

FTSE Nareit US Real Estate Index Series and FTSE Nareit US Real Estate Capped Index Series – Addition of UBTI Screen - Ground Rule Update

19 December 2019

FTSE Russell and Nareit announce the introduction of an “Unrelated Business Taxable Income” (UBTI) screen to the following FTSE Nareit US Real Estate indexes effective from June 2020 quarterly review:

- FTSE Nareit Composite Index
- FTSE Nareit 50 Index
- FTSE Nareit All Equity REITs Index
- FTSE Nareit Equity REITs Index
- FTSE Nareit RORI REITs Index
- FTSE Nareit Mortgage Index

The Ground Rules have been updated as follows:

Section 5: Qualification Criteria and Periodic Review of Constituents - addition of the following screen

5.8 Screen Five - UBTI Screen

- 5.8.1 Companies that produce unrelated business taxable income (UBTI) are restricted from ownership for tax-exempt investors. In recognition of this, FTSE Russell screens all REIT's, removing any security from eligibility that generates or has historically generated UBTI and has not taken steps to block UBTI to equity holders. The research process is conducted on an annual basis in advance of the June quarterly review. Additional screening will not be assessed or changed outside of the June index review period. Information used to confirm UBTI impact includes the following publicly available sources: 10-K, SEC Form S-3, K-1, company annual report, dividend notices or company website.
- 5.8.2 For UBTI to be passed to a security holder, the UBTI must be produced by the company directly. UBTI incurred by a subsidiary will not be realized by the holder of the parent entity and would not require removal of the parent company from eligibility.
- 5.8.3 If a company restructures to block UBTI, they will remain eligible for index inclusion. Acceptable forms of restructure are as follows:
1. Formal creation of a shell entity or offshore vehicle ensuring that any dividend payment is void of UBTI.
 2. If within a public filing (SEC filing, dividend disclosure, press release) the company declares that any UBTI producing assets have been sold AND no future intent to purchase UBTI producing assets exists. This declaration of intent must clearly state that the company's past investment strategy has changed, and the intent is to remove the exposure of UBTI to the end holder.
- 5.8.4 UBTI screening will be conducted in line with the June review each year and applied to the FTSE Nareit tradeable indexes such as the FTSE Nareit Composite, FTSE Nareit 50, FTSE Nareit Equity

REITs, FTSE Nareit All Equity REITs, FTSE Nareit RORI REITs Index and FTSE Nareit Mortgage REITs. The UBTI screen will not apply to the FTSE Nareit All REITs Index. The research cut-off date for UBTI screening will fall in May each year and be in line with the Russell US Equity Indexes UBTI cut-off date.

Updated copies of the FTSE Nareit US Real Estate Index Series Ground Rules and FTSE Nareit US Real Estate Capped Index Series Ground Rules are now available using the following links:

[FTSE_Nareit_US_Real_Estate_Index_Series.pdf](#)

[FTSE_Nareit_US_Real_Estate_Capped_Index_Series.pdf](#)

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