

FTSE UK Index Series - Ground Rule Update

02 April 2020

FTSE Russell would like to inform clients of the following clarification updates to the FTSE UK Index Series Ground Rules which is effective immediately:

4.2 Ineligible Securities

4.2.1. The following investment entities are regarded as ineligible:

- **Companies whose business is classified by the Industry Classification Benchmark as Subsector Non-equity investment instruments (8995) (New ICB Open End and Miscellaneous Investment Vehicles (30205000)). This includes Split Capital Investment Trusts where instead of the use of a single class of ordinary share, the structure is split into separate income and capital classes in which the two (or more) classes have different residual entitlements to assets and/or income after meeting the requirements of any other classes or borrowings (note: this does not include Split Capital Trusts with ordinary shares accompanied by zero dividend preference shares, whereby the ordinary share remains eligible in the same manner as a conventional Investment Trust);**
- Venture Capital Trusts (VCTs);
- Convertible preference shares and loan stocks will be excluded until converted into eligible Equity Shares. Where a unit comprises equity and non-equity it will not be eligible for inclusion.

5.0 Nationality

5.1.1 A company will be allocated to a single country. A company that has been assigned UK nationality by virtue of these Ground Rules will also be assigned UK nationality in the FTSE Global Equity Index Series. However, a company assigned UK nationality under the FTSE Global Equity Index Series will not be automatically eligible for UK nationality under these rules.

5.1.2 If a company is UK incorporated, FTSE will allocate the company UK nationality provided:

- The company has its sole listing in the UK.
- The company has a minimum free float of 25%¹.

5.1.3 If a company is not incorporated in the UK, the company must meet the following conditions in order to be considered eligible for UK Nationality assignment:

- The company must publicly acknowledge adherence to the principles of the UK Corporate Governance Code, pre-emption rights and the UK Takeover Code as far as practicable.

- The company must have a free float greater than 50%.

5.1.4 In circumstances other than those of Rule 5.1.2, FTSE will base its recommendation on its assessment of various factors including, but not necessarily limited to, the following:

- The investor protection regulations present in the country of incorporation;
- The country in which the company is domiciled for tax purposes;
- The location of its factors of production;
- The location of its headquarters;
- The location of company meetings;
- The composition of its shareholder base;
- The membership of its board of directors;
- The currency denomination of the company's shares;
- The perception of investors.

In certain circumstances, outlined in Rules 5.1.5 to 5.1.8, consideration will also be given to the relative liquidity of trading in those countries where the company's shares trade. In calculating the liquidity associated with a country, trading volumes will be amalgamated from all venues which have admitted the shares to trading based on a listing conferred by that country's listing authority. Trades taking place on multi-lateral trading facilities will be included in the calculation and assigned to the country that conferred the listing to the company provided that the country of listing and the multi-lateral trading facility operate within a similar time zone.

5.1.5 If a company is incorporated in the UK, has a listing in the UK and listings in other countries on an **eligible exchange** (as classified within the FTSE Global Equity Index Series), FTSE will normally assign the country to the UK provided the liquidity in the UK passes FTSE's liquidity test for index inclusion.

5.1.6 If a company is incorporated in a developed country other than the UK, is listed on an **eligible exchange** in that country and in the UK (and potentially other developed countries), FTSE will normally only assign UK nationality if the company fails FTSE's liquidity tests in its country of incorporation, passes the liquidity tests in the UK, and liquidity is higher in the UK than any other country.

5.1.7 If a company is incorporated in a developed country other than the UK, has no listing in that country but is listed in the UK and potentially other countries on an **eligible exchange**, FTSE will normally only assign UK nationality if liquidity is highest in the UK.

5.1.8 If a company is incorporated in a country other than a developed country, it will not be eligible for UK nationality unless the country of incorporation is a country that is internationally recognised as having a low taxation status and that has been approved by FTSE. For companies incorporated in approved low taxation countries, FTSE may assign UK nationality if liquidity in the UK is higher than in any other country. A current list of the approved low taxation jurisdictions can be accessed using the following link:

[Low_Taxation_Jurisdictions.pdf](#)

5.1.9 Once a company has been assigned a UK nationality by virtue of the liquidity tests in Rules 5.1.6 to 5.1.8, if it subsequently fails the liquidity test in the UK, or if there is a country with greater liquidity for two consecutive annual reviews, FTSE will review the company's

nationality assignment.

5.1.10 Other than meeting the conditions of Rule 5.1.2 or 5.15, should a company make a change to its circumstances (such as a change in incorporation or adoption of an additional listing), FTSE may defer the consideration of whether to change a company's nationality assignment for a minimum period of three months up to a maximum period of up to 12 months; this will allow FTSE to properly assess the subsequent evolution of its trading liquidity and of the other criteria listed in Rule 5.1.4. If following such an assessment period, FTSE decides to change a company's nationality assignment, the change will become effective at the index quarterly review following publication of the decision.

5.2 Where a company's nationality has been determined as UK, if the shares are traded in CDI form (Crest Depository Interest), the CDI will be considered as eligible subject to meeting all other index eligibility criteria.

An updated copy of the FTSE UK Index Series Ground Rules (v14.0) is now available using the following link: [FTSE_UK_Index_Series.pdf](#)

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

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