



Reclassification of China A Shares to Secondary Emerging Market Status

Implementation Plan

Commencing June 2019
v1.1



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FAQ

1.0 Transition of China A Shares from Unclassified to Secondary Emerging market status.

The implementation of China A Shares will be based on China A Share securities available via the Northbound Stock Connect program.

The transition of China A Shares to Secondary Emerging market status within the FTSE Global Equity Index Series (GEIS) will be conducted in three tranches, referred to as Phase 1. Phase 1 will commence in conjunction with the FTSE GEIS June 2019 quarterly review and be completed in conjunction with the March 2020 semi-annual review.

After each tranche, FTSE Russell will evaluate the ability of index trackers to replicate the benchmark change prior to commencing the next tranche. The initial inclusion of China A Shares will be based on 25% of each security's investability weight, implemented in the following proportions:

Phase 1	Tranche One	Tranche Two	Tranche Three
Review Schedule	June 2019	September 2019	March 2020
Effective Date	Open Monday 24 June 2019	Open Monday 23 September 2019	Open Monday 23 March 2020
Proportion	20%	40%	40%

The China A Shares index eligibility universe for FTSE GEIS will be based on the FTSE China A Stock Connect All Cap Index.

2.0 What percentage of China A Shares will be added to FTSE GEIS?

Phase 1 of the inclusion of China A Shares will be based on 25% of each security's investability weight.

For illustration purposes, if a security has a investability weight of 30%, it will be added to the FTSE Global All Cap Index with a investability weight of 7.5% ($30\% * 25\% = 7.5\%$) over three tranches.

Phase 1	Tranche One	Tranche Two	Tranche Three
Review Schedule	June 2019	September 2019	March 2020
Proportion	20%	40%	40%
Company A Share investability weight added	1.5%	3.0%	3.0%
Total	1.5%	4.5%	7.5%

3.0 Why are China A Shares being added at 25% of their respective investability weight?

China A Shares are being added at 25% of their respective investability weight in the light of the anticipated inflows and the demonstrated capacity of Stock Connect and the Chinese Yuan Renminbi (CNH) offshore currency.

4.0 Why is the third tranche being delayed until March 2020 and not being implemented in December 2019?

The December 2019 quarterly review is effective from the open on Monday, 23 December 2019.

To ensure there is sufficient liquidity in both the equity and currency markets around the holiday period, the third tranche is delayed until March 2020.

The final tranche for Saudi Arabia's inclusion into FTSE GEIS will also be delayed from December 2019 to March 2020.

5.0 What universe is going to be used for the China A Shares?

The constituents of the FTSE China A Stock Connect All Cap Index will be used as the underlying universe for screening China A Shares for FTSE GEIS.

6.0 What is the FTSE China A Stock Connect All Cap Index?

The FTSE China A Stock Connect All Cap Index reflects the China A Shares eligible under the Northbound China Stock Connect Scheme Buy-and-Sell-List. The FTSE China A Stock Connect All Cap index is a subset of the FTSE China A All Cap index that is reviewed semi-annually in March and September. Table below illustrates the Large, Mid and Small constituent count for the FTSE Stock Connect All Cap Index as of 31 August 2018.

31 August 2018	Large Cap	Mid Cap	Small Cap	Total
FTSE China A Stock Connect All Cap Index	407	381	461	1,249

7.0 Will China A Shares be reviewed as part of the Asia Pacific ex Japan regional review?

Effective from the March 2019 semi-annual review, the different China Share classes will be reviewed as a standalone region. Therefore, markets in the Asia Pacific region will be reviewed as follows:

- Asia Pacific ex China ex Japan
- China – including the following Share classes: A, B, H, N Share, P, Red and S Chip
- Japan

China A Shares which constitute the FTSE China A Stock Connect All Cap Index and which pass the March 2019 semi-annual index eligibility criteria will be added to FTSE GEIS from June 2019, subject to them continuing to be available on the Stock Connect program.

8.0 Why are FTSE Russell reviewing China outside of the Asia Pacific ex Japan region?

FTSE Russell is reviewing China outside of the Asia Pacific ex Japan region due to its size and impact (including historical volatility) that the mainland Chinese market would have on other companies as part of the review process.

The Chinese equity market is the second largest equity market in the world and if included in the Asia Pacific ex Japan regional universe would account for over 50% of the review weight (54% at the September 2018 review) causing a significant impact on the existing regional review constituents and cut-off levels.

9.0 How will China A Share securities be screened for index eligibility? Will they be treated as current index constituents or non-constituents?

China A Share securities which are constituents of the FTSE China A All Cap index as at the March 2019 cut-off date (Monday, 31 December 2018) will be screened as index constituents for the size eligibility screens. All other China A Share securities, which are not constituents of the FTSE China A All Cap Index will be treated as non constituents for the size eligibility screens. For liquidity screening see Q16.

All securities will be screened as part of a new extended suspension eligibility rule. The new rule is scheduled to be introduced in Q4 2018.

10.0 How will Chinese multiple lines be treated within the China regional review?

As with other countries, different Chinese share classes will be combined to form a full company market capitalization and ranked as a company throughout the review process. The company as a whole, rather than individual securities are assigned to Large, Mid or Small Cap status. Index eligibility screens, such as liquidity, investability weight and suspension screening are conducted at a security level to determine security level eligibility.

11.0 What are the indicative index review cut-off levels for China as a standalone region and for Asia Pacific ex China ex Japan?

The tables below illustrate the market capitalization threshold levels (USD m) that would have been used for the March 2018 FTSE Global Equity Index Series review based on a cut-off date of Friday 29 December 2017.

Gross Market Cap Inclusion and Exclusion Levels (USD m)

	68% - Large Cap Inclusion	72% - Large Cap Exclusion	86% - Mid Cap Inclusion	92% - Mid Cap Exclusion	98% - Small Cap Inclusion	101% Small Cap Exclusion
Asia Pacific ex Japan	6,058.56	4,807.91	4,339.15**	771.61	244.44	75.08
Asia Pacific ex China ex Japan	4,463.39	3,411.23	3,034.29***	564.09	185.48	61.22
*Total China	4,134.35	3,304.17	3,757.21****	985.85	591.65	382.39

* China A, B, H, N Share, P, Red and S Chip

**0.04% of All-World Asia Pacific ex Japan Gross Market Cap

***0.04% of All-World Asia Pacific ex China ex Japan Gross Market Cap

****0.04% of All-World China Gross Market Cap

Investable Market Cap Inclusion and Exclusion Levels

	Inclusion Level		Exclusion Level	
	Regional Small Cap %	Inv. Mkt Cap (USD m)	Regional Small Cap %	Inv. Mkt Cap (USD m)
Asia Pacific ex Japan	0.05%	398.15	0.01%	79.63
Asia Pacific ex China ex Japan	0.05%	357.59	0.01%	71.52
*Total China	0.1%	426.24	0.02%	85.25

* China A, B, H, N Share, P, Red and S Chip

12.0 What is the impact on constituents of reviewing China as a standalone?

The table below illustrates the index constituent count for Asia Pacific ex Japan as of the March 2018 semi-annual review (cut-off date 29 December 2017), and the projected index constituent count of Asia Pacific ex China ex Japan and China as a standalone region based on the cut-off levels detailed in Question 11.

March 2018 Regional Review	Asia Pacific ex Japan	*China (as a component of Asia Pacific ex Japan)	Projected Asia Pacific ex China ex Japan	Projected Total China**	***China A (as a component of Total China)
Large Cap	535	145	444	555	407
Mid Cap	458	115	342	495	381
Small Cap	1,493	203	1,264	640	461
Total	2,486	463	2,050	1,690	1,249

*China B, H, N Share, P, Red and S Chip

**China A, B, H, N Share, P, Red and S Chip

***FTSE China A Stock Connect All Cap Index

13.0 What are the projected weights of China in FTSE Global All Cap and FTSE Emerging All Cap indexes following the completion of Phase 1 of the China A Share inclusion program?

The table below illustrates the weight in index of China (ex A Shares) as of 31 August 2018 compared to the projected weight in index of China A Shares and Total China post Phase 1 implementation.

	Global All Cap	Emerging All Cap	All World	Emerging
China ex A Shares*	3.016%	32.173%	3.224%	33.791%
China A**	0.573%	5.697%	0.570%	5.572%
Total China***	3.562%	35.430%	3.765%	36.825%

*Data as of close 31 August 2018

**Projected weight of China post the Country Classification changes for Poland (DM), Kuwait (EM) and Saudi Arabia (EM)

***China A, B, H, N Share, P, Red and S Chip

14.0 When will FTSE Russell publish the FTSE GEIS China, June 2019 quarterly review results?

The FTSE GEIS China, June 2019 quarterly review changes will be published on 24 May 2019.

15.0 What is the cut-off date for selecting new additions to the eligible universe for the June 2019 quarterly review?

Friday, 10 May 2019 is the cut-off date for selecting new additions to the eligible universe for the FTSE GEIS June 2019 quarterly review. For example, new companies added to the Stock Connect program.

16.0 Which liquidity thresholds will China A Shares be assessed against?

Current index constituents of the FTSE China A Stock Connect Index will require median daily trading volume per month to turnover at least 0.04% of the shares in issue (after the application of any investability weight weightings, see Question 17) for at least eight out of twelve months prior to a full market review.

China A Share securities available on Stock Connect which are not constituents of the FTSE China A Stock Connect index will be tested as non constituents and will require median daily trading volume per month to turnover at least 0.05% of the shares in issue (after the application of any investability weight weightings) for at least ten out of twelve months.

17.0 What investability weight will be used to conduct the liquidity screen?

When testing liquidity, 100% (not 25%) of the investability weight will be used for the calculation. For example, if a security has an investability weight of 30%, as at the last date in the testing period, it will be tested for liquidity at its 30% investability weight.

18.0 Treatment of and Initial Public Offerings (IPO) via Stock Connect – how will they be treated?

Foreign investors are currently not permitted to participate in China A Share Initial Public Offerings (IPO) available via the Stock Connect program and hence will not be assessed for fast entry.

IPOs will be assessed for index eligibility at a subsequent quarterly or semi-annual review. An IPO eligible for inclusion at a quarterly/semi-annual review will be added to FTSE GEIS based on the same tranche factor as existing China A Share index constituents in FTSE GEIS.

19.0 Will China A Share securities be tested for foreign headroom?

China A Share securities will be screened for foreign headroom. Please refer to the FTSE GEIS ground rules for additional details.

20.0 What will be the treatment of China A Share securities which are added to FTSE GEIS from June 2019, but fail index eligibility at a subsequent review?

If a partially added China A Share security fails index eligibility, it will be deleted in accordance with the index methodology and subsequent quarterly tranches of the security will not be implemented.

21.0 What happens if the China A Share security is no-longer available to foreign investors via Stock Connect?

If a China A Shares security is added to FTSE GEIS and is subsequently removed from the list of securities available via Stock Connect, the security will be deleted from FTSE GEIS with the provision of a T+2 notification.

22.0 What will be the index treatment if the Stock Connect program is closed?

Within FTSE GEIS, the implementation of corporate actions and index review changes will proceed in conjunction with their effective date in the event that the Stock Connect program is closed. For index reviews, this means after the close of business on the third Friday in March, June, September and December (i.e. effective the following Monday).

23.0 How will the weight of China A Shares within FTSE GEIS be increased following the completion of Phase 1?

Future increases in the weight of China A Shares within FTSE GEIS will be dependent on (but not limited to) the following factors:

- Increase in the aggregate QFII and RQFII quota levels
- Increase in the breadth of Stock Connect coverage
- Availability of Delivery versus Payment (DvP) via QFII and RQFII
- The availability of CNH

The target is the full inclusion of China A Shares.

24.0 When will China A Shares be eligible for derived (including Partnership) and custom indexes which are based on a FTSE GEIS universe?

The future index eligibility of China A Shares for the FTSE RAFI, FTSE RAFI QSR and Russell RAFI Index Series will be assessed as part of the 2020 annual review process.

FTSE Russell will provide information on the inclusion of China A into other derived (including Partnership) indexes in the coming months.

Custom indexes based on FTSE GEIS will have the same China A inclusion treatment as per the underlying standard benchmark. Custom index clients can contact FTSE Russell info@ftserussell.com for details regarding their particular custom indexes.

25.0 What will happen to the existing FTSE Global China A Inclusion Indexes?

The existing FTSE Global China A Inclusion Indexes will continue to be calculated and managed in conjunction with the existing rules. The headline version of the FTSE Global China A Inclusion indexes provides investors with an indication of China A Shares weight in FTSE global indexes based on the aggregate approved QFII/RQFII quota. The “no Quota” version of this index series provides an indication of China A shares weights in FTSE global indexes at their full investability weight, i.e. the full weight when all future phases are complete.

26.0 Which indicative Watch List (pro-forma) indexes will be available to assist with the transition of China A into FTSE GEIS?

Watch List indexes reflecting the Phase 1 inclusion of China A into FTSE GEIS will be made available by 31 December 2018.

For more information about our indexes, please visit ftserussell.com.

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