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FTSE Global Equity Index Series – Guide to Calculation Method for Median Liquidity Test – Update

29 February 2024

FTSE Russell would like to inform clients of the following updates to the FTSE Global Equity Index Series Guide to Calculation Method for Median Liquidity Test which is effective immediately:

Section 2: Liquidity screening process

Update in bold

- I If a company fails the liquidity test based on its underlying shares and the company has an equivalent depositary receipt (DR), then the DR may be considered for inclusion in the index if it passes the liquidity test and is traded on an exchange within a similar regional time zone as the underlying shares.

Where the DR (a non-China N share) has been included, it will remain in the index until such time it either fails the liquidity test or the underlying shares pass the liquidity test for two future consecutive reviews.

Where a China N share has been included, it will remain in the index until such a time it either fails the liquidity test or the underlying shares (**P Chip or Red Chip**) pass the liquidity test for one future review.

Where a China local listing (P Chip or Red Chip) has been included in an index, and the local listing index constituent fails the liquidity requirement, but the company also trades via an N Share, the N share listing will be considered for inclusion in the index if it passes the liquidity test in its own right.

For the avoidance of doubt, where a company only has DRs listed, the DR (non-China N share) will not be eligible for index inclusion.

Section 3: Liquidity thresholds

Addition of new rule 3.4 – Nationality Assignment

Sole listing

For new issues or newly eligible securities that have a sole listing, no liquidity test is required for the purposes of nationality assignment.

Multiple eligible listings

- a. For new issues or newly eligible securities with multiple eligible exchange listings (as classified in the FTSE Global Equity Index Series), a liquidity test is required to determine country of greatest liquidity (in accordance with the Determining Nationality rules).
- b. A security must demonstrate that it would pass the FTSE Global Equity Index Series liquidity test (on a pro-rata basis) using eligible exchange trading volume relating to the country of nationality being reviewed.
- c. To determine country of greatest liquidity, the securities will be tested from the date of eligibility up to the business day proceeding the nationality screen cut-off date (see FTSE Global Equity Index series review schedule FAQ document for cut-off dates).
- d. For the avoidance of doubt, country of greatest liquidity is determined by comparing each of the monthly median liquidity test % results (as detailed in Section 4.2), country A vs country B, for a 12-month testing period. For illustration purposes only, if the testing period is January to December, the test looks at how many of those months country A had a greater monthly median liquidity test % result when compared against that of country B. Nationality will be assigned to the country which exhibits the greatest liquidity test % result in the most number of months.
- e. For the avoidance of doubt, where a security has multiple eligible exchange listings and one or more listings has less than 12 months of available trading record, the liquidity test will use the maximum volume

data available for each individual listing.

For illustration purposes: company A sole listed on eligible market X in 2019 and then subsequently adopted an additional eligible market Y listing in November 2021. For the March 2022 liquidity test, the full available 12-month volume data for market X will be used while for market Y, volume data since November 2021 will be used in the calculation.

f. In accordance with rule 1.7 of the Determining Nationality guide, a nationality assignment will be reviewed in the event that the country with greatest liquidity of an existing constituent is different to that assigned for two consecutive years. The eligible exchanges of listing will be reviewed semi-annually in March and September using 12-month volume data up to the business day proceeding the nationality screen cut-off date.

For illustration purposes: Company X (assigned country A) passes the liquidity test in both country A and country B. When assessed in March 2023, country B now exhibits the greater liquidity (this is counted as year one). The company will remain assigned to country A subject to continuing to pass the liquidity tests in March 2023 and September 2023. However, if in March 2024 (year two) country B still exhibits the greater liquidity, the company will be reviewed for a nationality change.

g. In accordance with rule 1.9 of the Determining Nationality guide, a nationality assignment will be reviewed should a company make a change to its circumstances (such as a change in incorporation or adoption of an additional eligible listing). The evolution of liquidity may be reviewed for a minimum period of three months up to a maximum period of up to 12 months. The country of greatest liquidity will be assessed as per (d) and (e) above. At the conclusion of this review, the nationality of the company will either be retained or changed. For the avoidance of doubt, once nationality has been confirmed, liquidity would then need to be greatest in another location for two consecutive years to trigger a switch in nationality (or until current location fails the liquidity test) in accordance with rule 1.7 of the Determining Nationality guide.

Please refer to the Determining Nationality guide for further details on nationality assignments.

An updated copy of the FTSE Global Equity Index Series Guide to Calculation Methods for GEIS Liquidity (v2.6) is now available using the following link: [guide-to-calculation-methods-for-geis-liquidity.pdf](#)

Or on the FTSE Russell website: www.lseg.com/en/ftse-russell

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