

FAQs

FTSE  
Russell

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# FTSE Saudi Arabia Inclusion Index Series

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# FAQs: FTSE Saudi Arabia Inclusion Index Series

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## 1. Why is FTSE Russell launching the FTSE Saudi Arabia Inclusion Index Series?

Saudi Arabia's equity market is the largest in the Middle East, the 23<sup>rd</sup> largest in the world but still under-invested by international investors. International investors previously could not invest in Saudi equities, until the introduction of the Qualified Foreign Investor (QFI) scheme in 2015.

Against the backdrop of its economic reforms, the Saudi Arabia "Vision 2030" initiative, the rapid development and enhancement of market infrastructure, improved international investor access and potential future inclusion as an emerging market by global index providers, Saudi Arabia is becoming more of a focus for international investors.

As a response to positive market developments and client requests, FTSE Russell has launched the FTSE Saudi Arabia Inclusion Index Series, designed to represent the performance of Saudi Arabia companies that are available to domestic investors and QFIs. To allow international and regional investors to position Saudi Arabia within the context of emerging markets and various regions, the index series also contains a suite of inclusion indexes that combine constituents of FTSE Saudi Arabia Indexes with various FTSE regional/global indexes. The inclusion indexes are transitional tools ahead of Saudi Arabia's potential inclusion in the FTSE Global Equity Index Series (GEIS) as Secondary Emerging market.

## 2. What is "Vision 2030"?

Vision 2030 is Saudi Arabia's initiative of social and economic reform, with the goal to transform the country to be more open and dynamic, with less dependency on oil and more private sector growth. A broad set of targets have been set for 2030.

For details about Saudi Arabia Vision 2030, please refer to <http://vision2030.gov.sa/en>.

## 3. What are some of the recent stock market reforms adopted by Saudi Arabia?

During 2017, the Saudi government introduced a number of improvements to the market infrastructure aimed at opening the domestic market to international investors. These include, but are not limited to,

simplification of the QFI registration process, introduction of a T+2 settlement cycle with a Delivery versus Payment (DvP) model in April 2017. These positive changes have made the Saudi equity markets more accessible and feasible for international investors.

#### **4. What indexes have been launched?**

Broadly speaking, the series includes three sets of indexes<sup>[1]</sup>:

1. Country level indexes that focus on Saudi stocks only. We have one version of such indexes for domestic investors, and a separate version for QFIs;
2. Global inclusion indexes that add Saudi stocks to various FTSE Global All Cap, FTSE All-World®, and FTSE Emerging indexes;
3. Regional inclusion indexes that add Saudi stocks to ME&A, MENA and GCC level indexes.

Please refer to Appendix I for a complete list of launched indexes.

#### **5. Why are there two versions of country level indexes? What is the difference between the FTSE Saudi Arabia Indexes and FTSE Saudi Arabia Free Indexes?**

For the country indexes, there are two versions – FTSE Saudi Arabia Indexes which are designed for QFIs, and FTSE Saudi Arabia Free Indexes which are designed for Saudi domestic investors.

There are two reasons for this differentiation:

1. Foreign investors are not permitted to invest in certain Saudi companies. This restriction means such companies that are in the FTSE Saudi Arabia Free Indexes are excluded from the FTSE Saudi Arabia Indexes.
2. There is a foreign ownership limit imposed on foreign investors, but not on domestic investors. Therefore, the FTSE Saudi Arabia Free Indexes use free float for investability weighting, while FTSE Saudi Arabia Indexes use the lower of free float and foreign ownership limit for investability weighting. As a result, for a company that is in both versions of the indexes, the weights are likely to be different.

#### **6. What's Saudi Arabia's country classification review status?**

Saudi Arabia is currently not classified. It has been on FTSE's 'Watch List' for potential inclusion as a Secondary Emerging market since September 2015.

During the most recent A Country Classification Review (September 2017), FTSE Russell has acknowledged the pace of the recent market reforms. As a result of these reforms, it is anticipated that Saudi Arabia will meet the requirements for inclusion as a Secondary Emerging market from early 2018 when further enhancements to the Independent Custody Model (ICM) are scheduled to be introduced. FTSE Russell will review Saudi Arabia's country classification status again in March 2018.

#### **7. Do standard FTSE Global All Cap Index, FTSE All-World Index and FTSE Emerging Index currently include Saudi Stocks?**

[1] Country level index product files will be available from 29th October 2017, and global and regional inclusion indexes product files will be available from November 2017.

No, the standard FTSE GEIS (Global All Cap, All-World and Emerging Indexes) currently do not contain Saudi stocks. This will start to change in the event Saudi Arabia is promoted to Secondary Emerging market status.

## 8. Why has FTSE Russell launched the global and regional Saudi inclusion indexes?

FTSE Russell has launched the global Saudi inclusion indexes as transitional tools ahead of Saudi Arabia's potential future inclusion as a Secondary Emerging market. Investors who are ready to add Saudi stocks in their global portfolios can benchmark against these indexes. Investors who are not quite ready and market participants who would like to understand the impact of Saudi's potential inclusion as a Secondary Emerging market can also monitor these indexes.

In addition, the regional inclusion indexes are also created at ME&A, MENA and GCC levels. These indexes are created in response to market demand, as many international investors tend to view Saudi allocations in the regional context.

## 9. How are the indexes constructed for the country indexes, and for the global and regional inclusion indexes? How often are they reviewed?

The FTSE Saudi Arabia Free Indexes and the FTSE Saudi Arabia Indexes are constructed with methodology that is consistent with FTSE GEIS, which is familiar to international investors.

The inclusion indexes simply combine the FTSE Saudi Arabia Indexes (the international investor version of the country index) with relevant FTSE global and regional indexes.

The index series is reviewed in March and September. Saudi is reviewed as part of the Middle East and Africa (ME&A) region.

## 10. For the global and regional inclusion indexes, what weights are currently assigned to Saudi Arabia?

The table below provides the Saudi allocation levels for a few headline inclusion indexes, based on data as of 29<sup>th</sup> of September 2017:

Inclusion Indexes	% of Saudi Stocks in the Index
FTSE All-World Saudi Arabia Inclusion Index	0.3%
FTSE Emerging Saudi Arabia Inclusion Index	2.8%
FTSE Middle East & Africa Saudi Arabia Inclusion Index	19.8%
FTSE Middle East & North Africa Saudi Arabia Inclusion Index	41.2%
FTSE GCC Saudi Arabia Inclusion Index	60.9%

# Appendix I: List of Indexes in the FTSE Saudi Arabia Inclusion Index Series

Country Level Indexes	Qualified Foreign Investors	Domestic Investors	Sectors Available	Capped Version	Net of Tax Version
FTSE Saudi Arabia Index	Y		Y		Y
FTSE Saudi Arabia Capped Index	Y		Y	Y	Y
FTSE Saudi Arabia All Cap Index	Y		Y		Y
FTSE Saudi Arabia All Cap Capped Index	Y		Y	Y	Y
FTSE Saudi Arabia Large Cap Index	Y		Y		Y
FTSE Saudi Arabia Mid Cap Index	Y		Y		Y
FTSE Saudi Arabia Small Cap Index	Y		Y		Y
FTSE Saudi Arabia Free Index		Y	Y		
FTSE Saudi Arabia Free Capped Index		Y	Y	Y	
FTSE Saudi Arabia Free All Cap Index		Y	Y		
FTSE Saudi Arabia Free All Cap Capped Index		Y	Y	Y	
FTSE Saudi Arabia Free Large Cap Index		Y	Y		
FTSE Saudi Arabia Free Mid Cap Index		Y	Y		
FTSE Saudi Arabia Free Small Cap Index		Y	Y		

Additional indexes are created by combining constituents of the FTSE Saudi Arabia and FTSE Saudi Arabia All Cap Indexes with selected FTSE global/regional indexes.

## Global Inclusion Indexes

FTSE All-World Saudi Arabia Inclusion Index

FTSE Global All Cap Saudi Arabia Inclusion Index

FTSE Emerging Saudi Arabia Inclusion Index

FTSE Emerging All Cap Saudi Arabia Inclusion Index

## Regional Inclusion Indexes

FTSE Middle East & Africa Saudi Arabia Inclusion Index

FTSE Middle East & Africa All Cap Saudi Arabia Inclusion Index

FTSE Middle East & North Africa Saudi Arabia Inclusion Index

FTSE Middle East & North Africa All Cap Saudi Arabia Inclusion Index

FTSE GCC Saudi Arabia Inclusion Index

FTSE GCC Saudi Arabia Inclusion Capped Index

FTSE GCC All Cap Saudi Arabia Inclusion Index

FTSE GCC All Cap Saudi Arabia Inclusion Capped Index

## For more information about our indexes, please visit [ftserussell.com](http://ftserussell.com).

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FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

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