

Russell US Index Reconstitution 2017 – China N Shares

Construction & Methodology Update

03 April 2017

Further to the notice “**FTSE Russell Nationality Alignment Consultation: Next Steps**” released on 3 March 2017, this notice clarifies the impact of the China nationality rule on the Russell US and Russell Global Indexes.

Companies designated as N Shares will not be eligible for inclusion within the Russell US Index and will instead be assigned to China within the Russell Global Index (contingent on the company satisfying all other index inclusion criteria). Current Russell US index members that are impacted by the change will be removed from the Russell US Index and added to the Russell Global Index after the close on 23 June (i.e. effective from the open on 26 June 2017) if they satisfy all other inclusion criteria (after the close) in conjunction with the Russell US Index reconstitution.

Indicative Impact

Using current information, it is projected that the list of companies included in the attached file ([here](#)) will be assigned as China N Shares and therefore will be ineligible for consideration for inclusion in the Russell US Index. The impact within the Russell US Index is currently isolated to the projected removal of Wins Finance Holdings Inc (Russell 2000). Please note, that the assignments provided are indicative at this stage. The final determination using SEC filings available up to the rank date on 12 May 2017, will be communicated within the standard reconstitution deliverables.

Changes to Methodology Documentation

Consistent with this clarification, Section 3 and Appendix B of the Russell US Construction and Methodology will be updated as detailed below. The revised documents will be effective at the June 2017 Russell US Index reconstitution.

Section 3: Defining eligible securities

Home-country indicators (HCIs)

If a company incorporates in, has a stated headquarters location in, and also trades in the same country, (ADRs and ADSs are not eligible), the company is assigned to its country of incorporation. If any of the three criteria do not match, Russell then defines three home country indicators (HCIs). The HCIs are as follows:

1. Country of incorporation
2. Country of headquarters
3. Country of the most liquid exchange as defined by two-year average daily dollar trading volume (ADDTV) from all exchanges within a country

After the HCIs are defined, the next step in the country assignment involves an analysis of assets by location. FTSE Russell cross-compares the primary location of the company’s assets with the three HCIs. If the primary location of assets matches ANY of the HCIs, then the company is assigned to its primary asset location (see Appendix B for specifics on the definition of primary asset/revenue location).

If there is not enough information to determine a company’s primary location of assets, FTSE Russell uses the primary location of the company’s revenue for the same cross-comparison and assigns the company to the appropriate country in a similar fashion. FTSE Russell uses an average of two years of assets or revenue data for analysis to reduce potential turnover.

If conclusive country details cannot be derived from assets or revenue, FTSE Russell assigns the company to the country in which its headquarters are located unless the country is a Benefit Driven Incorporation (BDI) country (see Appendix B for a list of BDI countries). If the country in which its headquarters are located is a BDI, the company is assigned to the country of its most liquid stock exchange.

If a company is designated as a Chinese “N Share”, it will not be considered for inclusion within the Russell US Indexes. An “N Share” company is controlled by Mainland Chinese entities, companies or individuals. It must be incorporated outside of China and traded on the New York Stock Exchange, the NASDAQ exchange, or the NYSE MKT with a majority of its revenue or assets derived from PRC. Further information regarding the designation of N shares is available within Appendix B.

Appendix B - Country assignment methodology details

China N Share designation

A US listed company is not eligible for inclusion within the Russell US Indexes if it has been classified by FTSE Russell as a China N share on the rank date of the index reconstitution. For a company to be considered to constitute a China N Share the following criteria will have been fulfilled:

- The company is incorporated outside the PRC; and
- The company is listed on the New York Stock Exchange, the NASDAQ exchange, or the NYSE MKT; and
- Over 55 per cent of the revenue or assets of the company are derived from the PRC; and
- The company is controlled by mainland Chinese entity, company or individual *.

* If the shareholder background cannot be determined with publicly available information, FTSE Russell will assess the N share status of a company with the help of other criteria including:

- Whether the establishment and origin of the company are in Mainland China; and
- Whether the company’s headquarters is in Mainland China.

Further details on N-shares and other Chinese share classes can be found in the Guide to Chinese Share Classes (Version 1.2): [Guide_to_Chinese_Share_Classes.pdf](#)

An updated copy of the Russell US Construction and Methodology (Version 2.5) is now available on the FTSE Russell website : www.ftserussell.com

[Indicative_N_Share_list_3_April_2017.xlsx](#)

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