

## Russell US Equity Indexes: Construction and Methodology Update

03 May 2018

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FTSE Russell would like to inform clients of the following updates to the Russell US Equity Indexes Construction and Methodology document which are effective immediately:

Going forward, companies listing via a variable or best effort IPO will only be considered for inclusion once the number of shares sold during the IPO have been confirmed via a company press release or an SEC filing. Section 4 of the methodology has been updated accordingly, as follows:

### Section 4: Basic Methodology

#### 4.3 Quarterly initial public offerings

4.3.1 Eligible initial public offerings (IPOs) are added to Russell indexes quarterly in accordance with the schedule in Section 6. FTSE Russell adds IPOs each quarter to ensure that new additions to the institutional investing opportunity set are reflected in representative indexes. FTSE Russell focuses on IPOs each quarter because it is important to reflect market additions between reconstitution periods. Companies filing an initial public offering registration statement (or the local equivalent when outside the U.S.) and listing within the same quarter\* on an eligible US exchange are reviewed for eligibility regardless of previous trading activity (exceptional or unique events may induce extraordinary treatment which will be communicated appropriately). Companies currently trading on foreign exchanges or OTC markets will be reviewed for eligibility if:

- The company files an Initial Public Offering statement for an eligible US exchange
- The offering is announced to the market and confirmed by our vendors as an IPO
- The security is not currently a member of the Russell Global Index (eligibility and country assignment will be reviewed at reconstitution).

**To ensure that the requisite number of shares are available to satisfy the inclusion criteria and to ensure an accurate company weighting within the index calculation, FTSE Russell will distinguish between fully guaranteed IPOs and variable/best effort IPOs as follows:**

- **Fully guaranteed IPOs will be processed assuming all publicly offered shares are made available at the time of the offer (subject to all other inclusion criteria).**
- **Variable or best effort IPOs will require a company press release or company filing confirming the actual number of shares sold on or prior to the rank date. If the number of shares sold during the IPO remains unknown on the rank date, the evaluation of the company will be deferred to the subsequent quarterly index review.**

\* a one month window will be used to ensure that companies submitting the requisite filings just

outside of the quarter are not excluded from eligibility.

FTSE Russell would like to confirm that when evaluating nationality of potential or existing constituents, only standard listings on recognized exchanges and platforms are considered when cross-checking against Country of Incorporation and Headquarters (e.g. off-book trade is not recognized). Please note that this is consistent with historical precedence and the update is a point of clarification only. Section 5 of the methodology has been updated accordingly, as follows:

## Section 5: Defining Eligible Securities

### 5.3 Home-country indicators (HCIs)

5.3.1 If a company incorporates in, has a stated headquarters location in, and also trades **on a standard exchange** in the same country (ADRs and ADSs are not eligible), the company is assigned to its country of incorporation. If any of the three criteria do not match, Russell then defines three home country indicators (HCIs). The HCIs are as follows:

1. Country of incorporation
2. Country of headquarters
3. Country of the most liquid exchange as defined by two-year average daily dollar trading volume (ADDTV) from all exchanges within a country

Please also note that the Free Float Restrictions guidelines have been updated to clarify that venture capital and private equity firms holding greater than 10% are restricted regardless of the firm being “founding” or not. Section 2 of the Free Float Restriction guidelines have been updated as follows:

### 2.0 Free float restrictions where holding is 10% or greater:

- Shares that are held by Sovereign Wealth Funds-
- **Shares held by founders, promoters, former directors, venture capital and private equity firms, private companies, individuals (including employees) and shares held by several holders acting in concert.**

An updated copy of the Russell US Equity Indexes Construction and Methodology document (Version 3.3) and the Free Float Restrictions guidelines are now available from the FTSE Russell website:

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