FAQ

FTSE Russell Indexes - Quarterly and Intra-Quarter Free Float and Share Updates FAQ

v2.5

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Contents

Introduction

1.0 Introduction

This document is intended to facilitate the understanding of how share and float changes are implemented and managed, and to address commonly asked questions.

FAQ

2.0 How does FTSE Russell maintain shares and free float?

2.1 Quarterly Updates

On a quarterly cycle (in September, December, and March), shares and free float* will be updated to reflect the following:

- Cumulative share changes greater than 1%
- For constituents with a free float greater than 15%, cumulative free float changes greater than 3 percentage points.
- For constituents with a free float of 15% or less, cumulative free float changes greater than 1 percentage point.

The September, December and March updates will be triggered by changes reported by vendors and confirmed appropriately.

In June of every year the shares and free float updates will be implemented regardless of size (i.e. the buffers detailed above will not be applied). The June updates will be implemented using data sourced primarily from, but not limited to, company websites, filings and announcements, stock exchange data including announcements via regulatory new services and third party data providers , where possible (similar to the historical Russell reconstitution process).

***Please note:**

(a) Free Float will be rounded to 12 decimal places.

(b) Free float changes resulting from corporate event activity will not be subject to the buffers as detailed above. Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes.

2.2 Intra-Quarter Updates

Only share and free float changes resulting from primary offerings of new shares OR secondary offerings of existing shares will be implemented where it results in:

- A USD 1bn investable market cap change measured by multiplying the change to index shares by the subscription price
  OR
- A 5% change in index shares AND a USD 250m investable market cap change measured by multiplying the change to index shares by the subscription price

Norwegian Listed Constituents – Equity Offerings with Subsequent Repair Offerings

The equal treatment obligations for companies listed on the Oslo Bors require Norwegian companies to treat the holders of listed securities equally, unless differential treatment can be justified. To comply with the principle of equal treatment, it is fairly common for Norwegian companies to carry out a subsequent repair offering to all existing shareholders that were not invited to participate in an initial equity offering. FTSE Russell will implement repair offerings at the close of the subscription period, regardless of size, where the initial equity offering was implemented as a result of breaching the intra-quarter update thresholds, with the additional shares added at the index close price. If FTSE Russell discovers the repair offering after the close of the subscription period, the shares will be reviewed for inclusion at the following quarterly review.

UK and Australian Listed Constituents

Due to local regulatory requirements, UK listed companies that wish to buy more than 15% of their own shares are required to so via a ***tender offer buy back*** **offered to all shareholders** at a price typically at a premium to the market price. Additionally, Australian listed companies may, on occasion, offer all shareholders an equal opportunity to participate in a tender offer buy back. Under these circumstances, FTSE Russell will implement the change upon receipt of the tender offer buy back results subject to the above intra-quarter update thresholds being met. Other types of buy backs (e.g. At Market) will not be implemented at the time of the event.

Please note:

(a) Index shares is defined as the number of shares outstanding x free float.

(b) The share and free float change triggers are calculated from an international investor stance. In the event that an index constituent is represented both in a global and domestic index (e.g. FTSE UK Index Series and FTSE Global Equity Index Series), the update will only be implemented if the parameters are breached at global level. Such a situation may arise where a constituent is subject to a foreign ownership restriction in the global index. See example 4 below.

(c) For primary offerings and UK/AU tender offer buy backs: there will be no change to the free float with any potential updates being deferred to the next quarterly review. For example, in the event an existing restricted shareholder is diluted as a consequence of the primary offering, any change to free float will be made at the next quarterly update subject to a review of the shareholder structure at that time.

(d) For secondary offerings: if the shares being offered were previously restricted, entirely or partially, the free float will be adjusted accordingly; otherwise there will be no change to the free float with any potential updates being deferred to the next quarterly review. Unless it is explicitly stated otherwise, shares offered in a secondary offering will be presumed to become fully unrestricted. Where all the previously restricted shares are solely being offered to another restricted holder then there will be no change to free float.

(e) Secondary offerings are defined as share offerings of existing shares made directly by the company; by the company on behalf of selling shareholders; or offerings by shareholders themselves if the appropriate filings have been submitted.

(f) Share and free float changes resulting from activity such as private placements, exercise of warrants and expiry of lock-ups, will be deferred to the next quarterly review.

Share conversions (e.g. class C converting into ordinary shares) will be implemented as follows:

1) The impact of a voluntary partial share conversion will be reviewed and any changes will be implemented during the quarterly index review.
2) A share class being automatically converted into another share class will be implemented on the effective date (i.e. retired share class is deleted and remaining share class is up-weighted accordingly).
3) If a share class which is not a current index constituent effects a voluntary or mandatory share conversion, the impact will be reviewed during the quarterly index review.

Example illustrations of intra-quarter methodology:

Example 1: Primary Offering of 25m shares (no free float change)

Company A
Total Shares in Index = 500m
Subscription Price = USD 25*
Free Float = 80%
***When the subscription price is announced in non US currency, it will converted into USD using the WM/Reuters 4pm spot rate from the day prior to the pricing date for the purposes of this calculation.**

Test 1
25m x 80% x USD 25 = USD 500

Fails investable market capitalisation of => USD1bn, therefore move to test 2

Test 2
Index shares before = 500m x 80% = 400m
Index shares after = 525m x 80% = 420m

Difference = 20m/400m = **5%**
20m x USD 25 = **USD 500m**
Change in index shares passes both the =>5% threshold and => USD250m investable market capitalisation threshold

Result: Apply intra-quarter share update with T+2 notice and review free float at the next quarterly review.

Example 2: Secondary Offering of 400m shares that were previously restricted (free float change)

Company C
Total Shares in Index = 800m
Subscription Price = USD 3
Existing Free Float = 50%
New Free Float = 100%

Test 1
400m x USD 3 = USD 1.2bn Passes investable market capitalisation of => USD1bn and so no need to conduct test 2

Result: Apply intra-quarter free float update with T+2 notice and review free float at the next quarterly review.

Example 3: Primary Offering of 130m shares where the company is subject to a foreign ownership restriction in global indexes.

Company D
Total Shares in Index = 3bn
Subscription Price = USD 10
Free Float = **80% (Domestic Index)**
Free Float = **49.99% (Global Index)**

Test 1 – Domestic Index
130m x 80% x USD 10 = **USD 1.4bn**
Passes investable market capitalisation of => USD1bn **at Domestic Level**

Test 1 – Global Index
130m x 49.99% x USD 10 = USD 650m

Fails investable market capitalisation of => USD1bn **at Global Level**

Test 2 – Global Index
Index shares before = 3bn x 49.99% = 1.5bn
Index shares after = 3.13bnm x 49.99% = 1.565bn

Difference = 65m/1.5bn= **4.33%**
65m x USD 10 = **USD 650m**
Change in index shares **fails** the =>5% threshold **and** => USD 250m investable market capitalisation threshold

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Result: No intra-quarter share update as triggers not breached at global level

3.0 When will intra-quarter updates as a result of primary and secondary offerings be implemented?

When FTSE Russell receives notification of a primary or secondary offering that triggers an update (confirmed via an appropriate publicly disclosed announcement or filing), the change will be implemented after the close on the day that the subscription period closes, with the proviso that two days' notice can be provided. If a two day notice period is not available prior to the end of the subscription period, the change will still proceed with two days' notice and will be implemented at the earliest opportunity. For example: Subscription close is Monday 4 April and discovery of the event is Friday 1 April. Therefore, implementation will occur with two days' notice, effective on Wednesday 6 April (i.e. after the close of business Tuesday 5 April).

Please note: In the absence of a disclosed subscription period, the pricing date will serve as the trigger for implementation; i.e. once FTSE Russell is aware that an offering has priced (with a stated price being confirmed via an appropriate publicly disclosed announcement or filing*), the update will be implemented with two days' notice from market close (contingent on the thresholds described in 2.2 being triggered).

*If the number of shares being offered is announced along with the expected proceeds, which enables FTSE Russell to calculate an offering price, this will be considered an acceptable confirmation.

4.0 What if discovery of a primary or secondary offering occurs after the offering subscription period has closed?

If discovery occurs within two business days after the close of the subscription period, the change will be implemented with two days' notice. If discovery occurs more than two days after the subscription period closes, the change will be deferred until the next quarterly review.

For example: Subscription close is Monday 4 April and discovery of the event is Wednesday 6 April. Therefore, implementation will occur with two days' notice, effective on Monday 11 April (i.e. close of business Friday 8 April). However, if discovery occurred after Wednesday 6 April, the update will be deferred until the next quarterly review.

Within the FTSE Russell US Indexes, if discovery of the pricing date occurs more than two days after the pricing date, the update will be deferred until the next quarterly review.

5.0 When will intra-quarter updates as a result of UK/AU tender offer buy backs be implemented?

Where FTSE Russell receives notification of a UK/AU tender offer buy back, the change will be implemented at the conclusion of the offer period; once the offer results have been confirmed; the tendered shares have been irrevocably accepted for payment, and FTSE Russell has confirmed that the thresholds for implementation have been triggered (with the provision of a minimum two days' notice).

6.0 What price is used to calculate whether the intra-quarter thresholds have been triggered?

Primary and secondary offerings: the subscription price (converted, if necessary, using the WM/Reuters 4pm spot rates from the day prior to the pricing date) will be used to calculate whether the thresholds for implementation have been met.

If a price range is provided then the higher price within the range will be used to calculate impact to establish whether the offer should be implemented to the index.

UK/AU tender offer buy backs: the offer price will be used (converted using the WM/Reuters 4pm spot rates from the day prior to public disclosure of the offer results).

7.0 What price is used to implement the intra-quarter changes?

The market price will be used as above, regardless of the subscription or UK/AU tender offer buy back price*.

*In the event that a company delists or halts as a result of a UK/AU tender offer buy back which necessitates a deletion from the FTSE Russell indexes, the company will be removed at the offer price in the absence of an active market.

8.0 Will the USD 250m/USD 1bn triggers be re-evaluated to address changes in market conditions?

Yes. FTSE Russell intends to re-evaluate the triggers on an annual basis (announcing any changes in March, to be effective in June) to ensure that the thresholds remain appropriate. FTSE Russell will continue to evaluate comments from market participants post implementation, to ensure that the index methodologies continue to evolve with changing market conditions and client requirements

9.0 Will out-of-date shares and/or free float be updated in conjunction with the intra-quarter updates?

No. Generally* only the shares being issued or bought back during the event will be considered within the intra-quarter updates. Any additional changes and corrections to shares and free float will be deferred until the next quarterly review.

*Please refer to questions13 –16 for treatment during the index review period.

10.0 Will secondary offerings be implemented if the shares being sold are already unrestricted by FTSE Russell?

No. FTSE Russell will not give any effect to the offering where the shares are already considered unrestricted by FTSE Russell. For the avoidance of doubt, in the event that FTSE Russell identifies that the holder of the shares being sold should have been classified as restricted under existing FTSE Russell free float methodology but is currently being treated as unrestricted in FTSE Russell indexes, there will be no change to free float.

11.0 Will FTSE Russell implement a Secondary Offering when it is unclear who is offering the shares for sale?

FTSE Russell will not implement the event if it can not be determined that the shares are being offered by an existing restricted shareholder.

12.0 Will the intra-quarter changes impact any non-capitalisation weighted indexes?

Intra-quarter changes in index shares resulting from primary and secondary offerings and UK/AU tender offer buy backs will be neutralised in accordance with the corporate actions and events guide for non capitalisation weighted indexes:

Corporate_Actions_and_Events_Guide_for_Non_Market_Cap_Weighted_Indices.pdf

13.0 Will FTSE Russell implement primary and secondary offerings and UK/AU tender offer buy backs during the review period, with two days' notice?

Once the review changes have been announced, primary and secondary offerings and UK/AU tender offer buy backs will continue to be implemented with the standard notice (T+2) to minimise tracking error for participants and to ensure index trackers can take advantage of attractive offer terms and increased liquidity at the time of the event. However, during the week preceding the review, UK/AU tender offer buy backs and equity offerings which would ordinarily become effective at the open on the Tuesday – Friday prior to the review (if following standard T+2 implementation) will instead become effective in conjunction with the review (to minimise tradable updates during the week leading up to the review implementation).

For Example:

- Discovery of the event is Thursday 12 September 2019. Implementation with two days' notice, would ordinarily result in an effective date of Tuesday 17 September 2019 (i.e. implemented at close of business Monday 16 September / open Tuesday 17 September 2019). Since the implementation date would fall during the week preceding the review, the event is instead implemented in conjunction with the review (i.e. implemented close of business Friday 20 September / open Monday 23 September 2019).

- Discovery of the event is Wednesday 11 September 2019. Implementation with two days' notice results in an effective date of Monday 16 September 2019 (i.e. implemented at close of business Friday 13 September / open Monday 16 September 2019). Since any trade associated with the event would theoretically occur on Friday 13 September 2019, the event will continue to be implemented as standard (i.e. implemented close of business Friday 13 September / open Monday 16 September 2019).

Offerings occurring or UK/AU tender offer buy backs confirmed on Thursday and Friday will be implemented with two days' notice (therefore, subsequent to the review).

This same principle will apply during the Russell annual reconstitution, in addition to the quarterly review.

14.0 A primary or secondary offering is discovered (or a UK/AU tender offer buy back is confirmed) after the review has been announced but prior to the week preceding the review implementation date. What is FTSE Russell's treatment where implementing the offer in its entirety (T+2), will result in a flip-flop at the review due to the scheduled review changes?

The offering or UK/AU tender offer buy back will be implemented incorporating any pending share and float review changes to avoid unnecessary flip-flop turnover*. See illustrative examples below:

Offering or UK/AU tender offer buy back discovered after the review announcement but prior to the week of the review	Current Index Shares	Scheduled Review Update – Index Shares	Offering or buy back Shares (free float adjusted)	Offering or buy back Change (T+2)	Index Review Change
Example 1	500	535	200	700	735
Example 2	500	400	200	600	600 (no change)
Example 3	500	600	-250	350	350 (no change)
Example 4	500	400	75	500 (no change)	475

Example 1: Increase to 700 index shares resulting from the offering, applied T+2, with a further increase to 735 index shares implemented at the index review (no flip flopping therefore implemented as scheduled).

Example 2: Increase to 700 index shares resulting from the offering followed by a decrease to 600 index shares scheduled for the index review once the offering has been incorporated. In order to avoid flip flopping, the review update is brought forward and a net increase to 600 index shares is implemented T+2.

Example 3: Decrease of 250 index shares resulting from a UK/AU tender offer buy back followed by an increase to 350 index shares scheduled for the index review once the UK/AU tender offer buy back has been incorporated. In order to avoid flip flopping, the review update is brought forward and a net decrease to 350 index shares is implemented T+2.

Example 4: Decrease of index shares scheduled at the review from 500 to 400. When incorporating the equity offer, the review index shares remain less than the current index shares. Therefore, no action at the time of the offering and the index review shares will be adjusted to incorporate the offering.

*Note: when an offering or UK/AU tender offer buy back breaches the intra-quarter thresholds, it will be implemented regardless of size when netting off against the review change.

15.0 What is FTSE Russell's treatment if the index shares of a company are scheduled to be decreased or increased at the index review, but there is an offering announced or UK/AU tender offer buy back confirmed on the Monday, Tuesday, or Wednesday preceding the review, which would trigger flip flop turnover?

The review position will be updated to include the offering or UK/AU tender offer buy back and communicated appropriately; i.e. the offering or UK/AU tender offer buy back would not be implemented in its entirety since the index impact will be netted off against the scheduled review changes (illustrated in Q14).

16.0 What is FTSE Russell's treatment if the index shares of a company are scheduled to be decreased or increased at the index review, but an offering announced or a UK/AU tender offer buy back confirmed on the Thursday or Friday preceding the review would induce flip flop turnover subsequent to the review implementation?

The events will be implemented in isolation and the review changes will proceed as previously communicated with the offering or tender offer buy back implemented subsequent to the review.

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.

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