

FTSE China SOE Sustainable Prosperity Index - Ground Rule Update

06 March 2020

FTSE Russell would like to inform clients of the following update to the FTSE China SOE Sustainable Prosperity Index which are effective immediately:

Section 4: Eligible Securities

New Rule

4.1 Eligible securities for inclusion in the FTSE China SOE Sustainable Prosperity Index consist of:

- A Shares from the FTSE China A Free Index that are classified as SOEs under State-owned Assets Supervision and Administration Commission of the State Council (SASAC)
- H Shares and Red Chips from the FTSE China Index that are classified as SOEs under SASAC and trade under the Southbound China Stock Connect Scheme Buy-and-Sell List

The list of stocks with SOE status will be reviewed by FTSE Russell annually in September.

4.2 Multiple Lines

4.2.1 For a company with both A Shares and H Shares, only the A Shares will be included in the FTSE China SOE Sustainable Prosperity Index if both share classes are eligible for inclusion.

Old Rule

4.1 Eligible securities for inclusion in the FTSE China SOE Sustainable Prosperity Index consist of:

- A Shares from the FTSE China A Free Index that are classified as SOEs under SASAC (or local SASAC) and trade under the Northbound China Stock Connect Scheme Buy-and-Sell List
- H Shares and Red Chips from the FTSE China Index that are classified as SOEs under SASAC (or local SASAC) and trade under the Southbound China Stock Connect Scheme Buy-and-Sell List

The list of stocks with SOE status will be reviewed by FTSE Russell annually in September.

4.2 Multiple Lines

4.2.1 All lines of the same company that are eligible securities are eligible for inclusion in the FTSE China SOE Sustainable Prosperity Index.

Section 5: Index Construction

The index will now include 80 A-Share companies and 20 Hong Kong listed Chinese companies. (previously 50 of each)

5.2 Constituent Selection

New Rule

Eligible A Share companies and eligible Hong Kong listed Chinese companies are treated as two separate selection universes. Eligible companies are selected by Total Revenue, and by three style measures: Quality, Low Volatility and Yield. In each selection universe eligible companies

are ranked by their overall score in descending order:

$$OS_i = TR_i \times S_{i,Q} \times S_{i,V} \times S_{i,Y}$$

where,

- OS_i is the Overall Score of stock i
- TR_i is the Total Revenue of stock i
- $S_{i,Q}$, $S_{i,V}$, $S_{i,Y}$ are the Quality, Low Volatility and Yield S-scores (See FTSE Global Factor Series Index Rules) of stock i respectively

Initially, the top 80 A Share companies and top 20 Hong Kong listed Chinese companies are selected as constituents of the index. At each subsequent periodic review, buffer rules are applied as detailed in Section 6.

Old Rule

Eligible A Share companies and eligible Hong Kong listed Chinese companies are treated as two separate selection universes. Eligible companies are selected by three revenue indicators: Total Revenue, Global (Overseas) Sales Ratio and Green Revenue Ratio, and three style measures: Quality, Low Volatility and Yield. In each selection universe eligible companies are ranked by their overall score in descending order:

$$OS_i = TR_i \times (1 + GSR_i) \times (1 + GRR_i) \times S_{i,Q} \times S_{i,V} \times S_{i,Y}$$

where,

- OS_i is the Overall Score of stock i
- TR_i is the Total Revenue of stock i
- GSR_i is the Global Sales Ratio of stock i
- GRR_i is the Green Revenues Ratio of stock i
- $S_{i,Q}$, $S_{i,V}$, $S_{i,Y}$ are the Quality, Low Volatility and Yield S-scores (See FTSE Global Factor Series Index Rules) of stock i respectively

5.3. Weighting Scheme (updates highlighted in bold)

Constituent weightings are determined through modifying the **total revenue weight** by tilting towards global revenues and green revenues **as well as the three style factors, namely Quality, Low Volatility and Yield**:

$$w_i = \frac{w_i^{TR} \times (1 + GSR_i) \times (1 + GRR_i) \times S_{i,Q} \times S_{i,V} \times S_{i,Y}}{\sum_{i=1}^{100} w_i^{TR} \times (1 + GSR_i) \times (1 + GRR_i) \times S_{i,Q} \times S_{i,V} \times S_{i,Y}}$$

where,

- **w_i^{TR} is the total revenue weight of stock i in the index**
- **GSR_i is the Global Sales Ratio of stock i**
- **GRR_i is the Green Revenues Ratio of stock i**
- w_i is the weight of stock i in the index

Constituent weights are capped at **15%** at the company level. **The aggregate weight of H Shares and Red Chips is capped at 15%.**

Section 6: Periodic Review of Constituents (updates in bold)

6.2.1 At the semi-annual review eligible companies are ranked within their respective universe in

descending order of overall score. **To prevent multiple lines (namely A Share and H Share) of the same company being included in the index, the ranking and selection of A Shares will be carried out first. The H Shares of companies whose A Shares are included in the index will not enter the ranking process.**

- 6.2.2 An A Share company will be added at the periodic review if it rises to a rank of **60th** or above. An existing A Share company will be deleted at the periodic review if it falls to a rank of **101st** or below.
- 6.2.3 A Hong Kong listed Chinese company will be added at the periodic review if it rises to a rank of **15th** or above. An existing Hong Kong listed Chinese company will be deleted at the periodic review if it falls to a rank of **26th** or below.
- 6.2.4 A constant number of A Share constituents will be maintained in the index at the periodic review. If there are more than **80** A Share constituents after the application of Rule 6.2.2, the lowest ranking A Share constituent(s) will be deleted to ensure the number of A Share constituents remains at **80**. Conversely, if there are fewer than **80** A Share constituents after the application of Rule 6.2.2, the highest ranking A Share non-constituent(s) will be added to ensure the number of A Share constituents is **80**.
- 6.2.5 A constant number of Hong Kong listed constituents will be maintained in the index at the periodic review. If there are more than **20** Hong Kong listed constituents after the application of Rule 6.2.3, the lowest ranking Hong Kong listed constituent(s) will be deleted to ensure the number of Hong Kong listed constituents remains at **20**. Conversely, if there are fewer than **20** Hong Kong listed constituents after the application of Rule 6.2.3, the highest ranking Hong Kong listed non-constituent(s) will be added to ensure the number of Hong Kong listed constituents is **20**.

6.3 Capping Constituent Weights at the Periodic Review

- 6.3.1 At the semi-annual review the constituent weights are capped at **15%** at the company level. The aggregate weight of H Shares and Red Chips is also capped at **15%**. Following capping, the weight of each constituent in the index moves freely in line with price movements.

Section 7: Changes to Constituent Companies

Please note the removal of the Northbound China Stock Connect Scheme from the rule.

A constituent will be removed from the FTSE China SOE Sustainable Prosperity Index if it is removed from the Southbound China Stock Connect Scheme Buy-and-Sell List. The deletion will be concurrent with the deletion from the Southbound China Stock Connect Scheme Buy-and-Sell List and its weight will be distributed pro-rata amongst the remaining constituents in the FTSE China SOE Sustainable Prosperity Index. Where limited notification has been provided of a change to the Southbound China Stock Connect Scheme Buy-and-Sell List, FTSE Russell will provide notice advising of the timing of the change.

An updated copy of the FTSE China SOE Sustainable Prosperity Index Ground Rules (v1.1) is now available using the following link: [FTSE China SOE Sustainable Prosperity Index Series Ground Rules](#)

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

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