



**GROUND RULES FOR THE
MANAGEMENT OF THE
FTSE SGX SHARIAH INDEX SERIES**

Initially comprising the:

**FTSE SGX ASIA
SHARIAH 100 INDEX**

TABLE OF CONTENTS

- 1.0 Introduction
- 2.0 Status of Indices
- 3.0 Management Responsibilities
- 4.0 Eligible Securities
- 5.0 Index Qualification Criteria
- 6.0 Review of Constituents
- 7.0 Amendments and Exceptions to the Ground Rules
- 8.0 Changes to Constituent Companies
- 9.0 Indices Algorithm and Calculation Method

APPENDICES

- A. Index & Market Opening & Closing Times, Pricing and Exchange Rates
- B. Further Information

SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE SGX Asia Shariah 100 Index. Copies of the Ground Rules are available from FTSE and from SGX (see Appendix B).
- 1.2 The FTSE SGX Asia Shariah 100 Index is designed to represent the performance of Shariah-compliant companies in Asia. Initial markets comprise Japan, Singapore, Taiwan, Korea and Hong Kong (see Section 5). Other markets may be added over time. The Index is suitable for tradable products such as Exchange Traded Funds (ETFs).
- 1.3 The base currency for the FTSE SGX Asia Shariah 100 Index is US dollars. The Index is calculated and published in US Dollars (see Appendix A).
- 1.4 The FTSE SGX Asia Shariah 100 Index is calculated in real-time during the hours of calculation (see Appendix A).
- 1.5 Capital and Total Return Indices are available. Total Return Indices are published at the end of each working day. The percentage of the total index distributed dividend that is derived from Islamically-inappropriate sources is calculated by Yasaar and made available to investors. Dividend cleansing adjustments are not made within the Total Return Index.

SECTION 2

2.0 STATUS OF INDICES

2.1 The FTSE SGX Asia Shariah 100 Index is calculated in real time and may exist in the following states:

a) **Firm**

The index is being calculated using trade prices from the relevant local stock exchanges for all constituents during the hours of the Official Index Period (see Appendix A).

The Official Closing Index for FTSE SGX Asia Shariah 100 Index is the last index value calculated at the end of the firm period.

b) **Closed**

When the index has ceased all calculations for the day, the message '**CLOSED**' is displayed against the index value.

c) **Held**

During the firm period, the index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message '**HELD**' is displayed against the last index value calculated.

d) **Indicative**

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the index is being calculated, the index will be declared indicative. The message '**IND**' will be displayed against the index value.

e) **Part**

If the index is being calculated during the normal Official Index Period hours, but there are less than 75% of the constituents by capitalisation available with firm prices, then the index will be displayed with the message '**PART**' to indicate that only a proportion of the securities prices are included. With the exception of the message '**PART**', the index will continue to be calculated and displayed as if it were firm.

2.2 The official opening and closing hours of the FTSE SGX Asia Shariah 100 Index are set out in Appendix A. Variations to the official hours of the indices are published by FTSE as appropriate.

2.3 The FTSE SGX Asia Shariah 100 Index is calculated on public holidays whenever at least one market is trading. The Index will not be calculated on 1st January.

SECTION 3

3.0 MANAGEMENT RESPONSIBILITIES

3.1 FTSE

- 3.1.1 FTSE is responsible for undertaking the review of the FTSE SGX Shariah Indices and for approving changes of constituents. FTSE may approve changes to the Ground Rules subject to Section 7.
- 3.1.2 FTSE is responsible for the operation of the FTSE SGX Asia Shariah 100 Index. FTSE will maintain records of the market capitalisation of all constituents and reserve companies, and will make changes to the constituents and their weightings in accordance with the Ground Rules. FTSE will carry out the quarterly review of the FTSE SGX Asia Shariah 100 Index and implement the resulting constituent changes as required by the Ground Rules.
- 3.1.3 Changes to constituent weightings are made by FTSE in accordance with the Ground Rules. FTSE is responsible for publicising changes to constituent weightings.
- 3.1.4 FTSE is also responsible for monitoring the performance of the FTSE SGX Asia Shariah 100 Index throughout the day and will determine whether the status of each index should be 'firm', 'indicative', 'held' or 'part'.

3.2 Yasaar

- 3.2.1 Yasaar is responsible for ascertaining the Shariah compliance of constituents of the FTSE SGX Shariah Indices. Yasaar bases its compliance determinations upon data supplied by FTSE that is filtered by its proprietary software screens and then reviewed and approved by the Yasaar Shariah Board.
- 3.2.2 All additions to the FTSE SGX Shariah Index Series are subject to the approval of the Yasaar Shariah Board. Please visit the Yasaar website (www.yasaar.org) for the scholars that are comprised on the Board.
- 3.2.3 Yasaar will calculate the percentage of the total distributed dividend from the index that is derived from Islamically-inappropriate sources, and will make this available to investors.

SECTION 4

4.0 ELIGIBLE SECURITIES

- 4.1 Securities that are members of the FTSE Global Equity Index Series Country Index for each eligible country are eligible for the FTSE SGX Asia Shariah 100 Index.
- 4.2 Yasaar will ensure that all constituents and potential constituents are screened for Shariah-compliance. Generally, these principles exclude stocks whose core activities are or are related to the following:
- a) banking or any other interest related activity, such as lenders and brokerages
 - b) alcohol
 - c) tobacco
 - d) gaming
 - e) arms manufacturing
 - f) life insurance
 - g) pork and non-halal food production, packaging and processing or any other activity related to pork and non-halal food
 - h) sectors / companies significantly affected by the above
 - i) companies whose ratios of debt and debt service in combination are unacceptable and indicative of an inappropriate use of leverage relative to their assets. Companies that have income from cash or near cash equivalents or inappropriate levels of receivables to assets are also excluded, the metrics by which stocks are included or excluded are designed to be in keeping with Islamic Shariah principles and commonly accepted philosophies
 - j) companies whose liquid assets to illiquid assets exceeds the percentage permitted under Shariah principles and commonly accepted philosophies
 - k) companies whose cash and cash equivalent to total assets exceeds the percentage permitted under Shariah principles and commonly accepted philosophies.

This list is not exhaustive and is produced as basic guidance to the broad principles involved.

- 4.3 The shares, free float weightings and treatment of secondary lines of stock of constituents are the same as in the FTSE Global Equity Index Series.
- 4.4 Ground Rules for the FTSE Global Equity Index Series are available from FTSE. For a brief explanation of the eligibility criteria for the FTSE Global Equity Index Series, see www.ftse.com.

SECTION 5

5.0 INDEX QUALIFICATION CRITERIA

- 5.1 The FTSE SGX Asia Shariah 100 Index consists of the largest 50 Japanese companies by full market value and the largest 50 from the remaining four exchanges that qualify under Section 4 as eligible for inclusion in the Index.
- 5.2 The number of Japanese constituents will be maintained at 50 both at review and intra-review.

SECTION 6

6.0 REVIEW OF CONSTITUENTS

6.1 General

- 6.1.1 The rules for inserting and deleting companies at the quarterly review are designed to provide stability in the selection of constituents of the FTSE SGX Asia Shariah 100 Index while ensuring that the Index continues to be representative of the market by including or excluding those companies whose full market capitalisation has risen or fallen significantly.

6.2 Review Dates

- 6.2.1 The FTSE SGX Asia Shariah 100 Index is reviewed quarterly in March, June, September and December.
- 6.2.2 The data on which the quarterly reviews are undertaken will be from the close of the last business day in February, May, August and November. Where all eligible markets are not open on that day, the previous business day on which all eligible markets were open will be used.
- 6.2.3 Changes arising from the quarterly review will be implemented after the close of business on the third Friday in March, June, September and December.

6.3 Responsibilities and Reporting

- 6.3.1 FTSE is responsible for conducting the quarterly review of constituents for the FTSE SGX Asia Shariah 100 Index and will publicise any constituents to be inserted or deleted as part of the quarterly review, as governed by Rule 6.4, as soon as possible after the review is held.

6.4 Rules for Insertion and Deletion at the Quarterly Review

- 6.4.1 The FTSE SGX Asia Shariah 100 Index is treated as two separate 50-stock sets of constituents for the purposes of reviews and intra-review changes. These comprise one set of 50 Japanese constituents, and one set of 50 constituents from Korea, Singapore, Hong Kong and Taiwan.
- 6.4.2 The constituents of the FTSE SGX Asia Shariah 100 Index are determined by using the following methodology:
- 6.4.3 Using a database of all constituent securities of the FTSE Global Equity Index Series country indices of Korea, Hong Kong, Singapore and Taiwan;
- 6.4.4 Remove all companies that do not meet the required Shariah eligibility criteria;
- 6.4.5 Rank all remaining securities by full market capitalisation i.e. before the application of any investability weightings (see Rule 4.3);
- 6.4.6 Existing constituent securities which have fallen to position 61 or below will qualify to be removed from the Index at the periodic review;
- 6.4.7 Eligible non-constituent securities that have risen to position 40 or above will qualify to be included in the Index at the periodic review;

SECTION 6

- 6.4.8 Where a greater number of securities qualify to be included in the Index than those qualifying to be removed, the lowest ranking securities presently included in the Index will be removed to ensure that the number of securities remains constant. Likewise, where a greater number of securities qualify to be removed from the Index than those qualifying for inclusion, the highest ranking eligible securities which are presently not in the Index will be included to match the number of securities being removed at the periodic review;
- 6.4.9 Repeat Rules 6.4.3 to 6.4.8 for the constituents of the FTSE Japan Index.
- 6.4.10 Combine the selected companies from all five exchanges.
- 6.5 Reserve Lists**
- 6.5.1 FTSE is responsible for publishing the five highest ranking Japanese non-constituent securities and the five highest-ranking non-constituent securities from the remaining four exchanges following each quarterly review. These Reserve Lists will be used in the event that one or more constituent securities is deleted from the FTSE SGX Asia Shariah 100 Index during the period up to the next quarterly review of the Index. Securities on the Reserve Lists will be constituents of the FTSE Global Equity Index Series.
- 6.5.2 If a Japanese stock is removed, the replacement stock will be taken from the Japanese stock reserve list; if a stock from the other four exchanges is removed, the replacement stock will be taken from that reserve list.
- 6.5.3 Where a security is removed from one of the Reserve Lists and leaves only two eligible securities remaining on the Reserve list, that Reserve List will be replenished. The Reserve List will be replenished by selecting the next three highest-ranking non-constituent securities from the eligible universe at the time of the last quarterly review. FTSE is responsible for publishing these new Reserve List securities.
- 6.5.4 Where a security is removed from the Index after FTSE has met and approved quarterly changes to the Index but before the quarterly changes have been implemented, the highest ranking security by full market capitalisation from the relevant Reserve List (excluding current Index constituents) will replace the deleted security.

SECTION 7

7.0 AMENDMENTS AND EXCEPTIONS TO THE GROUND RULES

- 7.1 Where an exception is granted to the Ground Rules, it shall not be deemed to create a precedent for future decisions.
- 7.2 Changes to the Ground Rules can only be made by FTSE. Aspects relating to Shariah matters can only be changed with the approval of the Yasaar Shariah Board.
- 7.3 Material changes to the Ground Rules are announced after quarterly reviews, but will not come into effect until after they have been confirmed at the following quarterly review, in order to allow for comments from index users and the market in general.

SECTION 8

8.0 CHANGES TO CONSTITUENT COMPANIES

8.1 Removal

8.1.1 If a constituent ceases to be a constituent of the relevant FTSE Global Equity Index Series Country Index it will be removed from the FTSE SGX Asia Shariah 100 Index. The removal will be concurrent with its removal from the FTSE Global Equity Index Series. The highest ranking non-constituent from the relevant reserve list will become eligible for inclusion into the Index and will be added to the Index at the same time.

8.1.2 A constant number of 50 Japanese stocks and 50 non-Japanese stocks will be maintained at all times. For example, where a Japanese stock is removed due to a merger, its replacement will be chosen from the relevant (i.e. Japanese) stock reserve list.

8.2 Additions & New Issues

8.2.1 If a constituent is added to the relevant FTSE Global Equity Index Series Country Index it will be eligible for inclusion in the FTSE SGX Asia Shariah 100 Index at the next quarterly review.

8.3 Mergers, Restructuring and Complex Takeovers

8.3.1 If the effect of a merger or takeover is that one constituent is absorbed by another, the resulting company will remain a constituent of the Index and a vacancy will be created. This vacancy will be filled by selecting the largest eligible non-constituent security by full market capitalisation from the relevant reserve list at the time of the event. The removal and replacement of these stocks will be simultaneous.

8.3.2 If a constituent is taken over by an eligible non-constituent, the original constituent will be removed and replaced by the merged entity. In the event that the merged entity is ineligible for the index, the largest eligible non-constituent from the relevant reserve list will replace it at the time of the event (see Rule 4.1). The removal and replacement of these stocks will be simultaneous.

8.3.3 If a constituent company is split so as to form two or more companies, the two or more companies arising from the split will be eligible for inclusion in the Index if they qualify in all respects (see Rule 4.1). If two or more of the new companies are ineligible then a vacancy(ies) will be created. If two or more companies are eligible, the smallest constituent(s) at the market close on the day of the event will be deleted. The removal and replacement of these stocks will be simultaneous.

8.3.4 If FTSE decides to include a new issue as a constituent security other than as part of the normal quarterly review procedure, this decision must be publicly announced at the earliest practicable time.

8.3.5 If a constituent is suspended from the FTSE Global Equity Index Series, the same treatment will be applied in the FTSE SGX Asia Shariah 100 Index.

SECTION 9

9.0 INDEX ALGORITHM AND CALCULATION METHOD

9.1 Prices

9.1.1 The FTSE SGX Asia Shariah 100 Index uses actual trade prices for securities with local stock exchange quotations. Reuters real-time spot currency rates are used in the index calculation.

9.1.2 The FTSE SGX Asia Shariah 100 Index receives share prices and currency spot rates in real time.

9.2 Algorithm

9.2.1 The index is calculated using the algorithm described below.

$$\sum_{i=1}^N \frac{(p_i \times e_i \times s_i \times f_i)}{d}$$

Where,

- $i = 1, 2, \dots, N$
- N is the number of securities in the Index.
- p_i is the latest trade price of the component security (or the price at the close of the Index on the previous day).
- e_i is the exchange rate required to convert the security's currency into the Index's base currency.
- s_i is the number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
- f_i is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE for each security in the underlying index.
- d is the divisor, a figure that represents the total issued share Capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share Capital of individual securities to be made without distorting the Index.

APPENDIX A

INDEX & MARKET OPENING & CLOSING TIMES, PRICING & EXCHANGE RATES

Hours of Calculation

The FTSE SGX Asia Shariah 100 Index is calculated from 07:50 hrs until 17:00 hrs, local Singaporean time (the Official Index Period). Closing index values are distributed after final prices have been received from all markets, incorporating the results of any closing market procedures.

Stock Market Trading Times:

	Open	Close	
Hong Kong	10:00	16:00	
Japan	09:00	15:00	
Korea	09:00	15:00	
Singapore	09:00	17:00	
Taiwan	09:00	13:30	(All times are local)

The FTSE SGX Asia Shariah 100 Index is calculated on public holidays whenever at least one exchange is trading. The Index will not be calculated on 1st January.

Constituent Pricing

All exchange closing prices are sourced from Reuters.

All times detailed are local.

Foreign Exchange Rates

The foreign exchange rates used in the calculation of the FTSE SGX Asia Shariah 100 Index are Reuters' real time spot rates.

The US dollar is the base currency for all index calculations. Non dollar-denominated constituent prices are converted into dollars in order to calculate the Index.

The real time foreign exchange rates are used throughout the period of calculation (see Hours of Calculation). Therefore foreign exchange movements are taken into account in the Index calculation for each market even though the underlying market may be closed.

The foreign exchange rates received from Reuters at 17:00 hrs (Singaporean time) are used to calculate the final Index levels and are termed the "closing FTSE SGX Asia Shariah 100 Index foreign exchange rates".

APPENDIX B

FURTHER INFORMATION

Further information on the FTSE SGX Asia Shariah 100 Index is available from FTSE, who also welcome comments on these Ground Rules.

Website: www.ftse.com

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