

FAQ

Minimum Voting Rights Hurdle

v1.3

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Introduction

Introduction

FTSE Russell solicited feedback from index users and other stakeholders in June 2017 on whether FTSE Russell indexes should include a minimum hurdle rate for the percentage of a company's voting rights in the hands of non-restricted shareholders.

FTSE Russell reviewed the responses to the consultation and subsequently discussed these with FTSE Russell's external advisory committees. As a result of those discussions FTSE Russell determined that a 5% minimum voting rights hurdle should be implemented in standard FTSE Russell indexes for potential new constituents with effect from the September 2017 reviews. A five year grandfathering period will be afforded to existing constituents.

This document is intended to facilitate the understanding of how this methodology update will be implemented and managed, and to address commonly asked questions.

For further details please refer to [FTSE Russell Voting Rights Consultation – Next Steps](#).



FAQ

1.0 What is the minimum voting rights hurdle?

In order to be considered for index inclusion, 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 (free-float) shareholders as defined by FTSE Russell.

Please note: For details of FTSE's country classification please see http://www.ftse.com/products/downloads/Matrix-of-Markets_latest.pdf

Companies assigned an emerging market nationality are not subject to this requirement.

2.0 Which FTSE Russell Indexes will apply a minimum voting rights hurdle?

The hurdle will apply to all standard FTSE Russell indexes* (where referenced in the Ground Rules), including: the Russell US Indexes, FTSE Global Equity Index Series (FTSE GEIS), and all derived indexes; all non-capitalisation weighted indexes including the FTSE and Russell RAFI Index Series, and all factor indexes.

*The FTSE TMI will continue to include companies regardless of their voting rights structure to maintain its comprehensive representation of the US equity market.

3.0 When will this be effective?

For non-constituents* the rule became effective from the October 2017 index reviews.

Existing constituents with a developed market nationality will have a five year grandfathering period to comply and the rule will therefore apply from 2022.

*Please see question 12.0.

Please note that the FTSE GEIS micro cap index will exclude non constituent companies that fail the voting rights hurdle from the launch date of the micro cap extension in June 2018.

4.0 How does FTSE Russell determine what percentage of a company's voting rights is in public hands?

For the purposes of this analysis, 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:

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

5.0 Will the hurdle percentage rate be subject to a regular review?

The 5% rate at which the hurdle is currently set, along with its definition, will be reviewed on an annual basis, with any change to the requirement being announced in March.

If, following an annual review, FTSE Russell should determine that a more restrictive threshold would be more appropriate, the grandfathering period for existing constituents will be extended by a further year.

6.0 Will FTSE Russell publish a list of existing constituents impacted by this new rule?

An indicative list has been published on the FTSE Russell website. The list also includes non index constituents that have been identified as failing the minimum voting rights hurdle at the latest index review.

The list will be reviewed quarterly to include any non constituents that have been identified as failing the minimum voting rights requirement and have consequently been omitted from inclusion (omitted either at the review or due to intra-quarter corporate action activity detailed in Q10). The list will be reviewed annually to incorporate changes to existing constituents.

[Indicative List of Affected Securities](#)

7.0 If an existing constituent (which currently meets the minimum voting rights requirement) then subsequently fails, when will it be deleted?

Where an existing constituent subsequently fails the minimum voting rights hurdle after the September 2017 review (i.e. after the introduction of the new rule), the company will have until 2022 to comply.

8.0 If an existing constituent which has failed the voting rights requirement is deleted from the FTSE Russell indexes during the grandfathering period, will it be treated as a non-constituent for future re-inclusion purposes?

Yes. A deleted company will lose its grandfathering status and will need to satisfy the voting rights requirement before being considered for re-inclusion.

9.0 If as part of the annual Country Classification review a market is promoted from Emerging market status to Developed market status, how will existing constituents be treated?

Constituents with an Emerging market status are not subject to the minimum voting rights hurdle. However in the event that an Emerging market is promoted to Developed market status, existing constituents failing the hurdle will no longer be eligible for index inclusion.

10.0 What is the treatment for new securities resulting from spin-offs, reorganizations or mergers?

Companies resulting from merger, spin-off or reorganization transactions will generally not be reviewed for voting rights implications at the time of the event. The resultant companies will generally be grandfathered until 2022. However, in the event that the prospectus/ circular/ scheme document explicitly states that the deal terms are structured to actively alter the voting structure of the resultant company, whereby a specific holder (or holders acting in concert) hold 95% or more of the voting rights, FTSE Russell will generally deem the company immediately ineligible and decide not to add or continue to include the company in the index*. In circumstances where information is unclear it may be necessary for FTSE Russell to defer determining eligibility until a subsequent index review.

*Companies may be temporarily added if it facilitates the replication of the index. Advance notice will be provided if a temporary addition is necessary. Spin-off companies will be removed from the index with notice, once the company commences regular way trading.

11.0 IPOs that are evaluated using the “Fast Entrant” criteria within the FTSE indexes do not include shares being offered in an over-allotment option (greenshoe) for the purposes of fast entry evaluation. How does this impact the voting rights hurdle calculation?

Over-allotment shares will not be factored into the voting rights' calculation at the time of fast entry evaluation. Once (if) the over-allotment option is exercised, they will be accounted for when the company is next tested for eligibility.

12.0 How will FTSE Russell view companies that are non constituents of FTSE GEIS and the Russell US Indexes, but are constituents of other FTSE Russell indexes?

Non constituents of FTSE GEIS, Russell Global Index (RGI) or Russell 3000E™ Index (R3000E)

Companies that do not satisfy the voting rights requirement will **not** be added to indexes within the FTSE GEIS, RGI, or R3000E index families regardless of being constituents of other FTSE Russell index families by virtue of the grandfathering provision.

Grandfathered constituents of FTSE GEIS, RGI or R3000E

Where the universe for an index family is derived from a parent index such as FTSE GEIS, RGI or the R3000E, then a constituent of the parent index currently failing the voting rights requirement will be eligible for inclusion in that other index family. For example, a company that does not satisfy the voting rights requirement but is a grandfathered constituent of FTSE GEIS **will be** considered for inclusion to the FTSE All World High Dividend Yield Index, subject to it passing all other inclusion criteria for that index.

Companies that are existing constituents of FTSE GEIS, RGI, or R3000E, will continue to be allocated to the appropriate size segments regardless of failing the test during the grandfathering period; e.g. a FTSE GEIS small cap constituent can be promoted to mid cap regardless of failing the voting rights hurdle; a FTSE GEIS small cap constituent can be demoted to FTSE GEIS micro cap regardless of failing the voting rights hurdle; and a Russell Microcap® Index constituent may be added to the Russell 2000® Index regardless of failing the voting rights hurdle.



Further Information

If you have any questions and would like to speak to a client services individual directly, please do not hesitate to contact us on the numbers below, or via email at info@ftserussell.com.

Hong Kong +852 2164 3333
London +44 (0) 20 7866 1810
Milan +39 02 3604 6953
New York +1 888 747 FTSE (3873)
Sydney +61 (2) 9293 2864
Tokyo +81 (3) 3581 2811

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