
Market Consultation on the Treatment of Suspended Constituents in the FTSE China A Index Series



Market Consultation on the Treatment of Suspended Constituents in the FTSE China A Index Series

Introduction

The shares of Chinese companies can be suspended pending certain corporate events such as mergers, new share issues or restructurings. The proportion of stocks suspended for these reasons is much higher than is typically found in other markets - the percentage of companies in the FTSE China A 600 index which are currently suspended is c. 11% - and the suspensions can be for several months and occasionally longer than a year.

FTSE's suspended stock policy, as set out in Section 2.15 of the FTSE Corporate Action Guide (http://www.ftse.com/products/downloads/FTSE_Corporate_Actions_and_Events_Guide.pdf), was recently invoked to effect the removal of a constituent of the FTSE China A Index Series which includes the FTSE China A50 Index. The company in question, China Yangtze Power (A), was a constituent of the FTSE China A50 Index and its shares had been suspended for 60 trading days. On 16 September 2015 FTSE announced the removal of these shares from the A50 index at zero value on the effective date of the forthcoming A50 index review (<http://www.ftse.com/products/index-notices/home/getnotice/?id=1359210>).

Subsequent to this event, FTSE would like to consult users of the index on how such extended suspensions should be treated in the FTSE China A Index Series in future. Accordingly we invite interested parties to respond to the consultation questions below.

Background Information

1. Name of Organisation

2. Please describe your interest in the FTSE China A Index Series (including the FTSE China A50 index)

- a. ETF issuer
- b. Swap counterparty
- c. Futures trader
- d. Passive investor
- e. Active investor
- f. Other (please describe)

3. Please state the approximate value, or notional value, of your interest in the FTSE China A Index Series

- a. Less than \$500M USD
- b. Between \$500M and \$1bn USD
- c. Between \$1bn and \$5bn USD
- d. Over \$5bn USD

4. What is your contractual arrangement with FTSE

- a. Data licence
- b. Fund licence
- c. Product licence (listed or OTC)
- d. Other (please describe)
- e. None

5. Where do you normally obtain information on forthcoming changes to the FTSE China A Index Series?

- a. From FTSE data files
- b. From FTSE Technical Notices
- c. From other sources (please state which)

Index Treatment

6. Which of the following potential index treatments would you prefer for constituents that have been suspended for significant periods, but which are not considered valueless (i.e. the company is not thought likely to enter bankruptcy proceedings)?
- The constituent should be deleted at zero value
 - The constituent should be deleted at fair value
 - The constituent should be deleted at last traded price
 - The constituent should be retained in the index
7. If you consider that the constituent should be retained in the index, what value should be assigned to it?
- Last traded price
 - Fair value
 - Zero value
 - Some other value (please state what)
8. If you consider the constituent should be deleted, either at zero, at fair value or last traded price, when should the decision be taken assuming the company has not provided a firm date for the resumption of trading?
- After 40 trading days of continuous suspension
 - After 60 trading days of continuous suspension
 - After 80 trading days of continuous suspension
 - After 100 or more trading days of continuous suspension (please state when)
9. If a decision is taken to delete the constituent, what minimum notice should FTSE give before making the deletion effective (assume the decision would be rescinded if trading were to recommence or a firm date for the resumption of trading were to be provided)?
- 10 trading days
 - 20 trading days
 - 40 trading days
 - Some other time (please state when)

10. If a decision is taken to delete the constituent, should the deletion be made effective at the next index review (subject to the minimum notice period from Question 9)?

- a. Yes
- b. No

11. If you consider the constituent should be deleted at fair value, or retained in the index at fair value, how should that value be determined?

- a. By adjusting the last traded price by the subsequent market return
- b. By adjusting the last traded price by the subsequent sector return
- c. By market consultation
- d. Other (please state how)

12. If a constituent is deleted and then subsequently resumes trading, should the constituent be re-instated?

- a. Yes, if the resumption is within 20 trading days of deletion
- b. Yes, if the resumption is within 60 trading days of deletion
- c. Yes, if the resumption is within 120 trading days of deletion
- d. Yes, but some other time period (please state)
- e. No

13. If a deleted constituent is re-instated in the index, what should the inclusion price be?

- a. The deletion price
- b. Some other price (please say which)

14. If a deleted constituent is re-instated in the index, what should its future treatment be if, as in the A50 index, the required number of constituents is exceeded?

- a. The re-instated constituent should be deleted with notice, e.g. T+5?
- b. The index should continue with an extra constituent until the next review

Other Considerations

15. Please provide any additional comments you wish to make.

Responding to the consultation

Please provide answers to this consultation online at

<https://www.surveymonkey.com/r/5BTZX2S>

The consultation will close on 23 October 2015. All responses will be treated as confidential.

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

© 2015 London Stock Exchange Group companies.

London Stock Exchange Group companies includes FTSE International Limited ("FTSE"), Frank Russell Company ("Russell"), MTS Next Limited ("MTS"), and FTSE TMX Global Debt Capital Markets Inc ("FTSE TMX"). All rights reserved.

"FTSE®", "Russell®", "MTS®", "FTSE TMX®" and "FTSE Russell" and other service marks and trademarks related to the FTSE or Russell indexes are trademarks of the London Stock Exchange Group companies and are used by FTSE, MTS, FTSE TMX and Russell under licence.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by the London Stock Exchange Group companies nor its licensors for any errors or for any loss from use of this publication.

Neither the London Stock Exchange Group companies nor any of their licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE Russell Indexes or the fitness or suitability of the Indexes for any particular purpose to which they might be put.

The London Stock Exchange Group companies do not provide investment advice and nothing in this document should be taken as constituting financial or investment advice. The London Stock Exchange Group companies make no representation regarding the advisability of investing in any asset. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the London Stock Exchange Group companies. Distribution of the London Stock Exchange Group companies' index values and the use of their indexes to create financial products require a licence with FTSE, FTSE TMX, MTS and/or Russell and/or its licensors.

The Industry Classification Benchmark ("ICB") is owned by FTSE. FTSE does not accept any liability to any person for any loss or damage arising out of any error or omission in the ICB.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

About FTSE Russell

FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

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 ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit www.ftserussell.com.

To learn more, visit www.ftserussell.com; email index@russell.com, info@ftse.com;
or call your regional Client Service Team office:

EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 3581 2764

Sydney +61 (0) 2 8823 3521