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# Reclassification of Saudi Arabia to Secondary Emerging Market Status

Implementation Plan

Commencing March 2019  
v2.6

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## FAQ

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

Saudi Arabia is projected to have an index weight within FTSE Global Equity Index Series (GEIS) of 0.31% and 2.86% within the FTSE Emerging All Cap Index (see Q16). Due to this projected size in the Emerging index, FTSE Russell proposes to implement the inclusion of Saudi Arabia in several tranches to ensure mechanisms are operating as expected, thereby minimizing price pressure on new constituents and to spread outflows from those markets being sold down.

The transition of Saudi Arabia to Secondary Emerging market status within FTSE GEIS will commence in conjunction with the March 2019 semi-annual review and be completed by March 2020. The initial 25% tranche will be 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, September and March 2020.

Country classification changes scheduled to be conducted in conjunction with the December 2019 quarterly review will now take place in March 2020 to align the implementation schedules for Saudi Arabia and the reclassification of China A to Secondary Emerging market status. This will reduce index turnover and avoid potential low liquidity levels in global equity and currency markets around the December holiday period.

|                               | Tranche One | Tranche Two | Tranche Three | Tranche Four   | Tranche Five |
|-------------------------------|-------------|-------------|---------------|----------------|--------------|
| Review Schedule               | March 2019  | *April 2019 | June 2019     | September 2019 | March 2020   |
| Saudi Arabia Inclusion Factor | 10%         | 15%         | 25%           | 25%            | 25%          |
| Total                         | 10%         | 25%         | 50%           | 75%            | 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             |
|-------------------------------|--------------------------|-------------------------|-------------------------|------------------------------|--------------------------|
| Review Schedule               | March 2019               | April 2019              | June 2019               | September 2019               | March 2020               |
| Implementation Effective Date | Open Monday, 18 March    | Open Wednesday, 01 May  | Open Monday, 24 June    | Open Monday, 23 September    | Open Monday, 23 March    |
| Implementation Closing Price  | Close Thursday, 14 March | Close Tuesday, 30 April | Close Thursday, 20 June | Close Thursday, 19 September | Close Thursday, 19 March |
| Inclusion Factor              | 10%                      | 15%                     | 25%                     | 25%                          | 25%                      |
| Company A Quarterly Inclusion | 4.9%                     | 7.35%                   | 12.25%                  | 12.25%                       | 12.25%                   |
| Total Float                   | 4.9%                     | 12.25%                  | 24.5%                   | 36.75%                       | 49%                      |

## 3.0 Why is 10% being added in March and 15% in April 2019?

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

## 4.0 How will 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 will be used as the transition index for implementing the inclusion of Saudi Arabia into FTSE GEIS.

Therefore, Saudi Arabia securities which are constituents of the inclusion index at the March 2019 cut-off date (Monday, 31 December 2018) will be screened as index constituents for the purposes of both the liquidity and size eligibility screens. All other securities will be 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, March 2019 semi-annual review be published?**

The FTSE GEIS Middle East & Africa March 2019 semi-annual review changes were published to subscribing clients after the MEA regional markets closed on 15 February 2019.

## **7.0 What is the cut-off date for selecting the eligible universe for the March 2019 semi-annual review?**

Monday, 31 December 2018 is the cut-off date for selecting the eligible universe for the FTSE GEIS March 2019 semi-annual review.

## **8.0 What inclusion/exclusion percentage levels by investable market capitalization will be used for the March 2019 semi-annual 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 September 2019 and March 2020 will be based on the investability weight of Saudi Arabia at the September 2019 and March 2020 cut-off dates.

## **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. Question 12 provides an example of how a Fast Entry addition will be treated,

## 13.0 Saudi Aramco IPO – how will it be treated?

FTSE methodology states that initial public offerings (IPOs) which meet fast entry thresholds are added to FTSE GEIS after the close of business on the fifth day of trading.

Although the details regarding the proposed IPO of Aramco have yet to be confirmed, consensus valuations range from US\$ 1-2trn. Assuming a mid-range value of US\$ 1.5trn and an initial public float of 5%, this results in an investable market capitalisation of US\$ 75bn which would be equivalent to an approximate projected index weight of 1.35% within the FTSE Emerging All Cap (with Saudi Arabia already transitioned into FTSE GEIS).

Therefore, due to the potential size of the offering and to assist passive index trackers in their ability to replicate the underlying benchmark change, there are three proposed scenarios regarding the timing and inclusion of the Aramco IPO:

- If the IPO of Aramco takes place **prior** to the commencement of Saudi Arabia's implementation into FTSE GEIS (March 2019), Aramco would be included as part of the Saudi Arabia implementation.
- If the IPO of Aramco takes place **during** the transition process, i.e. between March and March 2020, the proportion of Saudi Aramco to be included at IPO would be equal to the percentage of Saudi Arabia that had been transitioned as of the IPO date. The remainder would be added in conjunction with the remaining transition of Saudi Arabia.
- If the IPO of Aramco takes place **after** the transition of Saudi Arabia has been completed (after March 2020), Aramco would be treated as a standard IPO.

FTSE Russell will provide additional details as and when the IPO of Saudi Aramco has been announced to the market.

## 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 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 five tranches (i.e. as of March 2020) and post the reclassification of China A Shares (based on closing prices as of 21 June 2019 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%                               | 3.19%                                | 0.37%                           | 3.34%                        |

\*Projected weight in FTSE Global All Cap based on 79 eligible securities as of Monday, 24 June 2019 (Tranche 3)

\*\*Projected weight in FTSE All World based on 43 eligible securities as of Monday, 24 June 2019 (Tranche 3)

## 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, is scheduled to be 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 will proceed as detailed above, with Monday, 23 September 2019 being a national holiday in Saudi Arabia.

#### **March 2020 semi-annual review (Tranche 5)**

The fifth and final tranche of the reclassification of Saudi Arabia to Secondary Emerging, representing 25% of the securities investability weight, is scheduled to be 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.

### **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 (notification). The inclusion factor at which Saudi Arabia will be added to the 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% being added in March 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 at the next scheduled derived index review.

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### EMEA

+44 (0) 20 7866 1810

### North America

+1 877 503 6437

### Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 3581 2764

Sydney +61 (0) 2 8823 3521