



Index Policy in the Event Clients are Unable to Trade a Market

v1.5



Section 1

Introduction

1.0 Introduction

External events can on occasion make it difficult or even impossible for FTSE Russell clients to trade securities on certain markets. Such events include the temporary closure of a stock exchange, government, central bank or monetary authority imposed restrictions on the repatriation of foreign capital, and the imposition of sanctions preventing new investment in a country.

This paper sets out how FTSE Russell would typically look to respond in the light of such events. It should be stressed however that, by their very nature, the course of such events will be uncertain. FTSE Russell's chosen course of action will depend on its analysis of the circumstances pertaining at the time and no commitment can be given that FTSE Russell will follow the proposed actions set out below.

FTSE Russell will always seek to communicate decisions regarding the inclusion or suspension of countries within its indexes, or the choice of reference prices for a particular index or security, to its clients in as timely manner as events allow. Relevant technical notices will be sent directly to our clients and information will be provided on our website. Our client servicing teams globally will also be available to answer any specific queries clients may have.



Section 2

Possible Scenarios

2.0 Possible Scenarios

2.1 Restrictions are imposed on the repatriation of foreign capital

Should a government, central bank or monetary authority impose restrictions that prevent or hinder foreign investors repatriating their capital, FTSE Russell will first consult with members of the appropriate FTSE Russell external advisory committees on the perceived impact and likely duration of such restrictions.

If, following consultation, FTSE Russell determines that the impact of the restrictions is likely to be severe and/or to last longer than 20 local business days (as measured by normal trading days for the local market), FTSE Russell will remove stocks in the affected country from the FTSE Global Equity Index Series and the Russell Global Indexes (together referred to as the FTSE Russell global indexes).

If, however, FTSE Russell determines that the restrictions will be limited in their impact, or are likely to be of short duration - fewer than 20 local business days - the FTSE Russell global indexes will continue to be calculated as normal.

Should the restrictions persist beyond 20 local business days, FTSE Russell will at that stage give further consideration to whether the affected stocks should remain in or be removed from the FTSE Russell global indexes. At that stage, if FTSE Russell decides to retain the affected securities in the FTSE Russell global indexes, the decision will be revisited after a further 10 local business days, and - if the stocks are again retained - after a further period of 10 local business days. If restrictions still remain in place 40 local business days after their original imposition, FTSE Russell will delete the stocks from the FTSE Russell global indexes.

The process of removing the affected securities would typically be completed in two local business days. If the local stock exchange is functioning normally, such that sales can be settled and repatriation is slow but feasible, FTSE Russell will remove the affected securities at market price with two local business days' notice. If those conditions are not in place, FTSE Russell will remove the stocks from the FTSE Russell global indexes at zero value with two local business days' notice.

To assist existing investors in benchmarking their performance, if securities from the affected country are removed from the FTSE Russell global indexes, a standalone country index will be created based on local exchange prices. FTSE Russell will look to create custom combinations of the revised FTSE Russell global indexes excluding the affected country and the standalone country

index. New investors will be able to use the revised FTSE Russell global indexes for benchmarking performance.

Once the restrictions have been lifted, the market will not be re-included in the standard FTSE Russell global indexes automatically, but rather the status of the market in the respective FTSE and Russell country classification systems will be re-evaluated. This process will follow FTSE and Russell standard country classification procedure and timetable for a new market, and the country may be required to spend a period of time on the relevant watch-list before its status is confirmed.

2.2 A national stock market closes for an extended period

If a national stock market closes unexpectedly, and investors are unable to trade at alternative venues, FTSE Russell will apply the following policy.

Stocks in the country index will be held at their last traded price for a period of up to 20 local business days (as measured by normal trading days for the local market). During this period, FTSE Russell will consult with its external advisory committees as to the best course of action and the timing of any action.

If the consensus is that the exchange is likely to reopen in the near future, the suspension period may be extended by a further 10 local business days. After expiry of this period, the situation will be revisited and the suspension period may be extended for a further period of 10 local business days.

If the original consensus is that the closure is likely to be for an extended period, or if after the expiry of the second 10 local business days suspension period (i.e. 40 local business days after the original announcement) the exchange has not provided a firm date at which trading is expected to recommence, FTSE Russell will delete the stocks from the FTSE Global Equity Index Series and the Russell Global Indexes (together referred to as the FTSE Russell global indexes). The stocks will be deleted at zero value or, if FTSE Russell determines a valid price for a stock can be obtained on grey markets, that price may be used in preference. The national index will cease calculation.

Should the stock market reopen after the country's constituents have been removed from the FTSE Russell global indexes but within three months of the original closure, stocks that recommence trading will be evaluated for inclusion in the FTSE Russell global indexes as if they were new constituents. Once a minimum of three stocks from the affected country have become eligible for inclusion, FTSE Russell will recommence calculation of the country index and re-include the country in the FTSE Russell global indexes with effect from the next quarterly review.

If the stock exchange remains closed for a period of time greater than three months, individual stocks will not be readmitted to the FTSE Russell global indexes and instead the country will have its status within the FTSE and Russell country classification systems reassessed. The procedure that FTSE Russell will follow in these circumstances will be the same as that summarised above in Section 2.2 for countries where repatriation restrictions have been imposed.

2.3 Sanctions are imposed which restrict investment into foreign jurisdictions

As sanctions will usually vary according to the domicile of the investor, the situation where investment into foreign jurisdiction is restricted is more nuanced than with the imposition of repatriation restrictions or exchange closures. Sanctions may not be universally enacted, and the investment restrictions that are imposed may apply to certain countries, industries, named companies or companies with substantial ownership from named individuals.

For the following scenarios, FTSE Russell will review the sanctions on a case-by-case basis, but generally the index treatment will be as follows:

- Should sanctions, either primary or secondary, be imposed that prohibit US, UK and/or European Union (EU) natural or legal persons from investing in particular countries, industries, named companies or companies linked to sanctioned individuals, FTSE Russell will delete the

sanctioned securities from FTSE Russell indexes with the provision of a minimum T+2 advanced notification at market value. If the sanctioned securities are suspended, they will be deleted from FTSE Russell indexes at a zero value.

- Where sanctions are imposed on existing index constituents restricting their ability to raise capital from US, UK or EU natural or legal persons, for example via the issuance of new shares, FTSE Russell will retain those index constituents within FTSE Russell indexes but suspend the implementation of capital raising corporate events. Upon the lifting of sanctions, FTSE Russell will recommence the implementation of corporate events.
- Where sanctions are imposed that prohibit investment by investors other than US, UK or EU natural or legal persons in particular countries, industries, named companies or companies linked to sanctioned individuals, FTSE Russell will consider the creation of custom indexes for clients affected by such sanctions. However, no companies will be deleted from standard FTSE Russell indexes as a result of such sanctions, and capital raising events for constituents in standard FTSE Russell indexes affected by such sanctions will continue to be applied.

Companies with sanctions imposed on them will only be considered for index inclusion in standard FTSE Russell indexes after a period of 12 months from the date of sanctions being removed. For the purposes of index eligibility they will be treated as a new issue.

Longer term responses to the imposition of sanctions, if appropriate, will be determined following consultation with the FTSE Russell independent external advisory committees.

2.4 Indexes including Depositary Receipts

Where an index includes Depositary Receipts (DRs) and trading of those DRs is suspended by the trading venue, FTSE Russell will apply the following policy. The DRs in the index will be held at their last traded price for a period of up to 20 local business days (as measured by normal trading days for the local market). During this period, FTSE Russell will consult with its external advisory committees as to the best course of action and the timing of any action.

If the consensus is that the trading venue is likely to recommence DR trading in the near future, the suspension period may be extended by a further 10 local business days. After expiry of this period, the situation will be revisited and the suspension period may be extended for a further period of 10 local business days.

If the original consensus is that the suspension of DRs is likely to be for an extended period, or if after the expiry of the second 10 local business days suspension period (**i.e. 40 local business days after the original announcement**) the trading venue has not provided a firm date at which trading of DRs is expected to recommence following consultation by FTSE Russell with its relevant external advisory committees and depending on the fungibility of the DRs, FTSE Russell may choose to remove the DRs from the index at the equivalent price of the underlying local shares.

In cases where the underlying local shares cease trading or capital repatriation of their sale proceeds becomes restricted, it may still be possible for the calculation of the index to continue, at least temporarily. FTSE Russell will consult its relevant external advisory committees and those clients with products based on such indexes to establish whether trading in the DRs is likely to remain viable. If the consensus is that such trading will not remain viable, FTSE Russell will look to delete the DRs from the index while adequate liquidity remains to facilitate investor exit. The future composition of such indexes will be determined following consultation with FTSE Russell's external advisory committees and the affected parties.

2.5 FTSE MTS Indexes

In the event of extreme market conditions arising such as described in Sections 2.1 to 2.4 above that disrupt or interrupt the calculation of the FTSE MTS Indexes calculated in real-time, the procedures set out in the relevant Ground Rules will take effect:

Market Disruption. If the value of one or more constituents is not published due to a suspension or a market disruption event, the index will be calculated taking the latest intra-day value, if available. If an intra-day value is unavailable the previous end of day value will be used.

Interruption of Live Pricing from MTS Platform. The FTSE MTS Indexes are calculated based on executable bids and offers sourced from the MTS inter-dealer platform. The MTS platform is not controlled by FTSE Russell and should the platform be unable to disseminate live prices for any reason, the FTSE MTS Indexes will not be updated during that period. Index users who choose to follow the FTSE MTS Indexes should be aware of this possibility and make suitable contingency arrangements.

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FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

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