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# FTSE Horizon FAQ

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Disclaimer

## 1. Who are FTSE and for how long has the company calculated indexes?

FTSE is a leading provider of index data for institutional investors worldwide with over \$3 trillion of assets benchmarked to FTSE indexes. Today FTSE is wholly owned by the London Stock Exchange Group, which is a listed company, after it acquired the 50% stake in FTSE International Limited from Pearson at the end of 2011.

The foundations of the company lie in a partnership of the Financial Times (FT) and London Stock Exchange (SE). The FT began calculating indexes in 1934 when it introduced the FT 30 and later, in 1962, introduced the FT-Actuaries All Share in association with the Institute and Faculty of Actuaries. The SE introduced its first index, the FTSE 100 in 1984 with help from the FT and the Actuaries. In late 1995, the FT and SE formed a stand alone joint venture company, FTSE International, to develop all of their index interests.

FTSE has evolved from its start-up with 9 employees to a global organisation with almost 400 employees in 14 offices around the world, supporting clients in 77 countries. FTSE now calculates thousands of unique indexes on a daily basis. With currency, price and total return variations, this figure exceeds one million.

Our success is reflected in the fact that the company has enjoyed double-digit annual revenue growth since inception.

## 2. How long has FTSE had a presence in the United States?

FTSE opened its first US office in New York in January 1999. Today we have offices on both the East and West Coast, employing more than 60 personnel, who are working with many of the largest asset owners, investment funds and other investment professionals in the USA.

Testaments to FTSE's established profile in the USA include calculating the FTSE NASDAQ index series (FTSE NASDAQ 500 etc.) and, amongst other things, collaborating with Research Affiliates LLC to create

the FTSE RAFI Global Index Series, which pioneered the development of alternatively weighted index design methodology in the global investment industry.

## 3. Who uses FTSE indexes?

Most of the world's largest institutional investors, and those that advise and serve them, choose FTSE:

- 98 of top 100 asset managers
- 10 of top 10 investment banks
- 5 of top 5 global custodians
- 100 of largest plan sponsors

We also collaborate with over 18 stock and derivative exchanges worldwide, calculating the primary domestic benchmark for a number of countries, including the UK, South Africa, Italy, Singapore, and Malaysia.

## 4. What type of indexes/assets does FTSE cover?

FTSE cap-weighted and alternatively weighted index products cover the full spectrum of assets, from equities, bonds, commodities and currency to specialised indexes for discrete industry sectors, such as real-estate and infrastructure, or specific investment focuses, such as Shariah. FTSE has also played a significant role in shaping and growing the responsible investment (RI) market since the launch of our FTSE4Good® Index Series in 2001.

## 5. What other services does FTSE provide?

FTSE has a specialist custom index team focused on providing precision index solutions across all the asset classes to a wide variety of clients, including buy side, sell side, custodians, asset owners, exchanges, investment consultants and exchange-traded fund providers.

FTSE also has a dedicated analytics function providing decision-support tools and broader research solutions that support the investment process and enable deeper analytical insight into the global markets and indexes offered by FTSE.

The following FAQs are based on FTSE's flagship global series - the FTSE Global Equity Index Series (GEIS). GEIS is the starting universe for the range of benchmark indexes selected by Horizon.

The answers provided here offer a broad overview of the Ground Rules governing GEIS and will also provide general insight into how FTSE approaches index management, country and industry classification across all its index families. For all the detail relating to GEIS, please refer to the full GEIS Ground Rules at [www.ftse.com/horizon](http://www.ftse.com/horizon).

## 6. What is the scope of GEIS?

The foundation for FTSE's global, regional, country and sector indexes is the FTSE Global Equity Index Series (GEIS). The series draws from a universe of over 7,400 securities in 47 different countries and captures 98% of the world's investable market capitalization.

It represents every equity and sector relevant to international investors' needs and has a modular structure to provide the maximum breadth of options for choosing benchmarks or structuring portfolios:

- The universe is divided into Developed, Advanced Emerging, Secondary Emerging and Frontier segments, with indexes calculated at regional, national and sector level. The FTSE Emerging Index is the aggregate of the Advanced and Secondary Emerging markets.
- Indexes are also calculated on a size level, from the all-encompassing FTSE Global All Cap Indexes (Large/Mid/Small Cap) and FTSE All-World (Large/Mid Cap) to single-size indexes (Large Cap, Mid Cap or Small Cap).

The FTSE Global Equity Universe is:

### Representative

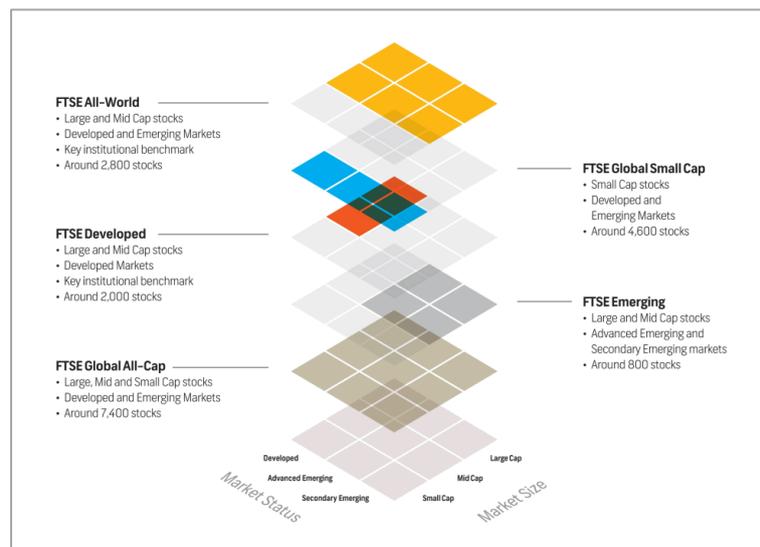
It accurately reflects the investment opportunity set.

### Comprehensive

It seeks exhaustive coverage of the investable universe.

### Investable

Free-float and liquidity screened.



## 7. How does FTSE manage GEIS?

FTSE manages GEIS through an independent committee – the FTSE Policy Group – whose membership is representative of users of FTSE indexes. The committee are responsible for determining major policy issues, maintaining the index ground rules, ensuring that a consistent approach is applied to the selection of constituents and the application of corporate events by the relevant Regional Committee.

There are three Regional Committees for GEIS, covering the Americas; Europe, Middle East and Africa; and Asia Pacific regions. These committees, which are made up of experienced market practitioners, are responsible for undertaking the regional reviews both annually and each quarter.

The GEIS ground rules that provide details of how the series is managed are freely available and published on [FTSE's website](http://www.ftse.com).

## 8. What security types are included in GEIS?

Most companies are eligible for GEIS and this includes companies whose business it is to hold equity and other investments. However, companies classified by the Industrial Classification Benchmark in Subsector Equity Investment Instruments (8985)

and Non-Equity Investment Instruments (8995) are not eligible for inclusion.

Eligible security types include shares and depositary receipts listed on a qualifying stock exchange or recognised market. Convertible preference share and loan stocks are excluded until converted.

## 9. How often are the indexes reviewed and when are review changes implemented?

Countries are usually reviewed annually on a region-by-region basis by the relevant Regional Committee. The regions together with the typical annual review schedule\* are as follows:

Region	Date
Asia Pacific ex Japan	March
Latin America	June
Emerging Europe	June
Middle East & Africa	June
Developed Europe	September
Japan	September
North America	December

\*Note: during end 2012 and the first half of 2013, the review schedule has changed in order to facilitate the introduction of actual free float across GEIS (see question 10 for more information).

### An overview of the review process

#### Annual Review

At each annual review, the regional universe of eligible companies is established based on data as at the quarter end preceding the review quarter (e.g. for a review in June, the data used will be as at closing on the last business day in March). The companies are valued and ranked by full market capitalization (price \* shares in issue) and their relevant weights calculated. This creates the regional universe. The top 98% of the regional universe is then selected and becomes the index universe. Investability weights are then assigned to all constituents in the index universe in accordance with the free float rules. Constituents are then screened for multiple lines and ineligible secondary lines are eliminated. A liquidity screen is also applied to eligible lines of stock based on the adjusted weighting after applying free float. The

index constituents are then selected for each size segment using predetermined market cap cut-offs.

#### Quarterly Reviews

The Regional Committees also undertake quarterly reviews of the indexes in respect of changes such as IPOs, changes in shares in issue, free float changes and ICB classification changes.

#### Review Announcements

Changes are published after close of business on the day that the FTSE Regional Committee meeting takes place. Implementation of any quarterly changes will happen after the close of trading on the third Friday in March, June, September and December.

Details of FTSE Regional Committee meeting dates and implementation dates are published well in advance on FTSE.com and on various third-party newswire services such as Bloomberg and Thomson Reuters.

#### Index Changes Outside of Reviews

Certain corporate events (e.g. a significant IPO, merger, de-merger or de-listing) will trigger a constituent to be added or deleted from an index between reviews. The index change and implementation date will be announced as soon as practicable on FTSE.com and via the newswire services.

## 10. What change is taking place to the free float methodology?

With effect from 18 March 2013, FTSE will introduce a change to the free float methodology for GEIS and its other indexes. This change - the adoption of actual free float - is described in more detail at [http://www.ftse.com/Indexess/FTSE\\_Index\\_Standard/Free\\_Float.jsp](http://www.ftse.com/Indexess/FTSE_Index_Standard/Free_Float.jsp).

In order to minimise the aggregate turnover resulting from this change, the GEIS annual review timetable for end 2012/start 2013 has been altered. Annual regional reviews (as shown in the table above) scheduled to have taken place in September/December 2012 and June 2013 will now all take place in March 2013. The usual quarterly reviews for 'routine' index changes will take place as usual. Ad hoc corporate events as described above

in “index changes outside of reviews” will also be addressed as appropriate as they occur.

## 11. How does FTSE classify countries?

FTSE places great importance on applying a transparent, objective and consistent approach when determining the market status of countries. FTSE engages with regulatory authorities and stock exchanges through a questionnaire which encompasses a range of criteria developed in conjunction with international investors for assigning country classification:

- Economic Status
- Quality of Markets
  - a. Market and Regulatory Environment
  - b. Custody and Settlement
  - c. Dealing Landscape
  - d. Derivatives
- Depth and breadth of markets

The FTSE Country Classification Committee reviews the market status of all countries annually, classifying them as Developed, Advanced Emerging, Secondary Emerging or Frontier, as appropriate. The FTSE Policy Group ratifies any classification changes proposed by the FTSE Country Classification Committee. The results of the annual FTSE Country Classification review are announced each September, providing at least six months notice prior to implementing any change.

FTSE operates a Watch List, which contains countries that may potentially have a classification change. This list, together with the latest country classification status matrix, is publicly available at [www.ftse.com/country](http://www.ftse.com/country).

## 12. What is FTSE’s rationale for promoting South Korea (Korea) from Emerging status to Developed status?

FTSE announced the promotion of South Korea (Korea) to Developed market status within the FTSE Country Classification framework in September 2008.

This change was implemented across FTSE indexes in September 2009.

The decision to promote Korea from Advanced Emerging to Developed status was taken after several years of in-depth market consultation and engagement between the Korean domestic market authorities and the FTSE’s Country Classification Committee. The FTSE Country Classification Committee is made up of senior independent market practitioners from the institutional investment community, and their decision to promote Korea to Developed market status was ratified by the FTSE Policy Group. The FTSE Policy Group is the most senior committee in the FTSE Committee structure, with members recruited from all geographical regions and typically at Chief Investment Officer level with significant experience of financial markets.

At the time of the announcement to promote Korea to Developed market status, Korea had made good progress against FTSE’s ‘Quality of Market’ criteria to achieve a ‘Pass’ rating for 19 of the 21 categories. See Appendix 1 for the for the 2006-2009 review findings.

FTSE Country Classification Committee and the FTSE Policy Group based their decision to promote Korea on the following:

- The World Bank GNI per Capita Rating was ‘High’, thereby Korea passed the Economic Assessment criteria.
- Korea’s market size was comparable to other Developed markets. At the time it was the largest Emerging market.
- Korea had passed the majority of the Developed market quality requirements, and was addressing the two outstanding areas graded as ‘Restricted’ (i.e. free and well-developed foreign exchange market and off-exchange transactions permitted).
- General consensus at the time was that these outstanding ‘restrictions’ would be overcome. The sentiment being that Developed status would encourage foreign investment, thereby prompting market regulators to implement additional market reforms to address the pending issues.

- The committee took the view that the benefits of promotion outweighed the remaining restricted criteria.

Since the promotion of Korea to developed status, FTSE has worked with Korean market authorities, including the stock exchange and central bank, to encourage further improvement to the market environment, particularly in the areas of FX trading and trading of stocks at foreign ownership limits. The destabilizing effects of the global financial crisis have hindered progress, but FTSE has continued to engage with the Korean authorities who express their commitment to enacting further improvements in market practice.

Following the 2011/12 annual FTSE Country Classification Review, the results of which were announced on 27 September 2012, FTSE's Country Classification Committee and the FTSE Policy Group have agreed that Korea continues to meet the Developed market criteria to retain Developed market status. FTSE continues to monitor Korea's progress closely and to engage with the market authorities on the changes required to meet the needs of international investors. See Appendix 2 for the 2012 review findings.

See Appendix 1 for the review criteria applied by FTSE's Country Classification Committee in the years preceding Korea's classification as a Developed market (announced Sept 2008, implemented Sept 2009) and in 2012.

### 13. How does FTSE classify companies?

Constituents within FTSE's indexes are classified according to the Industrial Classification Benchmark (ICB), which is a globally recognised standard operated and managed by FTSE for categorising companies and securities.

The ICB structure enables the comparison of companies across four levels of classification and national boundaries.

- 10 industries help investors monitor broad industry trends
- 19 supersectors can be used for trading

- 41 sectors provide a broad benchmark for investment managers

- 114 subsectors allow detailed analysis

Each company is allocated to the subsector that most closely represents the nature of its business, which is determined by its source of revenue or where it constitutes the majority of revenue. See [www.icbenchmark.com](http://www.icbenchmark.com) for more information.

### 14. How does FTSE define large, mid, small and micro cap companies?

Broadly speaking, FTSE's approach is to calculate the total market capitalization of a universe of eligible constituents and then to apply % bands to split constituents into large, mid and small cap (some index series also include a micro cap segment).

In simple terms for GEIS, at the regional review the top 98% of the index universe is selected. This universe is then categorised with the top 70% of the eligible universe of companies being classified as Large Cap, the next 20% as Mid Cap and the final 10% as Small Cap. Buffers exist between the bandings to ensure that turnover is minimised.

### 15. Are IPOs included in the indexes?

FTSE operate a fast-entry process for new companies. If other eligibility criteria is also met, a new company will be eligible for fast entry if its full market capitalization is at least the full market capitalization of the smallest company within the top 68% of the index universe in its respective region in Emerging Markets, and twice that level in Developed Markets. Eligible companies are included in the index after the close of business on the fifth day of trading

## 16. What companies does FTSE include in its China indexes?

FTSE classifies Chinese companies from a universe of three potential stock exchanges. B Shares that are listed on the Shanghai and Shenzhen Stock Exchanges are eligible for index inclusion. Red Chips and H Shares that are listed on the Stock Exchange of Hong Kong are also eligible for index inclusion. In March 2013 FTSE will also include P Chips within its China indexes; these are also listed on the Stock Exchange of Hong Kong.

## 17. What does All Cap mean?

The aggregate of the constituents of the large, mid and small cap indexes is known as All Cap. There is an All Cap, Large Cap, Mid Cap and Small Cap index for every country and region within GEIS. There is also an aggregate Large and Mid Cap index for every country and region within GEIS (known as the FTSE All-World Index Series).

## 18. What time do the indexes finish calculating every day?

Index calculations are typically available by 23:30 hours GMT (Greenwich Mean Time) or GMT+1 hour during summer time (as applicable) each business day to clients of FTSE. More information on data licenses is available from [sales@ftse.com](mailto:sales@ftse.com).

## 19. Where can I see FTSE index values?

FTSE index values are available on [www.ftse.com](http://www.ftse.com) (delayed by 15 mins) and via Bloomberg, Thomson Reuters and other third-party newswire services. Data availability from third-party providers will depend on the terms of an individual's or corporate's data license with the third party.

## 20. What currencies are the indexes calculated in?

All GEIS indexes are calculated in USD, GBP, EUR, JPY and local.

## 21. When was GEIS launched and how much history is available?

GEIS was launched on 22 September 2003. As part of the index series launch a history was calculated back to 31 December 1993.

## 22. Where can I find more information on the indexes?

Every index family is described on [www.ftse.com](http://www.ftse.com) and its detailed Ground Rules and a selection of recent factsheets are freely available.

## 23. Who can I contact for more information about FTSE indexes?

FTSE has a global client services operation which is the first point of contact for all enquiries. The service is usually available from 0800 hrs GMT until 2300 hrs GMT on business days (during holiday periods like Christmas and New Year a limited service is provided).

Contact details are:

Email: [info@ftse.com](mailto:info@ftse.com)

Telephone:

Hong Kong	+852 2164 3333
London	+44 (0) 20 7866 1810
Milan	+39 02 3604 6953
New York	+1 888 747 FTSE (3873)
Sydney	+61 (2) 9293 2864
Tokyo	+81 (3) 3581 2811

More details are available on <http://www.ftse.com/>.

## Appendix 1

### Country Classification Reviews for Korea – 2006-2009

#### FTSE Quality of Market Comparison - South Korea - 2006-2009

Criteria	Developed	S Korea (Sept 2006)	S Korea (Sept 2007)	S Korea (Sept 2008)	S Korea (Sept 2009)
<b>World Bank GNI Per Capita Rating</b>		High	High	High	High
<b>Market and Regulatory Environment</b>					
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	Pass	Pass	Pass	Pass
Fair and non-prejudicial treatment of minority shareholders	X	Pass	Pass	Pass	Pass
Non or selective incidence of foreign ownership restrictions	X	Pass	Pass	Pass	Pass
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	Pass	Pass	Pass	Pass
Free and well-developed equity market	X	Pass	Pass	Pass	Pass
Free and well-developed foreign exchange market	X	Restricted	Restricted	Restricted	Restricted
Non or simple registration process for foreign investors	X	Pass	Pass	Pass	Pass
<b>Custody and Settlement</b>					
Settlement - Rare incidence of failed trades	X	Pass	Pass	Pass	Pass
Custody-Sufficient competition to ensure high quality custodian services	X	Pass	Pass	Pass	Pass
Clearing & settlement - T + 3 , T + 5 for Frontier	X	T+3	T+3	T+3	T+3
Stock Lending is permitted	X	Pass	Pass	Pass	Pass
Settlement - Free delivery available	X	Restricted	Restricted	Pass	Pass
Custody - Omnibus account facilities available to international investors	X	Pass	Pass	Pass	Pass
<b>Dealing Landscape</b>					
Brokerage - Sufficient competition to ensure high quality broker services	X	Pass	Pass	Pass	Pass
Liquidity - Sufficient broad market liquidity to support sizeable global investment	X	Pass	Pass	Pass	Pass
Transaction costs - implicit and explicit costs to be reasonable and competitive	X	Pass	Pass	Pass	Pass
Short sales permitted	X	Restricted	Pass	Pass	Pass
Off-exchange transactions permitted	X	Restricted	Restricted	Restricted	Restricted
Efficient trading mechanism	X	Pass	Pass	Pass	Pass
Transparency - market depth information / visibility and timely trade reporting process	X	Pass	Pass	Pass	Pass
<b>Derivatives</b>					
Developed Derivatives Market	X	Pass	Pass	Pass	Pass
<b>Size of Market</b>					
Market Capitalization \$mn		648,043	834,404	1,122,606	470,797
Total Number of Listed Companies		702	1,689	1,757	1,789

The following summarises the review criteria applied by FTSE's Country Classification Committee in the years preceding Korea's classification as a Developed market (announced Sept 2008, implemented Sept 2009).

Note: Total market capitalization and stocks are primarily sourced from the World Federation of Exchanges [website](#).

## Country Classification Review for Korea – 2012

The following summarises the findings of the 2011/2012 country review, which were undertaken by FTSE's Country Classification Committee and announced on 27 September 2012.

### FTSE Quality of Market Comparison - South Korea - September 2012

Criteria	Developed	South Korea
<b>World Bank GNI Per Capita Rating</b>		High
<b>Credit Worthiness</b>		Investment
<b>Market and Regulatory Environment</b>		
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	Pass
Fair and non-prejudicial treatment of minority shareholders	X	Pass
Non or selective incidence of foreign ownership restrictions	X	Restricted
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	Pass
Free and well-developed equity market	X	Pass
Free and well-developed foreign exchange market	X	Restricted
Non or simple registration process for foreign investors	X	Pass
<b>Custody and Settlement</b>		
Settlement - Rare incidence of failed trades	X	Pass
Custody - Sufficient competition to ensure high quality custodian services	X	Pass
Clearing & settlement - T + 3 , T + 5 for Frontier	X	T+3
Stock Lending is permitted	X	Pass
Settlement - Free delivery available	X	Restricted
Custody - Omnibus account facilities available to international investors	X	Pass
<b>Dealing Landscape</b>		
Brokerage - Sufficient competition to ensure high quality broker services	X	Pass
Liquidity - Sufficient broad market liquidity to support sizeable global investment	X	Pass
Transaction costs - implicit and explicit costs to be reasonable and competitive	X	Pass
Short sales permitted	X	Pass
Off-exchange transactions permitted	X	Restricted
Efficient trading mechanism	X	Restricted
Transparency - market depth information / visibility and timely trade reporting process	X	Pass
<b>Derivatives</b>		
Developed Derivatives Market	X	Pass
<b>Size of Market</b>		
Market Capitalization \$mn		966,140
Total Number of Listed Companies		1,799

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@ftse.com](mailto:info@ftse.com).

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