

FTSE UK Index Series – FTSE 100 and FTSE 250 replacement company selection FAQ

v1.1



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Introduction

1. Introduction

This document is intended to facilitate the understanding of how intra-quarter replacement companies are selected as a result of the FTSE 100 and FTSE 250 reserve lists which were discontinued with effect from 2 December 2020*, and to address commonly asked questions.

*The date on which the FTSE UK Index Series December review changes were announced.

FAQ

2. What is changing?

Historically FTSE Russell has published the six highest-ranking non-constituents of the FTSE 100 and the 12 highest-ranking non-constituents of the FTSE 250 at the time of the periodic review. The appropriate reserve list was ranked with the highest-ranked company added to the index in the event that one or more constituents were deleted from the FTSE 100 or FTSE 250 intra-quarter.

However, effective from December 2020, reserve lists for the FTSE 100 Index and the FTSE 250 Index are no longer utilised to select a replacement company for intra-quarter deletions. Replacement companies are instead selected from the existing constituents of the FTSE All-Share index.

For illustration purposes, company A is being deleted from the FTSE 100, a replacement company is therefore required. FTSE Russell will rank the existing FTSE All-Share constituent list to identify the highest-ranking company (using prices three business days prior to the deletion of company A) that is not currently a member of the FTSE 100, which will serve as the replacement company.

3. How is the market capitalisation of the replacement company determined?

Replacement companies are selected from the existing constituents of the FTSE All-Share index.

The replacement company will be selected by identifying the highest-ranking non-constituent company of the FTSE 100 or FTSE 250 (whichever applicable) by full market capitalisation (i.e. before the application of any investability weighting).

Where a company has two or more classes of listed equity shares, the secondary lines will be included in the market capitalisation calculation of the company, based on the market price of that secondary line.

For the avoidance of doubt, the share number and close price used in the calculation of the full market capitalisation will be that reflected in the monitored list as at close on the business day prior to the date of selection. Please note that the FTSE Russell share number is updated in accordance with methodology detailed within the Corporate Actions and Events Guide for Market Capitalisation Weighted Indices (section 5) and may not always reflect the actual shares a company has outstanding at that point in time.

For illustration purposes:

Tuesday (after market close) – FTSE Russell announce the deletion of company A from the FTSE 100 index and its replacement company. The replacement company will have been ranked using the share number and close price (reflected in the monitored list) as at the Monday close.

4. Will pending share updates be included in the market capitalisation calculation?

No, only those shares reflected in the monitored list at the time of selection will be used in the calculation.

For illustration purposes:

Example A

Company A conducts a primary placing or buy back; however, the change does not breach the FTSE Russell parameters for an intra-quarter update. The share update within FTSE Russell indices is therefore deferred to the next quarterly review. The monitored list is not updated until the next quarterly review.

In the event that a replacement company is required to be selected in advance of the next quarterly share updates, the calculation of company A's market capitalisation will not reflect the new shares outstanding number as a result of the primary placing/buy back.

Example B

Company B conducts a primary placing or buy back and the change does breach the FTSE Russell parameters for an intra-quarter update. The share update within FTSE Russell indices is therefore effected with T+2 notice. The monitored list is updated in line with the effective date.

In the event that a replacement company is required to be selected subsequent to the effective date, the calculation of company B's market capitalisation will reflect the new shares outstanding number incorporating the primary placing/buy back.

Please note: where the share update is still pending implementation and therefore not reflected in the monitored list at the time of reserve company selection, company B's market capitalisation will not reflect the pending update (as demonstrated below).

Monday – FTSE Russell tracker products reflect a pending intra-review share update for company B effective T+2 (i.e. implemented close of business Wednesday, effective Thursday open).

Tuesday – replacement company selected (at which point company B's share update is still pending).

Wednesday (at market close) – company B share number updated.

Thursday – monitored list reflects new shares outstanding for company B.

5. Where a secondary line is a non-constituent of the FTSE All-Share Index, how are share updates announced?

Non-constituent secondary lines are updated in line with the methodology detailed within the Corporate Actions and Events Guide for Market Capitalisation Weighted Indices (section 5); however, no notice is provided in advance of implementation as no index replication action is required. The new shares outstanding number will simply be reflected in the monitored list on the effective date.

For further details of the monitored list, product please e-mail info@ftserussell.com.

6. What is the treatment for secondary lines that newly adopt a London Stock Exchange listing?

Secondary lines will be added to the monitored list on their first day of unconditional trading and will be included within the company market capitalisation calculation from that point.

7. Where the selection of a replacement company is shortly after the FTSE UK Index Series Review announcement, what is the treatment?

Where a FTSE 100 or FTSE 250 company is scheduled to be deleted after the periodic review changes have been announced but before they have been implemented, the highest-ranking constituent of the FTSE All-Share (which is not currently a member of the FTSE 100 or FTSE 250) is selected as the replacement company. However, if that replacement company is already scheduled to be added as part of the index review, then the next highest-ranking company is selected as the replacement.

Where a company being deleted is already due to be replaced in the FTSE 100 or FTSE 250 as part of the periodic review, it will be replaced by the largest company previously announced as a review addition to the index. In other words, the review addition will be brought forward and implemented concurrent with the intra-quarter deletion.

8. Where the selection of a replacement company is after market close on the Tuesday that the FTSE UK Index Series Review is conducted, what is the treatment?

Where a FTSE 100 or FTSE 250 company is scheduled to be selected after market close on the Tuesday that the FTSE UK Index Series review is conducted (i.e. on the review cut-off date, prior to the index review announcement date), the highest ranking constituent of the FTSE All-Share (which is not currently a member of the FTSE 100 or FTSE 250) is selected as the replacement company as per the process detailed in 3.0.

The FTSE UK Index Review will then be conducted (excluding the replacement company).

9. Will a company subject to a corporate event (e.g. takeover or spin-off) be eligible to serve as a replacement company?

If the highest-ranking company selected is subject to an ongoing corporate event that remains subject to conditions and pending completion (at the point of selection), it will still be selected as the replacement company.

For illustration purposes:

If the selected highest-ranking FTSE All-Share constituent is the target of a takeover offer where either:

- the offer has been declared wholly unconditional; or
- where the acquisition is structured as a scheme of arrangement and the only remaining significant condition is court sanction at the point of selection and is pending removal from the FTSE All-Share index,

the company will not be considered as a replacement and the next highest-ranking company will serve as the replacement company instead. However, if the offer is pending completion with substantive conditions outstanding, the company will be selected as the replacement company. FTSE Russell will not assume completion of a takeover until the conditions detailed within the corporate action guide are achieved.

Further information

If you have any questions and would like to speak to a client services individual directly, please do not hesitate to contact us on the numbers below or via e-mail at info@ftserussell.com.

Hong Kong +852 2164 3333

London +44 (0) 20 7866 1810

Milan +39 02 3604 6953

New York +1 888 747 FTSE (3873)

Sydney +61 (2) 9293 2864

Tokyo +81 (3) 3581 2811

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