	Tranche Five
Review Schedule	March 2019	*April 2019	June 2019	September 2019	March 2020
Proportion of investability weight added	10%	15%	25%	25%	25%
Tranching Factor	10%	25%	50%	75%	100%

This version of the Saudi Arabia FAQ details the inclusion of Saudi Arabia into FTSE Russell indexes following the decision ([notice](#)) by FTSE Russell to amend the Tranche Five inclusion proportion from 25% to 6,25% (reduced by three quarters). The remaining 18.75% will be implemented as Tranche Six in conjunction with the June 2020 quarterly review.

The transition of Saudi Arabia to Secondary Emerging market status within FTSE GEIS commenced in conjunction with the March 2019 semi-annual review and is scheduled to be completed by June 2020. The initial 25% tranche was split over March (10%) and April (15%) to ensure a smooth phasing in of Saudi Arabia. The remaining 75% will be implemented in conjunction with the quarterly reviews in June and September 2019 and, March and June 2020 as illustrated in the table below:

	Tranche One	Tranche Two	Tranche Three	Tranche Four	Tranche Five	Tranche Six
Review Schedule	March 2019	*April 2019	June 2019	September 2019	March 2020	June 2020
Proportion of investability weight added	10%	15%	25%	25%	6.25%	18.75%
Tranching Factor	10%	25%	50%	75%	81.25%	100%

*The second tranche was implemented in effective from the open on Wednesday, 1 May 2019 using official closing prices as of Tuesday, 30 April 2019.

2.0 How will the change be implemented?

For illustration purposes, if a Saudi Arabia security, Company A has an investability weight (float) of 49%, it will be included into FTSE GEIS in the following tranches:

	Tranche One	Tranche Two	Tranche Three	Tranche Four	Tranche Five	Tranche Six
Review Schedule	March 2019	April 2019	June 2019	September 2019	March 2020	June 2020
Implementation Effective Date	Open Monday, 18 March	Open Wednesday, 01 May	Open Monday, 24 June	Open Monday, 23 September	Open Monday, 23 March	Open Monday, 22 June
Implementation Closing Price	Close Thursday, 14 March	Close Tuesday, 30 April	Close Thursday, 20 June	Close Thursday, 19 September	Close Thursday, 19 March	Close Thursday, 18 June
Proportion of investability weight added	10%	15%	25%	25%	6.25%%	18.75%
Company A Investability Weight Added	4.9%	7.35%	12.25%	12.25%	3.0625%	9.1875%
Company A Total Investability Weight	4.9%	12.25%	24.5%	36.75%	39.8125%	49%

3.0 Why was 10% added in March and 15% in April 2019?

The two tranches in March and April were equivalent to 25% and were phased over two months to ensure an orderly transition of Saudi Arabia into FTSE GEIS. The intention was to minimize price pressure on new constituents and spread outflows from other markets being sold down.

4.0 How were Saudi Arabia securities be screened for index eligibility i.e. treated as current index constituents or non-constituents?

The FTSE Global All Cap Saudi Arabia Inclusion Index was to be used as the transition index for implementing the inclusion of Saudi Arabia into FTSE GEIS.

Therefore, Saudi Arabia securities which were constituents of the inclusion index at the March 2019 cut-off date (Monday, 31 December 2018) were screened as index constituents for the purposes of both the liquidity and size eligibility screens. All other securities were treated as non-constituents for the liquidity and size eligibility screens.

5.0 What is the FTSE Global All Cap Saudi Arabia Inclusion Index?

The FTSE Global All Cap Saudi Arabia Inclusion Index was launched on 29 October 2017 with a base date of 17 March 2017 and screens Saudi Arabia securities for FTSE GEIS eligibility. In accordance with the FTSE GEIS methodology, the inclusion index is reviewed semi-annually in March and September. Saudi Arabia is reviewed as part of Middle East & Africa (MEA) region.

6.0 When will the final changes for the FTSE GEIS Middle East & Africa, June 2020 quarterly review be published?

The FTSE GEIS Middle East & Africa June 2020 quarterly review changes will be published to subscribing clients after the MEA regional markets close on Friday, 22 May 2020.

7.0 What is the cut-off date for assessing any IPO's for the June 2020 quarterly review that do not meet the fast entry threshold?

Monday, 11 May 2020 is the cut-off date for assessing the eligibility of IPO's that did not meet the fast entry threshold for the eligible universe for the FTSE GEIS March 2020 semi-annual review. IPO's need to be listed prior to 11 February 2020 to meet the 3-month minimum trading requirement.

8.0 What inclusion/exclusion percentage levels by investable market capitalization will be used for the June 2020 quarterly review?

The percentage levels by investable market capitalization for the MEA region will be determined based on the respective regional Small Cap Index as of the cut-off date and will include Saudi Arabia securities based on 100% of their investability weight. Small Cap inclusion levels for June 2020 will be based on the March 2020 semi-annual inclusion/exclusion index that are index adjusted as of 11 May 2020.

9.0 Which liquidity thresholds will Saudi Arabia be assessed against?

Current index constituents of the FTSE Global All Cap Saudi Arabia Inclusion index will require medium daily trading volume per month to turnover at least 0.04% of the shares in issue (after the application of any free float weightings (see Question 10)) for at least eight out of twelve months prior to a full market review.

Saudi Arabia securities tested as non-constituents for inclusion to FTSE Global All Cap will require medium daily trading volume per month to turnover at least 0.05% of the shares in issue (after the application of any free float weightings) for at least ten out of twelve months.

10.0 What investability weight will be used to conduct the liquidity screen?

When testing liquidity, 100% of the investability weight will be used for the calculation. For example, if a security has an investability weight of 49% as at the last date in the testing period, it will be tested for liquidity at its 49% investability weight.

11.0 How will liquidity be tested once the transition of Saudi Arabia commences into FTSE GEIS?

To avoid any potential unnecessary turnover, the semi-annual liquidity screen for current Saudi Arabia index constituents will be suspended for the September 2019 and March 2020 semi-annual reviews. Non-constituents will continue to be tested for liquidity in conjunction with the process explained in Q9. The liquidity screen for Saudi Arabian constituents of FTSE GEIS will recommence for the September 2020 semi-annual review

12.0 How will Initial Public Offerings (IPO) be treated?

Initial Public Offerings (IPO), whether they be eligible for fast entry or at a subsequent quarterly or semi-annual review will be added to FTSE GEIS based on the same tranche factor as existing Saudi Arabia index constituents of FTSE GEIS (see Question 7 for treatment of IPOs). Question 13 provides an example of how a Fast Entry addition will be treated,

13.0 Saudi Aramco IPO – how was it treated?

The initial public offering of Saudi Aramco met the fast entry thresholds for FTSE GEIS and was added to FTSE Russell indexes in conjunction with the December 2019 quarterly review, effective from the open on Monday, 23 December 2019,

As Saudi Aramco listed after the implementation of Tranche 4 and prior to the implementation of Tranche 5, it was added to FTSE GEIS with the same tranching factor of 0.75 as the current Saudi Arabian constituents of FTSE GEIS. The tranching factor increased to 0.8125 when Tranche 5 was implemented in conjunction with the March 2020 semi-annual review and the tranching factor will increase to 1 in conjunction with the June 2020 quarterly review..

The following public notification provides additional details on the fast entry inclusion of Saudi Aramco ([Saudi Aramco Fast Entry Notification](#))

14.0 What is the fast entry level applied to Saudi Arabia securities?

Saudi Arabia securities are eligible for fast entry to FTSE GEIS if they meet the relevant fast entry thresholds of the MEA region. These levels are published quarterly on the FTSE Russell website.

15.0 Will Saudi Arabia securities be tested for foreign headroom?

Saudi Arabia securities will be screened for foreign headroom as part of the FTSE GEIS Middle East & Africa review. Please refer to the FTSE GEIS ground rules for additional details.

16.0 What will be the treatment of Saudi Arabia securities which are added to FTSE GEIS from March 2019, but fail index eligibility at a subsequent review?

If a partially added Saudi Arabia security fails index eligibility, it will be deleted in accordance with the index methodology and subsequent quarterly additions of the security will not be implemented.

17.0 What are the projected weights of Saudi Arabia in FTSE Global All Cap, FTSE All-World and FTSE Emerging All Cap Indexes?

The table illustrates the projected index weight of Saudi Arabia securities in the main FTSE global headline indexes following the completion of the six tranches (i.e. as of June 2020) and post the reclassification of China A Shares (based on closing prices as of 31 March 2020 and reflects the Phase 1 inclusion of China A).

Projected weight in Global All Cap*	Projected weight in Emerging All Cap	Projected weight in All-World**	Projected weight in Emerging
0.34%	3.13%	0.35%	3.22%

*Projected weight in FTSE Global All Cap based on 79 eligible securities as of 31 March 2020

**Projected weight in FTSE All World based on 45 eligible securities as of 31 March 2020

The table illustrates the number of Large, Mid and Small sized Saudi Arabian stocks that are index constituents of the FTSE Global All Cap index as of 31 March 2020.

	Large	Mid	Small	Total
Saudi Arabia	19	26	34	79

18.0 Rebalance Effective Dates

March 2019 semi-annual review (Tranche 1)

The first tranche of the reclassification of Saudi Arabia to Secondary Emerging, representing 10% of the securities investability weight, was implemented in conjunction with the March 2019 semi-annual review (i.e. from the open on Monday, 18 March 2019) using official closing prices as of Thursday, 14 March 2019.

April 2019 (Tranche 2)

The second tranche of the reclassification of Saudi Arabia to Secondary Emerging, representing 15% of the securities investability weight, was implemented effective from the open on Wednesday, 1 May 2019 using official closing prices as of Tuesday, 30 April 2019.

June 2019 quarterly review (Tranche 3)

The third tranche of the reclassification of Saudi Arabia to Secondary Emerging, representing 25% of the securities investability weight, was implemented in conjunction with the June 2019 quarterly review (i.e. from the open on Monday, 24 June 2019) using official closing prices as of Thursday, 20 June 2019.

September 2019 semi-annual review (Tranche 4)

The fourth tranche of the reclassification of Saudi Arabia to Secondary Emerging, representing 25% of the securities investability weight, was implemented in conjunction with the September 2019 semi-annual review (i.e. from the open on Monday, 23 September 2019) using official closing prices as of Thursday, 19 September 2019.

Tranche four proceeded as detailed above, with Monday, 23 September 2019 being a national holiday in Saudi Arabia.

March 2020 semi-annual review (Tranche 5)

The fifth tranche of the reclassification of Saudi Arabia to Secondary Emerging, representing 6.25% of the securities investability weight, was implemented in conjunction with the March 2020 semi-annual review (i.e. from the open on Monday, 23 March 2020) using official closing prices as of Thursday, 19 March 2020.

June 2020 quarterly review (Tranche 6)

The sixth and final tranche of the reclassification of Saudi Arabia to Secondary Emerging, representing 18.75% of the securities investability weight, is scheduled to be implemented in conjunction with the June 2020 quarterly review (i.e. from the open on Monday, 22 June 2020) using official closing prices as of Thursday, 18 June 2020.

19.0 When will Saudi Arabia be eligible for derived (including Partnership) and custom indexes which are based on a FTSE GEIS universe?

Saudi Arabia will be added to FTSE Global Equity Index Series (GEIS) derived indexes as per announced timetable ([Derive Index Timetable](#)). The inclusion factor at which Saudi Arabia will be added to the capitalization weighted derived indexes will be aligned with the inclusion factors assigned in FTSE GEIS at that point in time.

Derived Cap Weighted Indexes

Once Saudi Arabia has been added to cap weighted derived indexes any further inclusion factor changes to Saudi Arabia in FTSE GEIS will be mirrored in the cap weighted derived indexes irrespective of whether a review is scheduled for the derived indexes. For example, if Saudi Arabia is being added to a derived index from September 2019, the eligible Saudi Arabian securities will be added with an inclusion factor of 75% with the remaining 25% split over March and June 2020, with 6.25% being added in March 2020 and 18.75% being added in June 2020 (see Question 1).

Derived Non-Cap Weighted Indexes

Once Saudi Arabia has been added to non-cap weighted derived indexes, any further inclusion factor changes to Saudi Arabia in FTSE GEIS will be reflected in the non-cap weighted derived indexes product files although these changes will be neutralized as part of the index calculation process.

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