

**GROUND RULES FOR THE  
MANAGEMENT OF THE  
FTSE SHARIAH JAPAN 100 INDEX**

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## SECTION 1

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### 1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE Shariah Japan 100 Index calculated in association with Yasaar Limited. Copies of the Ground Rules are available from FTSE on [www.ftse.com](http://www.ftse.com).
- 1.2 Shariah is the Divine Islamic Law which governs the practical aspect of a Muslim's daily life. In commerce, it can determine business style and indicate a desire to comply with 'halal' (Islamic permitted) and ethical investing. The FTSE Shariah Japan 100 Index is designed to provide a Shariah compliant Index suitable for the creation of financial products, such as index funds, warrants, certificates and Exchange Traded Funds.
- 1.3 This methodology should be read in conjunction with the FTSE Global Equity Index Series (GEIS) Ground Rules. These rules are available on [www.ftse.com](http://www.ftse.com).
- 1.4 The FTSE Shariah Japan 100 Index is designed to represent the performance of the largest and most liquid Shariah compliant companies based on the FTSE Global Equity Index Series (GEIS) Large and Mid cap Japanese companies.
- 1.5 The FTSE Shariah Japan 100 Index will weight its constituents by its adjusted market capitalisation, i.e. after the implementation of the investability weight.
- 1.6 The FTSE Shariah Japan 100 Index is calculated at the end of each day and is available in Euros, Japanese Yen, UK Pounds Sterling and US Dollars. The base currency for the Index is Japanese Yen.
- 1.7 The FTSE Shariah Japan 100 Index Price Index values are calculated in real time every 15 seconds in Japanese Yen.
- 1.8 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.
- 1.9 For the official opening and closing hours of the FTSE Shariah Japan 100 Index, please refer to the FTSE Global Equity Index Series Ground Rules. Variations to the official hours of the indices are published by FTSE as appropriate.

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## SECTION 2

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### 2.0 STATUS OF REAL TIME INDEX

2.1 The FTSE Shariah Japan 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.

The Official Closing Index for the FTSE Shariah Japan 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.

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## SECTION 3

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### 3.0 INDEX MANAGEMENT

#### 3.1 FTSE

- 3.1.1 FTSE is responsible for undertaking the review of the FTSE Shariah Japan 100 Index and for approving changes of constituents.
- 3.1.2 FTSE is responsible for the operation of the FTSE Shariah Japan 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 reviews of the FTSE Shariah Japan 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 Shariah Japan 100 Index throughout the day and will determine whether the status of the 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 Shariah Japan 100 Index. 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 Shariah Japan 100 Index are subject to the approval of the Yasaar Shariah Board. Please refer to the Yasaar website for details of the Shariah compliant scholars ([www.yasaar.org](http://www.yasaar.org)).
- 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.

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## SECTION 4

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### 4.0 ELIGIBLE SECURITIES

- 4.1 Large and Mid cap companies included in the FTSE Japan Index are eligible for the FTSE Shariah Japan 100 Index.
- 4.2 Yasaar will ensure that all constituents and potential constituents are screened quarterly to determine their Shariah status. An overview of the Yasaar / FTSE stock screening criteria are listed below:
- 4.2.1 Companies involved in the following activities will be considered to be non permitted business sectors:
- a) Conventional Finance (non Islamic Banking, Finance and Insurance, etc.)
  - b) Alcohol
  - c) Pork related products and non-halal food production, packaging and processing or any other activity related to pork and non-halal food
  - d) Entertainment (Casinos, Gambling, Cinema, Music, Pornography and Hotels)
  - e) Tobacco
  - f) Weapons, arms and defence manufacturing
- 4.2.2 After companies have been screened by their business sector activity, the remaining companies are further examined on their finances to ensure that those companies are Shariah compliant. Only those companies that pass the following financial ratios will be considered Shariah compliant:
- g) Companies whose ratios of debt and debt service in combination that are greater than 33 per cent are unacceptable and indicative of an inappropriate use of leverage relative to their assets.
  - h) Companies whose cash and interest bearing items in combination that are less than 33 per cent relative to their assets are acceptable and to be in keeping with Islamic Shariah principles and commonly accepted philosophies.
  - i) Companies whose accounts receivable and cash in combination that are less than 50 per cent relative to their assets are acceptable and to be in keeping with Islamic Shariah principles and commonly accepted philosophies.
  - j) Companies whose non-compliant income other than interest that are less than 5 per cent relative to their revenue are acceptable and to be in keeping with Islamic Shariah principles and commonly accepted philosophies.
  - k) Companies whose total interest income is less than 5 per cent relative to their revenue are acceptable and to be in keeping with Islamic Shariah principles and commonly accepted philosophies.
- 4.3 The shares, investability weightings and treatment of secondary lines of stock of constituents are the same as in the FTSE Global Equity Index Series (GEIS).

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4.4 Ground Rules for the FTSE Global Equity Index Series are available from FTSE. For an explanation of the eligibility criteria for the FTSE Global Equity Index Series, see [www.ftse.com](http://www.ftse.com).

4.5 Companies will be included in the Index if they are:

a) current Large and Mid cap Japanese constituents of the FTSE Global Equity Index Series (GEIS)

and

b) they are also considered to be Shariah compliant as defined in Rule 4.2.

4.6 FTSE Shariah Japan 100 Index

The FTSE Shariah Japan 100 Index will consist of the top 100 Shariah compliant securities when ranked by full market capitalisation at review. The underlying universe for the index will be the FTSE Japan Index.

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## SECTION 5

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### 5.0 PERIODIC REVIEW OF CONSTITUENTS

- 5.1 The FTSE Shariah Japan 100 Index will be reviewed in September, in accordance with the Global Equity Index Series (GEIS) Ground Rules.
- 5.2 The FTSE Shariah Japan 100 Index Shariah screening will be reassessed quarterly in March, June, September and December in line with the FTSE Global Equity Index Series reviews. The Shariah screening process (please see Section 4) uses data as at the last working day of February, May, August and November taking into account new companies entering the FTSE Global Equity Index Series at the periodic review.
- 5.3 The FTSE Shariah Japan 100 Index will be reviewed using data as at the last working day in August.
- 5.4 At review, all constituents of the FTSE Shariah Japan 100 Index must be existing or pending constituents to the FTSE Japan Index, i.e. the review will take into consideration any constituent changes to the FTSE Japan Index as announced by the FTSE Asia Pacific Committee at their September meeting.
- 5.5 A company will be inserted into the FTSE Shariah Japan 100 Index at the periodic review if it rises to 90<sup>th</sup> position or above when the eligible companies are ranked by full market capitalisation (before the application of any investability weightings).
- 5.6 A company in the FTSE Shariah Japan 100 Index will be deleted at the periodic review if it falls to 111<sup>th</sup> position or below when the eligible companies are ranked by full market capitalisation (before the application of any investability weightings).
- 5.7 A constant number of constituents will be maintained for the FTSE Shariah Japan 100 Index. Where a greater number of companies qualify to be inserted in the Index than those qualifying to be deleted (see Rules 5.5 and 5.6), the lowest ranking constituents presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted (see Rules 5.5 and 5.6), the securities of the highest ranking companies which are presently not included in the Index will be inserted to match the number of companies being deleted at the periodic review.

### 5.8 FTSE Shariah Japan 100 Index Reserve List

- 5.8.1 FTSE is responsible for publishing the ten highest ranking non-constituents of the FTSE Shariah Japan 100 Index. This Reserve List will be used in the event that one or more constituents are deleted from the FTSE Shariah Japan 100 Index during the period up to the next annual review of the Index. Companies on the Reserve List will be Shariah compliant and will also be constituents of the FTSE Japan Index.
- 5.8.2 On a quarterly basis the FTSE Shariah Japan 100 Index Reserve List is refreshed using data as at the last working day of February, May, August and November. At each quarter the ten highest ranking non-constituents will be selected when eligible companies are ranked by full market capitalisation.
- 5.8.3 Where a company is removed from the Index (under Rule 6) after the periodic changes to the Index but before the periodic changes have been implemented, the highest ranking company by full market capitalisation from the new Reserve List as

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## **SECTION 5**

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at the close of the index calculation five days prior to the removal (excluding current Index constituents) will replace the deleted company.

- 5.9 Changes arising from the FTSE Shariah Japan 100 Index and FTSE Global Equity Index reviews will be implemented after the close of the index calculation on the third Friday in March, June, September and December respectively.

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## SECTION 6

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### 6.0 CHANGES TO CONSTITUENT COMPANIES

#### 6.1 Additions

- 6.1.1 If a Large and Mid cap constituent is added to the FTSE Japan Index, it will become eligible for inclusion in the FTSE Shariah Japan 100 Index subject to satisfying Rule 4.2 at the next periodic review.

#### 6.2 Removal

- 6.2.1 If a constituent ceases to be a Large and Mid Cap constituent of the FTSE Global Equity Index Series (GEIS), it will be removed from the FTSE Shariah Japan 100 Index. The removal will be concurrent with its removal from the FTSE Global Equity Index Series (GEIS).
- 6.2.2 If a constituent of the FTSE Shariah Japan 100 Index ceases to meet the eligibility criteria detailed in Rule 4.2, it will be removed from the index at the quarterly Shariah screening review.
- 6.1.3 Where a constituent is removed from the FTSE Shariah Japan 100 Index a vacancy will be created. The vacancy will be selected by the highest ranking company by full market capitalisation from the FTSE Shariah Japan 100 Index Reserve List (see Rule 5.8) as at the close of the index calculation five days prior to the deletion.

#### 6.3 Mergers, Restructuring and Complex Takeovers

- 6.3.1 The FTSE Shariah Japan 100 Index will treat corporate events such as mergers, restructuring and complex takeovers in line with the FTSE Global Equity Index Series.
- 6.3.2 If an Index constituent is acquired by a non-constituent company, the original constituent will be removed and replaced by the highest ranking non-constituent by full market capitalisation selected as at the close of the index calculation five days prior to the deletion. Any eligible company resulting from the takeover will be eligible to become the replacement company if it is ranked higher than any company on the Reserve List.
- 6.3.3 Where two index constituents merge, or one index constituent is acquired by another constituent a vacancy will be created in the FTSE Shariah Japan 100 Index. The vacancy will be selected by the highest ranking company by full market capitalisation from the FTSE Shariah Japan 100 Index Reserve List (see Rule 5.8) as at the close of the index calculation five days prior to the deletion.
- 6.3.4 If an index constituent has a complex reorganisation or demerger, the newly spun-off company will remain eligible for inclusion in the FTSE Shariah Japan 100 Index subject to passing the criteria detailed in the Section 4 and its full market capitalisation i.e. before the application of any investability weighting, is larger than the smallest Index constituent. Consequently the FTSE Shariah Japan 100 Index may have more than 100 companies. The Shariah status of the newly spun-off company will be reassessed at the next quarterly Shariah screening review.

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## SECTION 6

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### 6.4 Suspension of Dealing

- 6.4.1 The FTSE Shariah Japan 100 Index will treat suspension of dealing in line with the FTSE Global Equity Index Series.
- 6.4.2 If a constituent is suspended on its home exchange it may remain in the indices, at the price at which it is suspended, for up to 10 business days. During this time FTSE may delete the constituent immediately either at its suspension price, or at zero.
- 6.4.3 Where a suspension of a constituent lasts beyond noon on the tenth business day (and the option to remove the constituent has not been exercised), the constituent will normally be deleted from the indices on the eleventh trading day at zero or the suspension price. Where suspension is for a reason not to the detriment of the constituent, it may be retained or removed at its suspension price.
- 6.4.4 If the suspended company is deleted from the FTSE Shariah Japan 100 Index, the vacancy will be filled with the highest ranking reserve list company as at the close of the index calculation five days prior to the deletion. This change will be effected after the close of the index calculation and prior to the start of the index calculation on the following day.

### 6.5 Relisting of Suspended Constituents

- 6.4.1 The FTSE Shariah Japan 100 Index will treat the relisting of suspended constituents in line with the FTSE Global Equity Index Series.
- 6.5.1 Securities which on relisting are larger than the smallest constituent of the index shall be re-instated in the index at the price at which they were removed. As the FTSE Shariah Japan 100 Index has a fixed number of companies, its lowest ranking constituent by full market capitalisation will be selected for removal. The re-instatement will happen after the close of business on the first day after the stock is re-listed.
- 6.5.2 Should a deleted constituent that has been suspended at a price other than zero (which would normally be the suspension price) be subsequently delisted and deemed to be of nil value, this stock will be included for one day's calculation in the index from which it was removed to enable the fall in the stock's value to be reflected in the index value. In this situation, the stock will be re-included at the suspension price, and its price will be zero throughout that day's calculation, including the closing price. For that one day, the FTSE Shariah Japan 100 Index would have 101 companies.
- 6.5.3 If a company relists after a continuous period of suspension lasting more than a year, FTSE reserves the right to treat the company as a new issue for the purposes of index eligibility.

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## SECTION 7

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### 7.0 INDEX ALGORITHM AND CALCULATION METHODOLOGY

The index calculation formula is as follows:

$$\Sigma \frac{((p_{-1}^n \cdot e_{-1}^n) \cdot s_{-1}^n \cdot f_{-1}^n)}{d}$$

$$n = 1,2,3,\dots,n$$

n	=		The number of securities in the Index.
p	=	Price	The latest trade price of the component security (or the price at the close of the Index on the previous day)
e	=	Exchange Rate	The exchange rate required to convert the security's home currency into the index's base currency.
s	=	Shares in Issue	The number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
f	=	Investability Weight	The factor to be applied to each security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. The Investability Weighting factor for each security is published by FTSE.
d	=	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.

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**8.0 CONTACT DETAILS**

- 8.1 Further information on the FTSE Shariah Japan 100 Index is available from FTSE, who will also welcome comments on these Ground Rules and on the Index. Enquiries should be addressed in the first instance to:

**UK**

Client Services  
FTSE  
12<sup>th</sup> Floor  
10 Upper Bank Street  
London  
E14 5NP

+44 (0) 20 7866 1810  
+44 (0) 20 7866 8958 (fax)

e-mail: [info@ftse.com](mailto:info@ftse.com)

**USA – East Coast**

Client Services  
FTSE  
22<sup>nd</sup> Floor  
199 Water Street  
New York  
NY 10038  
USA

+1 212 825 1328  
+1 212 825 1359 (fax)

e-mail: [info@ftse.com](mailto:info@ftse.com)

**USA – West Coast**

Client Services  
FTSE Americas Inc.  
251 Post Street,  
Suite 200  
San Francisco, CA 94108  
USA

+1 415 445 5660  
+1 415 445 5666 (fax)

e-mail: [info@ftse.com](mailto:info@ftse.com)

**Australia**

Client Services  
FTSE  
Level 25, Chifley Tower,  
2 Chifley Square,  
Sydney,  
NSW 2000,  
Australia

+61 2 9293 2866  
+61 2 9293 2828 (fax)

e-mail: [info@ftse.com](mailto:info@ftse.com)

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**SECTION 8**


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**France**

Client Services  
 FTSE  
 40 rue La Boétie  
 75008 Paris  
 FRANCE

+33 (0) 1 53 76 82 88  
 +33 (0) 1 53 76 82 71 (fax)

e-mail: [info@ftse.com](mailto:info@ftse.com)

**Spain**

Client Services  
 FTSE  
 Paseo de la Castellana 66,  
 28046 Madrid  
 SPAIN

+34 (0) 91 411 37 87

e-mail: [info@ftse.com](mailto:info@ftse.com)

**Hong Kong**

Client Services  
 FTSE  
 Suite 2903-2909, 29th Floor,  
 Two International Finance Centre,  
 No. 8 Finance Street,  
 Central, Hong Kong

+852 2230 5800  
 +852 2230 5804 (fax)

e-mail: [info@ftse.com](mailto:info@ftse.com)

In Singapore please ring +65 223 3738

**Japan**

Client Services  
 FTSE  
 Yamato Seimei Building 21F,  
 1-1-7 Uchisaiwaicho,  
 Chiyoda-Ku  
 Tokyo  
 JAPAN

++81 3 3581 2811  
 ++81 3 3581 1423 (fax)

e-mail: [info@ftse.com](mailto:info@ftse.com)

**Web site: [www.ftse.com](http://www.ftse.com)**

8.2 Further information on Yasaar is available from:

Yasaar Limited  
 DIFC Business Centre  
 Level 12, The Gate  
 P.O.Box 121208  
 Dubai, UAE

Tel: +9714 361 2086  
 Fax: +9714 361 2087

[info@yasaar.org](mailto:info@yasaar.org)  
[www.yasaar.org](http://www.yasaar.org)

Yasaar Limited  
 1 Liverpool Street,  
 London EC2M 7QD  
 United Kingdom

Tel: +44 (0) 20 7956 2014  
 Fax: +44 (0) 20 7956 2001

[info@yasaar.org](mailto:info@yasaar.org)  
[www.yasaar.org](http://www.yasaar.org)

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