

Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes - Update

20 September 2019

FTSE Russell would like to inform clients of the following clarification updates to the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes which are effective immediately (please note that there is no change to current working practise):

4.10.3 Merger between Index Constituents for Cash or Stock, or a Combination Thereof

FTSE Russell has clarified and expanded on the detail provided within the guide to further describe treatment of merger transactions which involve elections:

Old rule

The target company is deleted from the index and the shares of the acquiring company are simultaneously increased per the merger terms. When a merger involves elections, the acquirer's shares will be increased in accordance with the election results and the announced number of shares being issued (adjusted to account for FTSE Russell's current float factor of the target). If the election results trigger a change to index shares within 3% of the change if using the non-election terms, the non-election terms will be used instead. If the terms are cash and stock (no option); then the shares of the acquirer will be increased per the offer terms. In the absence of an active market for the target company at the time of index implementation, the target company will be maintained and then deleted from the index using a synthetic price based on the default offer terms (the consideration an investor will receive for non election).

New rule

The target company is deleted from the index and the shares of the acquiring company are simultaneously increased per the merger terms.

When a merger involves elections, the following treatment applies:

- **Mix and match offer** (where the amounts of cash and shares offered by the bidder are fixed in advance and are capped): the shares of the acquirer will generally be increased in accordance with the offer terms.

In the event that the default consideration is known prior to index implementation, and using the default consideration results in a change to the acquirer of 3% (to index shares) or less versus using the mix and match consideration, the default option will be used (to limit small residual turnover for index users at the time of the event)

If the default consideration is unknown prior to the effective date, the event will be implemented using the shares and cash being distributed.

- **Uncapped terms** (where the amounts of cash or shares offered by the bidder are not capped): the total shares of the acquirer will be increased in accordance with the election results, with the free float adjusted to account for the free float of the target. Where it can be determined that increasing the shares of the acquirer using the election results will result in a change to index shares of the

acquirer of 3% or less versus the non-election consideration, the non-election terms will be used instead.

4.10.4 Constituent Acquired by a Non-Constituent

FTSE Russell has clarified the method used to determine the addition price of a new company in the event a constituent is acquired by a non-constituent **(update in bold)**:

Where a company has been acquired by a non-constituent for shares, or a combination of cash and shares, the acquiring company will be included in the target's index provided it is eligible in all other respects at the time of the merger, regardless of previous eligibility screenings. Note, the merged company will also be assumed to inherit the target company's liquidity and a previous liquidity screening "fail" will not be recognised. If the acquiring company has a different nationality assignment, it will be transferred to the appropriate country index, with suitable notice after the listing of the new shares. Only the shares received as a result of the acquisition will be included in the index on the effective date; any shares previously attributed to the non-constituent will be reviewed for inclusion at the next quarterly review in accordance with the shares and float update policy (see Section 5.0). The new company will be added to the index on the effective date using the offer terms (i.e. last close of the target company **adjusted** by the offer terms).

4.12.1 Replacing Ordinary lines with Tendered Shares Lines

FTSE Russell has provided guidance to clarify when ordinary lines may be replaced by tendered shares lines during tender offer transactions:

New Rule

In the event that a tender offer results in an additional listed and active 'tendered' line prior to the tendered shares being accepted and exchanged for settlement, FTSE Russell will generally evaluate the following factors to determine whether to switch to the tendered line:

1. The objective of the offer is to fully acquire and delist the target company (and FTSE Russell is not aware of any obstacles designed to prevent this objective; e.g. there are no major shareholders who have publicly disclosed that they will not be tendering); and
2. The offer is deemed to be successful (i.e. the minimum acceptance threshold has been achieved); and
3. More than 50% of the shares subject to the offer have been tendered; and
4. There is an additional tender offer period to provide a window for index users to tender into the tendered shares' line; and
5. There are outstanding regulatory or other substantive hurdles preventing the transaction completing immediately at the conclusion of the tender offer, with the results not expected to be known for some time.

Index implementation will generally occur immediately after the opening of the additional offer period (with the provision of appropriate notice) - with an informative notice published announcing the change, to supplement the information within the applicable tracker files.

In the event that the tendered line is halted prior to index implementation, its close price will be updated to reflect the deal terms until implementation.

In the event that the prerequisites for deletion are not achieved and the target company is retained within the index at a reduced weight, the tendered line will be removed at deal terms (if no active market) with the ordinary line being re-added at a reduced weight at its last close price.

5.1 Quarterly Updates

FTSE Russell has amended the guidelines to ensure alignment with the process detailed within the Free Float Restrictions guide.

Old rule

Please note:

- Shares in issue is defined as the number of shares outstanding excluding shares held in treasury and unissued shares.
- Free Float changes resulting from the expiry of a lock-in will be implemented at the next quarterly review subsequent to there being a minimum of 20 business days between the lock-in expiry date and the Tuesday before the first Friday of the review month. If the previously locked-in shares are sold by way of a corporate event (such as a secondary offering), any change to the free float will be applied in accordance with the intra-quarter update rules.

New rule

Please note:

- Shares in issue is defined as the number of shares outstanding excluding shares held in treasury and unissued shares.
- **Free Float changes resulting from the expiry of a lock-up will be implemented at the next quarterly review subject to the lock-up expiry date occurring on or prior to the share and float change information cut-off date.**

An updated copy of the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes (v4.3) is now available using the following link: [Corporate_Actions_and_Events_Guide.pdf](#)

Or on the FTSE Russell website: www.ftserussell.com

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