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Guide to Calculation Method for UK Index Series Median Liquidity Test – Ground Rule Update

29 February 2024

FTSE Russell would like to inform clients of the following clarifications to the Guide to Calculation Method for the UK Index Series Median Liquidity. These updates are effective immediately.

Section2: Liquidity screening process (updates in bold)

2.1.3 Liquidity thresholds

- A - securities that do not turnover at least 0.0250% of their shares in issue (after the application of any investability weightings*) based on their monthly median for at least 10 of the 12 months prior to the annual index review will not be eligible for inclusion in the FTSE UK Index Series until the next annual review.
- B - an existing constituent that does not turnover at least 0.0150% of its shares in issue (after the application of any investability weightings*) based on its monthly median per month for at least eight of the 12 months prior to the annual index review will be removed and will not be eligible for inclusion in the FTSE UK Index Series until the next annual review.
- C - new issues or newly eligible securities that do not have a 12-month trading record must have a minimum 20-day trading record when reviewed. They must turnover at least 0.0250% of their shares in issue (after the application of any investability weightings*) based on their monthly median each month on a pro-rata basis since the premium listing or UK nationality assignment date if non-UK incorporated (refer to Appendix A and B).
This rule will not apply to new issues added under the fast entry rule except for demutualisations (see rule 6.5 of the FTSE UK Index Series).

1*When testing liquidity, the published free float weight on the final trading day of each month will be used for the calculation of the liquidity test for that month.
- D - a new issue that fails the liquidity test will not be eligible for inclusion in the FTSE UK Index Series until the next annual review.
- E - at the sole discretion of FTSE, the above percentage figures may be adjusted by up to 0.010% at a market review so that, in FTSE's opinion, the index better reflects the liquid investable market. This discretion may only be exercised across the FTSE All-Share Index and may not be applied to individual securities. If FTSE intends to exercise this discretion, it must make a public statement to that effect at least two weeks prior to the regular June review meeting. Any adjusted percentage parameters will be maintained until the next annual review.
- F - there is no liquidity requirement for constituents of the FTSE Fledgling Index. At a quarterly review, if a FTSE fledgling company is eligible for promotion to the FTSE All-Share index, the previous June annual liquidity result will be referenced. **Where the previous June annual liquidity is not available for the FTSE fledgling company, the liquidity will be assessed from date of eligibility.**

2.1.4 Nationality assignment

Sole UK premium listing

- For new issues or newly eligible securities that have a **sole** UK premium listing, no liquidity test is required for the purposes of nationality assignment.
- However, for the purposes of FTSE UK Index Series inclusion, new issues or newly eligible securities that do not have a 12-month trading record must have a minimum 20-day trading record when reviewed at the index review cut-off date.
- They must turn over at least 0.0250% of their shares in issue (after the application of any investability weightings*), based on their monthly median each month on a pro-rata basis since the first day of unconditional dealings of the premium listing.

Multiple eligible listings

- 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 (in accordance with the nationality rules of the FTSE UK Index Series).
 - To determine nationality assignment, the securities will be tested from the first day of unconditional dealings of the premium listing until the business day proceeding the nationality screen cut-off date (**see FTSE UK Index series review schedule FAQ document for cut-off dates**).
 - A security must demonstrate that it would pass the FTSE UK Index Series liquidity test (on a pro-rata basis) to be assigned UK nationality.
 - Once a UK nationality has been assigned, for the purposes of FTSE UK Index Series inclusion, liquidity will be tested up to the index review cut-off date.
- They must turn over at least 0.0250% of their shares in issue (after the application of any investability weightings*) based on their monthly median each month on a pro-rata basis since the first day of unconditional dealings of the premium listing (where UK incorporated) or since the date of UK nationality assignment (where non-UK incorporated).

*When testing liquidity, the published free float weight on the final trading day of each month will be used for the calculation of the liquidity test for that month.

- In accordance with rule 5.1.9 of the FTSE UK Index Series ground rules, 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 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. However, if in March 2024 (year two) country B still exhibits the greater liquidity, the company will be reviewed for a nationality change.
- 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 3.2 below), 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.
- 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.
- In accordance with rule 5.1.10 of the FTSE UK Index Series ground rules, 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 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 detailed 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 5.19 of the FTSE UK Index Series Ground Rules.

An updated copy of the Guide to Calculation Methods for UK Liquidity (v2.5) is now available using the following link:
[guide-to-calculation-methods-for-uk-liquidity.pdf](#)

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

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