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# FTSE Saudi Arabia Inclusion Index Series

v1.3

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## Contents

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1.0	Introduction.....	3
2.0	Management Responsibilities.....	6
3.0	FTSE Russell Index Policies .....	7
4.0	Security Inclusion Criteria.....	9
5.0	Investability Weightings.....	11
6.0	Periodic Review of Constituents .....	15
7.0	Additions Outside of a Review .....	19
8.0	Corporate Actions and Events.....	21
9.0	Announcing Changes.....	23
10.0	Algorithm and Calculation Method.....	24
	Appendix A: Eligible Markets, Classes of Securities and Sources of Trading.....	25
	Appendix B: Index Algorithm & Calculation Method.....	26
	Appendix C: The Saudi Arabia Inclusion Index Series.....	27
	Appendix D: Further Information .....	29



## Section 1

# Introduction

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### 1.0 Introduction

#### 1.1 FTSE Saudi Arabia Inclusion Index Series

1.1.1 The FTSE Saudi Arabia Inclusion Index Series is designed to represent the performance of Saudi Arabia companies that are available to domestic and Qualified Foreign Investors (QFIs). The index series combines Saudi Arabia companies with FTSE regional/global indexes as outlined in these Ground Rules.

#### 1.2 FTSE Russell

FTSE Russell is a trading name of FTSE International Limited (FTSE), Frank Russell Company (Russell), FTSE TMX Global Debt Capital Markets Inc. and FTSE TMX Global Debt Capital Markets Limited (together, "FTSE TMX") and MTSNext Limited. FTSE, Russell and FTSE TMX are each benchmark administrators of indexes. References to FTSE Russell should be interpreted as a reference to the relevant benchmark administrator for the relevant index.

#### 1.3 Index Objective and Intended Use

1.3.1 The index series and index statistics are intended to reflect the investment markets included in the index definitions and to facilitate the detailed analysis of such markets.

1.3.2 FTSE Russell hereby notifies users of the index series that it is possible that factors, including external factors beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

1.3.3 Index users who choose to follow this index series or to buy products that claim to follow this index series should assess the merits of the index series' rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation or any constituent data in the index series.

## 1.4 **These Ground Rules**

1.4.1 This document sets out the Ground Rules for the construction and maintenance of the FTSE Saudi Arabia Inclusion Index Series.

1.4.2 Unless specifically detailed in this document, all areas of the methodology regarding the management of the FTSE Saudi Arabia Inclusion Index Series are related to the FTSE Global Equity Index Series Ground Rules. The FTSE Saudi Arabia Inclusion Index Series Ground Rules should therefore be read in conjunction with the FTSE Global Equity Index Series Ground Rules. These rules are available on [www.ftserussell.com](http://www.ftserussell.com).

## 1.5 **FTSE Saudi Arabia Inclusion Index Series**

The following indexes are included in the FTSE Saudi Arabia Inclusion Index Series:

### 1.5.1 **FTSE Saudi Arabia Index**

This index comprises the Large and Mid Cap constituents that meet the stated eligibility requirements for Qualified Foreign Investors.

### 1.5.2 **FTSE Saudi Arabia Free Index**

This index comprises the Large and Mid Cap constituents that meet the stated eligibility requirements for domestic Investors. “Free” is included in the index name as the index constituents are weighted by free float adjusted market capitalisation.

### 1.5.3 **FTSE Saudi Arabia All Cap Index**

This index comprises the Large, Mid and Small Cap constituents that meet the stated eligibility requirements for Qualified Foreign Investors.

Individual Large, Mid and Small Cap Indexes are also calculated.

### 1.5.4 **FTSE Saudi Arabia Free All Cap Index**

This index comprises the Large, Mid and Small Cap constituents that meet the stated eligibility requirements for domestic Investors. “Free” is included in the index name as the index constituents are weighted by free float adjusted market capitalisation.

Individual Large, Mid and Small Cap Indexes are also calculated.

### 1.5.5 **FTSE Saudi Arabia Capped Indexes**

Capped versions of the Large/Mid and All Cap indexes are calculated. Further information on the capping approach can be found in Rule 6.2.4.

### 1.5.6 **FTSE Saudi Arabia Sector Indexes**

Industry, Supersector, and Sector indexes are calculated for the Large/Mid and All Cap Indexes using the Industry Classification Benchmark (ICB).

### 1.6.7 **FTSE Global Saudi Arabia Inclusion Indexes**

Additional indexes are created by combining constituents of the FTSE Saudi Arabia and FTSE Saudi Arabia All Cap Indexes with selected FTSE global/regional indexes.

1.6 A full list of indexes included in the FTSE Saudi Arabia Inclusion Index Series can be found in Appendix C.

1.7 The FTSE Saudi Arabia Inclusion Index Series is calculated in Saudi Riyal, Renminbi (Chinese Yuan), US Dollars, Euros, UK Pounds Sterling, and Japanese Yen.

1.8 Price, Total Return and Net of Tax Indexes are calculated on an end of day basis. The Total Return Index is based on ex dividend adjustments. The Total Return Indexes include income based on ex dividend adjustments. All dividends are applied as declared.

1.9 A series of net of tax Total Return Indexes are also calculated based on the maximum withholding tax rates applicable to dividends received by institutional investors who are not resident in the same country as the remitting company and who do not benefit from double taxation treaties.

The underlying tax rate information is available from FTSE Russell.



## Section 2

# Management Responsibilities

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### 2.0 Management Responsibilities

#### 2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indexes.

#### 2.2 Amendments to these Ground Rules

2.2.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to meet the current and future requirements of investors and other index users. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

2.2.2 As provided for in the Statement of Principles for FTSE Russell Equity Indexes, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Rules should subsequently be updated to provide greater clarity.



## Section 3

# FTSE Russell Index Policies

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### 3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

#### 3.1 FTSE Global Equity Index Guide to Calculation Methods

- 3.1.1 The aim of the guide is to describe how the indexes are calculated, to facilitate users replication of the indexes in order to support their investment and trading activities and to assist users in understanding the factors which influence the performance of the indexes.

[FTSE Global Equity Index Series Guide to Calc.pdf](#)

#### 3.2 Corporate Actions and Events Guide

- 3.2.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

#### 3.3 Statement of Principles for FTSE Russell Equity Indexes (the Statement of Principles)

Indexes need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by FTSE Russell's Product Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

#### 3.4 Queries, Complaints and Appeals

A constituent or prospective constituent company (or professional advisor acting on behalf of the company), a national organisation or a group of no fewer than ten users of the Indexes from different organisations acting in their professional capacity may appeal against decisions taken by FTSE Russell.

[FTSE Russell Benchmark Determination Complaints Handling Policy.pdf](#)

FTSE Russell's Appeal Process can be accessed using the following link:

[Appeals Against Decisions.pdf](#)

### 3.5 **Index Policy for Trading Halts and Market Closures**

3.5.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[FTSE Russell Index Policy for Trading Halts and Market Closures.pdf](#)

### 3.6 **Index Policy in the Event Clients are Unable to Trade a Market**

3.6.1 Details of FTSE Russell's treatment can be accessed using the following link:

[FTSE Russell Index Policy in the Event Clients are Unable to Trade a Market.pdf](#)

### 3.7 **Recalculation Policy and Guidelines**

3.7.1 The FTSE Saudi Arabia Inclusion Index Series are recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE Saudi Arabia Inclusion Index Series are notified through appropriate media.

For further information refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting

[info@ftserussell.com](mailto:info@ftserussell.com).

[Recalculation Policy and Guidelines Equity Indexes.pdf](#)

### 3.8 **FTSE Russell Policy for Benchmark Methodology Changes**

3.8.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[FTSE Russell Policy for Benchmark Methodology Changes.pdf](#)





## Section 4

# Security Inclusion Criteria

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### 4.0 Security Inclusion Criteria

4.1 All classes of equity in issue are eligible for inclusion in the FTSE Saudi Arabia Inclusion Index Series subject to conforming with Rules 4.2 to 4.6 and the criteria set in Appendix A.

4.2 The entire quoted equity capital of a constituent company is included in the calculation of its market capitalisation, subject to the free float restrictions highlighted in Rule 5.1.

4.3 The following are regarded as ineligible:

Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) which are classified by the Industry Classification Benchmark as Subsector equity investment instruments (8985) and Non-equity investment instruments which are classified by the Industry Classification Benchmark as Subsector non-equity investment instruments (8995) will not be eligible for inclusion.

Limited Liability Partnerships (LLP), Limited Partnerships (LP), Limited Liability Companies (LLC) and Business Development Companies (BDC) will not be eligible for inclusion.

Where a stapled unit comprises an eligible security and a non eligible security (such as non equity or an investment trust structure) the unit will not be eligible for inclusion.

Convertible preference shares and loan stocks are excluded – until converted.

Where a company does not list all its shares in an eligible class, or does not list an entire class, the unlisted shares are not eligible for inclusion, but they may be included in the Review Universe for the purpose of ranking companies by their full market capitalisation.

4.3.1 Securities that are assigned to the above segments after the review announcement date but before the index review effective date are assessed on a case-by-case basis which may generally result in scheduled index review additions, investability weight and shares in issue changes no longer being implemented at the forthcoming review.

4.4 Eligible securities are required to pass screens for liquidity, free float and foreign ownership restrictions before being included in the FTSE Saudi Arabia Inclusion Index Series (see Rules 5.1 and 6.4.2).

4.5 All securities included in the FTSE Saudi Arabia Inclusion Index Series are assigned a nationality in accordance with the rules set out in the Nationality Statement. Details can be accessed using the following link:

[Determining Nationality.pdf](#)

#### 4.6 **Multiple Lines**

Where there are multiple lines of equity capital in a company, all are included and priced separately, provided that they pass index eligibility screens in their own right.

- All partly-paid classes of equity are priced on a fully-paid basis if the calls are fixed and are payable at known future dates. Those where future calls are uncertain in either respect are priced on a partly-paid basis.



## Section 5

# Investability Weightings

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### 5.0 Investability Weightings

5.1 Constituents of the FTSE Saudi Arabia Inclusion Index Series created for Qualified Foreign Investors (QFIs) are adjusted for free float and foreign ownership limits.

Constituents of the FTSE Saudi Arabia Free Indexes are adjusted for free float.

Further details on free float restrictions can be accessed using the following link:

[Free Float Restrictions.pdf](#)

#### A. Initial Weighting

Free float is calculated using available published information rounded to 12 decimal places. Companies with a free float of 5% or below are not eligible for inclusion in the index, unless they exceed 10 times the inclusion percentage level by investable market capitalisation as stated in Rule 6.5.2.

#### B. Quarterly Updates

##### June Updates

In June, a constituent's free float is updated regardless of size. No buffers are applied.

##### March, September and December Updates

At the March, September and December quarterly updates, a constituent with a free float greater than 15% has its free float updated if it moves by more than 3 percentage points above or below the existing free float. For example, Company A on a free float of 30% would trigger a change if its free float moved to above 33% or below 27%.

A constituent with a free float of 15% or below is subject to a 1 percentage point threshold. For example, Company B on a free float of 8% would trigger a change if its free float moved to above 9% or below 7%.

Quarterly updates to free float are applied after the close of business on the third Friday of March, June, September and December. The data cut-off for these quarterly changes is the close of business on the third Wednesday of the month prior to the review month.

#### C. Updates Arising from Corporate Events

Free float changes resulting from corporate events are not subject to the buffers as detailed above and are implemented in line with the event. Full details of changes to constituent

companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide.

#### **D. Foreign Ownership Restrictions**

FTSE Russell's index methodology takes account of the restrictions placed on the equity holdings of foreign investors in a company where these have been imposed by a government, regulatory authority or the company's constitution.

Where the presence of a foreign ownership restriction creates a limit on foreign ownership (the Foreign Ownership Limit or FOL) that is more restrictive than the calculated free float for a company, the precise Foreign Ownership Limit is used in place of the free float for the purposes of calculating the company's investability weight.

If the foreign ownership restriction is less restrictive or equal to the free float restriction, the free float restriction is applied, subject to Rule 5.1. A.

If a company changes its foreign ownership restriction, the change is implemented in FTSE Russell indexes at the subsequent quarterly review, subject to rule 5.1 E – Minimum foreign headroom requirement.

The FTSE Saudi Arabia Free Indexes do not incorporate foreign ownership restrictions. Where a company fails the foreign ownership restrictions screen but passes all other eligibility requirements it will be eligible for inclusion in the FTSE Saudi Arabia Free Indexes.

#### **E. Minimum Foreign Head Room Requirement**

FTSE Russell defines "foreign headroom" as the percentage of shares available to foreign investors as a proportion of the company's Foreign Ownership Limit (FOL), i.e.  $(FOL - \text{foreign holdings})/FOL$ .

For example, if a company has a foreign ownership limit, of 49%, of which 39% is held by foreign investors, the foreign headroom is calculated as 20.41% i.e.  $(49\% - 39\%)/49\%$ .

- (i) For a new security that is subject to a foreign ownership limit a minimum headroom of 20% must be available in order to be included in the index.
- (ii) Where the headroom of an existing constituent falls below 10%, its investability weight is reduced by an absolute value of 5% at the next semi-annual review.

For example, if Company A's current investability weight is 49% (i.e. equal to the FOL), a 5% absolute reduction will result in an adjusted investability weight of 44.0%  $(49\% - 5\%)$ .

If Company B's current investability weight is 30% (i.e. Free Float more restrictive than FOL), a 5% absolute reduction will result in an adjusted investability weight of 25%  $(30\% - 5\%)$ .

- (iii) The investability weight will continue to be reduced at subsequent semi-annual reviews in increments of 5% until the headroom level increases to 10% or above. As a result of these 5% downward adjustments, should the investability weight of the security fall to 5% under this process, the security will no longer be eligible to remain in the index.
- (iv) The investability weight of an existing constituent which has been subject to headroom adjustments will have its most recent 5% adjustment reversed at a semi-annual review subject to a minimum 20% headroom remaining post reversal (as illustrated in step 2 below).

For example, Company A has an FOL of 49%, foreign holdings of 32% and a current investability weight of 29%.

Step 1: The foreign headroom test is calculated as 35% (i.e.  $(49\% - 32\%) / 49\%$ ), highlighting a potential reversal.

Step 2: The post reversal foreign headroom test is calculated as 24% (i.e.  $(49\% - 37\%) / 49\%$ ). For the purpose of the test the 5% adjustment is deemed to have the effect of increasing the foreign holding to 37%.

In the above example, Company A qualifies for a headroom reversal. The investability weighting will be increased from 29% to 34% (i.e.  $29\% + 5\%$ ).

- (v) In the event a security with a headroom adjustment increases its foreign ownership limit (FOL), the increase in the FOL will be implemented in two, 50% tranches, subject to the headroom remaining at 20% or above.

For example, Company A had two headroom adjustments down from a FOL of 24% to a current investability weight of 14.00%

Company A – Initial FOL of 24%	
(Q1) First Headroom Adjustment	19.00% (5% reduction from 24%)
(Q2) Second Headroom Adjustment	14.00% (5% reduction from 19%)

The Company announces an increase to its FOL from 24% to 35%. The increase in the FOL will be implemented in the following steps:

Company A announces an FOL increase to 35% (11% increase)	
(Q1) Subject to 20% headroom availability, FOR is increased by 50% of the 11% increase	$14.00\% + 5.50\% = 19.50\%$
(Q2) Subject to 20% headroom availability, FOR is increased by remaining 50% of the 11% increase	$19.50\% + 5.50\% = 25.00\%$
(Q3) Subject to 20% headroom availability, reverse second headroom adjustment of 5.0%	$25.00\% + 5.00\% = 30.00\%$
(Q4) Subject to 20% headroom availability, reverse first head room adjustment of 5.0%	$30.00\% + 5.00\% = 35.00\%$

- First quarterly review following the announcement of an increase in FOL to 35%; 50% of the FOL increase (in this case 5.50%) will be implemented (subject to headroom remaining at 20% or above).
- Second quarterly review; the remaining 50% of the FOL increase will be implemented (subject to headroom remaining at 20% or above).
- Subsequent quarterly reviews; if the headroom availability remains at 20% or above, the previous two headroom adjustments of 5% each will be reversed on a quarterly basis.

- (vi) In the event a security with a headroom adjustment decreases its foreign ownership limit (FOL), the decrease in the FOL will be implemented in full at the next quarterly review.

For example, Company A had a headroom adjustment down from a FOL of 24% to a current investability weight of 19.0%. The Company announces a decrease in the FOL to 21% (a decrease of 3% from the previous FOL of 24%).

FTSE will decrease the existing adjusted investability weight by the 3% reduction in FOL at the next quarterly review, resulting in Company A having a new investability weighting of 16.0% (19% - 3%).

- (vii) An existing constituent with a headroom adjustment, that passes the index eligibility screens (for example – liquidity, minimum size, investability weight) will not be eligible for index promotion from Small Cap to Large/Mid until all headroom adjustments have been reversed. An index demotion from Large/Mid to Small Cap will proceed for an existing constituent with a headroom adjustment.
- (viii) Where foreign ownership restrictions are not universally applied to all foreign investors, but only impact a particular set of foreign investors, a 5% headroom adjustment will be applied where there is evidence of these restrictions being enforced. This headroom restriction will be reassessed on a quarterly basis and will not be lifted until either foreign ownership restrictions are removed or all foreign investors are treated equally.
- (ix) For an existing index constituent, where foreign investors are prohibited from purchasing additional shares (for example, where Indian companies are placed on the Reserve Bank of India (RBI) Ban List), a 5% headroom adjustment will be applied at the next quarterly review and reassessed on a quarterly basis. Upon removal of restrictions prohibiting the purchase of shares, a headroom test will be conducted at the next quarterly review and headroom adjustments removed if the index constituent passes the headroom test.
- (x) Where a non constituent passes the relevant headroom test, but individual foreign investors or institutions are only permitted to hold a maximum of 1% of the free float adjusted shares in issue, the security will not be eligible for index membership.
- (xi) Headroom tests will be conducted in conjunction with the March, June, September and December quarterly reviews.
- (xii) Unless there is an increase in the foreign ownership limit, a headroom adjustment will not be reversed for a period of 6 months (i.e. if a headroom adjustment has been implemented at the June review then the earliest it can be reversed is at the following March review)
- (xiii) If a constituent has been removed from the index as a result of its investability weight falling below 5% following a headroom adjustment, it will only be reconsidered for inclusion after a period of 12 months from its deletion. For the purposes of index eligibility it will be considered as a new issue.
- (xiv) Securities are assigned their official foreign ownership limit, however if permission is required from a local regulator to purchase additional shares beyond a certain permission threshold, then the more restrictive permission level is assigned as the foreign ownership limit for example, a security may have a foreign ownership limit of 24%, however any purchase beyond 22% requires prior permission from the local regulatory authority. In this example the security would be assigned a foreign ownership limit of 22%.



## Section 6

# Periodic Review of Constituents

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### 6.0 Periodic Review of Constituents

#### 6.1 Index Regions and Reviews

- 6.1.1 Countries are grouped into regions (detailed below) for the purpose of reviews. Saudi Arabia is reviewed within the Middle East & Africa region. The review of each region takes place semi-annually as detailed below.

Regions to be Reviewed	Date of Review	Data Taken as of
Asia Pacific ex Japan Developed Europe Emerging Europe Japan	March	Last business day in December
Latin America Middle East & Africa North America	September	Last business day in June

Note: Advanced Emerging and Secondary Emerging markets are treated as Emerging for the purposes of Sections 6.0 and 7.0.

#### 6.2 Index Reviews

- 6.2.1 Countries are usually reviewed semi-annually in March and September, on a region by region basis, based on data as at the close of business on the last business day of December and June (where the last business day of the month falls on a Saturday or Sunday for any individual countries, data will be taken as at close of the last business day before Saturday). For Saudi Arabia any constituent changes resulting from the periodic review will be implemented after the close of business on the Thursday prior to the third Friday (i.e. effective the following Monday) of March and September.
- 6.2.2 The review process is designed to reflect market movements since the previous review and to minimise turnover.
- 6.2.3 Timings of announcements about changes to the indexes resulting from the review can be found in Section 9.0.
- 6.2.4 Capping is applied to companies in the FTSE Saudi Arabia Capped Indexes on a quarterly basis in March, June, September and December. A company whose index weight is greater than 10% is capped at 10%. The weights of all uncapped companies are increased in proportion to their investable market capitalisation. This process is repeated until no company has an index weight of greater than 10%.

- 6.2.5 Capping is applied to the FTSE Global Saudi Arabia Inclusion Capped Indexes on a semi-annual basis in March and September using the following steps:
- Step 1: Any country whose weight is greater than 40% is capped at 40%. The weights of all uncapped countries are increased in proportion to their investable market capitalisation. This process is repeated until no country has an index weight of greater than 40%.
- Step 2: Any company whose weight is greater than 10% is capped at 10%. The weights of all uncapped companies are increased in proportion to their investable market capitalisation. This process is repeated until no company has an index weight of greater than 10%.
- Steps 1 and 2 are repeated until no country weight is greater than 40% and no company weight is greater than 10%.
- 6.2.6 Where the target weights in rule 6.2.5 cannot be reached the company capping limit (Step 2) is relaxed in steps of 0.5% until all target weights have been reached. Each time the capping limit is relaxed the capping process is restarted Steps 1 and 2 are repeated.
- 6.2.7 Capping uses prices adjusted for corporate actions as at the close of business on the Thursday prior to the second Friday of the review month.
- 6.2.8 Capping is implemented after close of business on the Thursday prior to the third Friday (i.e. effective the following Monday) of the review month based on the constituents, shares in issue and free float on the next trading day following the Thursday prior to the third Friday of the review month.

### 6.3 Review Process

- 6.3.1 Define the 100% Regional Universe by selecting all eligible companies (as per Appendices A and B of the FTSE Global Equity Index Series Ground Rules) assigned the nationality of countries that are included in the Middle East & Africa region. For Saudi Arabia eligible securities are included in the regional universe that satisfies Rule 4.1. This is defined the Regional Universe.
- 6.3.2 Value companies by full market capitalisation (shares in issue \* price), group secondary lines, and rank companies (not securities) by full market value. Throughout the review process all of a company's eligible securities will remain grouped, and companies as a whole, rather than individual securities are assigned to Large, Mid or Small Cap (see Rule 6.5)
- 6.3.3 Calculate the total market capitalisation of the universe by totalling the full capitalisation of all eligible companies in the region.
- 6.3.4 Define the Index Universe - Ranked by full market capitalisation in descending order, calculate the cumulative market capitalisations of all stocks in the regional universe and their relevant weights. The top 98% of the Regional Universe will be selected and forms the Index Universe.
- 6.3.5 Securities of the FTSE Saudi Arabia Inclusion Index Series will be reviewed after the application of foreign ownership restrictions. Constituents of the FTSE Saudi Arabia Free Indexes that are weighted by free float adjusted market capitalisation will mirror the constituents of the FTSE Saudi Arabia Indexes. Where a security fails the foreign ownership restrictions screen as part of the review process, but passes all other eligibility requirements it will be eligible for inclusion in the FTSE Saudi Arabia Free Indexes.

### 6.4 Screens Applied to Eligible Securities

Eligible securities are subject to the following screens:

- 6.4.1 Investability Weightings and Multiple Lines as detailed in Sections 4.0 and 5.0.
- 6.4.2 Liquidity



Each security will be tested for liquidity semi-annually in March and September by calculation of its median daily trading per month. For further information please refer to the FTSE Global Equity Index Series Ground Rules. For the avoidance of doubt, Sunday volume data will be included in the test for those markets which are open on Sunday.

## 6.5 Reviewing Constituents for the Saudi Arabia Indexes

6.5.1 To reduce turnover, existing and potential constituents are subject to a series of 'buffer zones' to determine the cut-off points between Large, Mid and Small Cap – the buffers are detailed in the table below. In addition to the percentage cut-offs, new constituents are required to pass basis points entry and exit levels allocated to each specific region (the Middle East & Africa including Saudi Arabia) and index segment. These basis points entry and exit levels are detailed in Rule 6.5.2.

Turnover Bands (Based on the Index Universe)		
	Eligible for Inclusion	Eligible for Exclusion
Large Cap	68%	72%
Mid Cap	86%	92%
Small Cap	98%	101%

Note: 101% of the Index Universe is approximately 99% of the Regional Universe.

6.5.2 Inclusion and exclusion percentage levels by investable market capitalisation (after the application of foreign ownership restrictions) for the Middle East & Africa including Saudi Arabia region to determine additions and deletions and other changes in the index are shown below. These percentages are based on the respective regional Small Cap index constituents. Individual securities will be tested against these levels.

Region	For Inclusion (New Stocks)	For Exclusion (Current Stocks)
Middle East & Africa (Incl. Saudi Arabia)	1.00%	0.20%

In exceptional circumstances where FTSE Russell believes that strict adherence to the inclusion and exclusion levels listed in the above table and in Rule 6.5.3 would produce either excessive turnover at an index review, or an index that inaccurately represented different size segments, FTSE Russell reserves the right to vary the percentage levels.

6.5.3 Companies currently not in the FTSE Saudi Arabia Indexes:

- Saudi Arabia companies at or above 68% of the Index Universe by full market capitalisation with a weight greater than 0.04% of the current FTSE Middle East & Africa Saudi Arabia Inclusion Index by full market capitalisation, and with a weight greater than the inclusion percentage levels stated in Rule 6.5.2 for the Middle East & Africa including Saudi Arabia region by investable market capitalisation (after the application of foreign ownership restrictions), will be included in the FTSE Saudi Arabia Large Cap Index.
- Saudi Arabia Companies ranked below 68%, but within the top 86% of the Index Universe by full market capitalisation with a weight greater than 0.04% of the current FTSE Middle East & Africa Saudi Arabia Inclusion Index by full market capitalisation, and with a weight greater than the inclusion percentage levels stated in Rule 6.5.2 for the Middle East & Africa including Saudi Arabia region by investable market capitalisation (after the application of foreign ownership restrictions), will be included in the FTSE Saudi Arabia Mid Cap Index.
- Saudi Arabia Companies ranked below the top 86%, but within the top 98% of the Index Universe by full market capitalisation or have a weight less than 0.04% of the current FTSE Middle East & Africa FTSE Saudi Arabia Inclusion Index by full market capitalisation, and with a weight greater than the inclusion percentage levels stated in Rule 6.5.2 for the respective Middle

East & Africa including Saudi Arabia region by investable market capitalisation (after the application of foreign ownership restrictions), will be included in the FTSE Saudi Arabia Small Cap Index.

**Existing Constituents:**

- **FTSE Saudi Arabia Large Cap** constituents will remain in the Large Cap Index if they fall within the top 72% of the ranking described in Rule 6.3. If they are ranked between 72% and 92% of the Index Universe they will move to the Mid Cap. If they are ranked below 92% of the Index Universe but within the top 101% of the Index Universe, they will move to the Small Cap. If they are ranked below 101% of the Index Universe by full market capitalisation or have a weight less than the exclusion percentage levels stated in Rule 6.5.2 for the Middle East & Africa including Saudi Arabia region by investable market capitalisation (after the application of foreign ownership restrictions), they will be excluded from the index.
- **FTSE Saudi Arabia Mid Cap** constituents will move to the Large Cap if they fall within the top 68% of the ranking described in Rule 6.3. If they are ranked between 68% and 92% of the Index Universe they will remain in the Mid Cap. If they are ranked below 92% of the Index Universe but within the top 101% of the Index Universe, they will move to the Small Cap. If they are ranked below 101% of the Index Universe by full market capitalisation or have a weight less than the exclusion percentage levels stated in Rule 6.5.2 for the Middle East & Africa including Saudi Arabia region by investable market capitalisation (after the application of foreign ownership restrictions), they will be excluded from the index.
- **FTSE Saudi Arabia Small Cap** constituents will move to the Large Cap if they fall within the top 68% of the ranking described in Rule 6.3. If they are ranked between 68% and 86% of the Index Universe by full market capitalisation and have a weight greater than 0.04% of the current FTSE Middle East & Africa Saudi Arabia Inclusion Index by full market capitalisation they will move to the Mid Cap. If they are ranked below 86% of the Index Universe or have a weight less than 0.04% of the current FTSE Middle East & Africa Saudi Arabia Inclusion Index by full market capitalisation, but within the top 101% of the Index Universe, they will remain in the Small Cap. If they are ranked below 101% of the Index Universe by full market capitalisation or have a weight less than the exclusion percentage levels stated in Rule 6.5.2 for the Middle East & Africa including Saudi Arabia region by investable market capitalisation (after the application of foreign ownership restrictions), they will be excluded from the index.



## Section 7

# Additions Outside of a Review

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### 7.0 Additions Outside of a Review

#### 7.1 Definition of Fast Entry Thresholds

- a) **Large Cap Inclusion Level** - Full market capitalisation of the smallest company that falls wholly within the top 68% of the Index Universe by full market capitalisation of the Middle East & Africa including Saudi Arabia region when ranked according to Rule 6.3.
- b) **Mid Cap Inclusion Level** - Full market capitalisation of the smallest company that falls wholly within the top 86% of the Index Universe by full market capitalisation of the Middle East & Africa including Saudi Arabia region when ranked according to Rule 6.3.

7.1.1 For a security to be considered for fast entry, it will have to meet both a full market capitalisation threshold at company level and an investable market capitalisation threshold at security level.

- The full market capitalisation threshold is defined as 1.5 times the Mid Cap inclusion level (see 7.1b).

For example, if the 86% Mid Cap inclusion level is 10bn USD. The full market capitalisation fast entry threshold at company level will be  $10\text{bn} * 1.5 = 15\text{bn USD}$

- The investable market capitalisation threshold is defined as 0.5 times the Mid Cap inclusion level.

For example, if the 86% Mid Cap inclusion level is 10bn USD. The investable market capitalisation fast entry threshold at security level will be  $10\text{bn} * 0.5 = 5\text{bn USD}$

Where a security passes both the full market capitalisation and investable market capitalisation test, it will be assigned to the Large Cap index subject to its full market capitalisation breaching the Large Cap inclusion level (see 7.1a), otherwise it will be assigned to the Mid Cap index.

Shares being offered as a greenshoe (over allotment option) will be excluded from the investable market capitalisation calculation.

7.1.2 The Fast Entry level will be set at the time of the semi annual review in March and September and published by FTSE Russell. In June and December the Fast Entry levels will be adjusted up to 11 May or 11 November, as appropriate, using the performance of the FTSE Middle East & Africa All Cap Saudi Arabia Inclusion Index. An updated figure will be published by FTSE Russell.

Please note: Where 11 May or 11 November are non-trading days or fall on a Saturday or Sunday then the previous trading day's data will be used.

- 7.1.3 Where a company, whether an existing constituent or not, undertakes an Initial Public Offering of a new equity security, that security will be eligible for fast entry inclusion to the FTSE Saudi Arabia Indexes if it meets the following conditions:
- A.** A new equity security (IPO), which satisfies the eligibility criteria and the screens other than the liquidity screen, is eligible for fast entry when its full market capitalisation (i.e. before the application of any investability weighting) using the closing price on the first day of trading is greater than the Fast Entry Thresholds for the relevant region (see Rule 7.1). The addition of a new security to the index will be implemented after the close of business on the fifth day of trading. In the event of the fifth day of trading being in close proximity to an index review, FTSE Russell may use its discretion to include a fast entrant at the index review date following advance notice.
  - B.** A new equity security (IPO) which does not qualify as an immediate fast entrant to the index will be re-considered for inclusion into the FTSE Saudi Arabia Indexes at the next review. However, for inclusion at a quarterly review outside the March and September semi-annual reviews, its full market capitalisation at close on 11 May or 11 November (previous trading day's data will be taken if any of these dates are on a non trading day or where they fall on a Saturday or Sunday), as appropriate, must be:
    - equal to or greater than the entry levels under Rule 6.5.1 (index adjusted to reflect the change in performance of the regional index since its previous semi-annual review).
    - and it must qualify under Rules 5.1 and 6.4.2 (including the minimum requirement of a 3 month trading record under).
  - C.** In the case of a demutualisation where upon listing the entire free float of a new eligible security is immediately transferred to private shareholders the addition of the security will be deferred for one month after trading has commenced - provided that adequate liquidity over the intervening period (as defined under Rule 6.4.2) is demonstrated.
  - D.** Newly eligible securities, for example a non-constituent moving to an eligible market, will be reviewed for inclusion at the next semi-annual review.

## Section 8

# Corporate Actions and Events

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### 8.0 Corporate Actions and Events

8.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes using the following link:

[Corporate Actions and Events Guide.pdf](#)

A Corporate 'Action' is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- Scrip issues (Capitalisation or Bonus Issue)

A Corporate 'Event' is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index. Where an index adjustment is required FTSE Russell will provide notice advising of the timing of the change.

### 8.2 Shares in Issue

Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes.

### 8.3 Spin-offs

8.3.1 If a constituent company is split and forms two or more companies by issuing new equity to existing shareholders, then the resulting companies may be eligible to continue as constituents in the same indexes within the FTSE Saudi Arabia Inclusion Index Series as their predecessor company. Where eligible to continue as a constituent, the spin-off entity (entities) will remain in the same indexes as the parent company until the next quarterly review, where subject to there being a minimum 3 month trading record, it will be tested for liquidity as a new issue and be re-ranked or deleted, if below the exit threshold.

8.3.2 For further details please refer to the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes.

#### 8.4 **Suspension of Dealing**

Suspension of dealing rules can be found within the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes.

#### 8.5 **Takeovers, Mergers and Demergers**

The treatment of takeovers, mergers and demergers can be found within the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes.



## Section 9

# Announcing Changes

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### 9.0 Announcing Changes

#### 9.1 Changes to Constituents

- 9.1.1 Decisions regarding the addition of new constituents (which are unrelated to existing index constituents or changes to the investable weighting of existing constituents) are announced at the earliest possible time before their inclusion in the index series. However, the announcement may be contingent upon the confirmation of the listing date of the security and passing all the screens.
- 9.1.2 In order to allow users sufficient time to manage any revisions, FTSE Russell will endeavour to make no further amendments to the published quarterly changes beyond 2 business days following publication. Where further revisions are identified after this date they will normally be addressed at a subsequent review (unless those revisions are resultant of corporate events, in which case they will be applied at the same time as the corporate event). However FTSE Russell reserves the right to determine the most appropriate timing for revisions with reference to the Statement of Principles.
- 9.1.3 Implementation of any quarterly changes will happen after the close of business on the Thursday prior to the third Friday (i.e. effective the following Monday) in March, June, September or December.
- 9.1.4 Announcements made after the close of the index calculation within the individual country market are normally made on the following business day.

#### 9.2 Index Methodology Changes

- 9.2.1 Users of the FTSE Saudi Arabia Inclusion Index Series are notified of such policy changes through appropriate media before implementation.



## Section 10

# Algorithm and Calculation Method

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### 10.0 Algorithm and Calculation Method

#### 10.1 Prices

10.1.1 The FTSE Saudi Arabia Inclusion Index Series use a volume weighted average closing price for securities with local market quotations. Further details can be accessed using the following link: [Closing Prices Used For Index Calculation.pdf](#)

#### 10.2 Exchange Rates

10.2.1 Exchange rates used in the index calculations are WM/Reuters Closing Spot Rates™, at 16:00 UK time (further information on The WM/Reuters Closing Spot Rates service is available from The WM Company).

#### 10.3 Calculation Frequency

10.3.1 The FTSE Saudi Arabia Inclusion Index Series is calculated from Monday to Friday. See the calculation schedule for the FTSE Global Equity Index Series.

#### 10.4 Algorithm

10.4.1 For details on the Algorithm and calculation methods used for the FTSE Saudi Arabia Inclusion Index Series see the FTSE Global Equity Index Series Guide to Calculation..





## Appendix A: Eligible Markets, Classes of Securities and Sources of Trading

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### Eligible Markets

Country	Exchange	Market Section(s)
Saudi Arabia	Tadawul	Main Market

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### Eligible Classes of Securities

Country	Class	Translation
Saudi Arabia	Ordinary	Ordinary

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Further information on the eligible markets, classes of securities and sources of trading for companies included in the FTSE Global Equity Index Series can be found in the FTSE Global Equity Index Series Ground Rules.

## Appendix B: Index Algorithm & Calculation Method

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For details on the Algorithm and calculation methods used for the FTSE Global Equity Index Series see the Guide to Calculation Methods.

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

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 Russell 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 Russell for each security in the underlying index.
- $c_i$  is the Capping Factor to be applied to the securities of the FTSE Saudi Arabia Capped Indexes 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 Russell 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 C: The Saudi Arabia Inclusion Index Series

Index	Qualified Foreign Investors	Domestic Investors	Sectors Available	Capped Version	Net of Tax Version
FTSE Saudi Arabia Index	Y		Y		Y
FTSE Saudi Arabia Capped Index	Y		Y	Y	Y
FTSE Saudi Arabia All Cap Index	Y		Y		Y
FTSE Saudi Arabia All Cap Capped Index	Y		Y	Y	Y
FTSE Saudi Arabia Large Cap Index	Y		Y		Y
FTSE Saudi Arabia Mid Cap Index	Y		Y		Y
FTSE Saudi Arabia Small Cap Index	Y		Y		Y
FTSE Saudi Arabia Free Index		Y	Y		
FTSE Saudi Arabia Free Capped Index		Y	Y	Y	
FTSE Saudi Arabia Free All Cap Index		Y	Y		
FTSE Saudi Arabia Free All Cap Capped Index		Y	Y	Y	
FTSE Saudi Arabia Free Large Cap Index		Y	Y		
FTSE Saudi Arabia Free Mid Cap Index		Y	Y		
FTSE Saudi Arabia Free Small Cap Index		Y	Y		

Additional indexes are created by combining constituents of the FTSE Saudi Arabia and FTSE Saudi Arabia All Cap Indexes with selected FTSE global/regional indexes.

Inclusion Index	Underlying Index Universe*	Saudi Arabia Component
FTSE All-World Saudi Arabia Inclusion Index	FTSE All-World Index	FTSE Saudi Arabia Index
FTSE Global All Cap Saudi Arabia Inclusion Index	FTSE Global All Cap Index	FTSE Saudi Arabia All Cap Index
FTSE Emerging Saudi Arabia Inclusion Index	FTSE Emerging Index	FTSE Saudi Arabia Index
FTSE Emerging All Cap Saudi Arabia Inclusion Index	FTSE Emerging All Cap Index	FTSE Saudi Arabia All Cap Index
FTSE Middle East & Africa Saudi Arabia Inclusion Index	FTSE Middle East & Africa Index	FTSE Saudi Arabia Index

<b>Inclusion Index</b>	<b>Underlying Index Universe*</b>	<b>Saudi Arabia Component</b>
FTSE Middle East & Africa All Cap Saudi Arabia Inclusion Index	FTSE Middle East & Africa All Cap Index	FTSE Saudi Arabia All Cap Index
FTSE Middle East & North Africa Saudi Arabia Inclusion Index	FTSE Bahrain Index FTSE Egypt Index FTSE Israel Index FTSE Jordan Index FTSE Kuwait Index# FTSE Morocco Index FTSE Oman Index FTSE Qatar Index FTSE Tunisia Index FTSE UAE index	FTSE Saudi Arabia Index
FTSE Middle East & North Africa All Cap Saudi Arabia Inclusion Index	FTSE Bahrain All Cap Index FTSE Egypt All Cap Index FTSE Israel All Cap Index FTSE Jordan All Cap Index FTSE Kuwait All Cap Index# FTSE Morocco All Cap Index FTSE Oman All Cap Index FTSE Qatar All Cap Index FTSE Tunisia All Cap Index FTSE UAE All Cap index	FTSE Saudi Arabia All Cap Index
FTSE GCC Saudi Arabia Inclusion Index	FTSE Bahrain Index FTSE Kuwait Index# FTSE Oman Index FTSE Qatar Index FTSE UAE index	FTSE Saudi Arabia Index
FTSE GCC Saudi Arabia Inclusion Capped Index	FTSE Bahrain Index FTSE Kuwait Index# FTSE Oman Index FTSE Qatar Index FTSE UAE index	FTSE Saudi Arabia Index
FTSE GCC All Cap Saudi Arabia Inclusion Index	FTSE Bahrain All Cap Index FTSE Kuwait All Cap Index# FTSE Oman All Cap Index FTSE Qatar All Cap Index FTSE UAE All Cap index	FTSE Saudi Arabia All Cap Index
FTSE GCC All Cap Saudi Arabia Inclusion Capped Index	FTSE Bahrain All Cap Index FTSE Kuwait All Cap Index# FTSE Oman All Cap Index FTSE Qatar All Cap Index FTSE UAE All Cap index	FTSE Saudi Arabia All Cap Index

\* Where the underlying country index constituents are required to meet the FTSE Global Equity Index Series and FTSE Frontier Index Series eligibility criteria for inclusion.

# Kuwait will be included in the FTSE Saudi Arabia Inclusion Index Series from September 2017 following the country classification announcement of its reclassification to Secondary Emerging status. The constituents prior to its inclusion into the FTSE Global Equity index Series in September 2018 will be taken from the FTSE Watch list indexes.



## Appendix D: Further Information

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A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link: [Glossary.pdf](#)

For further information on the FTSE Saudi Arabia Inclusion Index Series and FTSE Global Equity Index Series Ground Rules visit [www.ftserussell.com](http://www.ftserussell.com) or e-mail [info@ftserussell.com](mailto:info@ftserussell.com). Contact details can also be found on this website.

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