Ground Rules

July 2024

FTSE UK Index Series Foreign Ownership Restrictions and Minimum Foreign Headroom Requirement

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A. Initial weighting

Constituents of the FTSE UK Index Series are adjusted for free float and foreign ownership limits (where applicable to UK investors).

Free float is calculated using available published information rounded to 12 decimal places.

To be eligible for inclusion in the FTSE UK Index Series, a security must have a minimum free float of 10% if the issuing company is UK incorporated and a minimum free float of 25% if it is non-UK incorporated.

However, a new company may be initially included in the FTSE UK Index Series with a free float below the above parameters (provided it is above 5%*) where the free float is expected to meet the minimum requirements within 12 months of the company's first day of trading.

*New companies with an initial free float of 5% or below are not eligible for inclusion in the FTSE UK Index Series.

Details on free float restrictions can be accessed using the following link:

Free_Float_Restrictions.pdf

B. Foreign ownership restrictions

FTSE Russell's index methodology takes account of the restrictions placed on the equity holdings of foreign investors in a company where these have been imposed by a government, regulatory authority or the company's constitution.

However, as the FTSE UK Index Series is managed from the perspective of a UK investor the following rules will only apply where foreign ownership restrictions have been imposed which limit the number of shares that UK investors can hold in a company. Where foreign ownership restrictions are in place which do not impact UK investors, these will not be applied.

Where the presence of a foreign ownership restriction creates a limit on foreign ownership (the Foreign Ownership Limit or FOL) that is more restrictive than the calculated free float for a company, the precise Foreign Ownership Limit is used in place of the free float for the purposes of calculating the company's investability weight.

If the foreign ownership restriction is less restrictive or equal to the free float restriction, the free float restriction is applied, subject to Rule A above.

If a company changes its foreign ownership restriction, a reduction in the FOL will be implemented with the provision of a T+2 advanced notification from the date of discovery. Increases in the FOL will be monitored up-to the index review lock down date and will be implemented in FTSE Russell indices at the subsequent quarterly review, subject to Rule C Minimum Foreign Headroom Requirement detailed below.

In some jurisdictions, a company's foreign ownership restriction applies to the company's share classes in aggregate, and not to share classes individually. However, not all of the share classes of a restricted company might be eligible for index inclusion. In such cases, the aggregate (company level) foreign ownership restriction will be allocated pro-rata across those share classes that are eligible for index inclusion.

In certain jurisdictions (for example Japan), despite the presence of a foreign ownership restriction the acquisition of shares above the stated foreign ownership limit (FOL) is still permitted but certain shareholder rights may be denied (such as voting rights or dividend distributions). In the event that the acquisition of shares above the FOL is permitted and the forfeit is to dividend distributions, FTSE Russell will treat the company as having reached its FOL and evaluate the company under the minimum foreign headroom requirement.

FTSE Russell may exercise discretion in determining whether a stock should be subject to the minimum foreign headroom test. Where discretion is being applied FTSE Russell will provide appropriate advance notice.

C. Minimum foreign headroom requirement

FTSE Russell defines “foreign headroom” as the percentage of shares available to foreign investors as a proportion of the company’s Foreign Ownership Limit (FOL), i.e. (FOL – foreign holdings)/FOL.

For example, if a company has a foreign ownership limit, of 49%, of which 39% is held by foreign investors, the foreign headroom will be calculated as 20.41% i.e. (49% – 39%)/49%.

i. For a non-constituent that is subject to foreign ownership limit, a minimum headroom of 20% must be available in order to be included in the index.

ii. For an existing constituent that is subject to a foreign ownership limit, a minimum headroom of 10% must be available.

   Headroom tests are conducted in conjunction with the March, June, September and December quarterly reviews.

   For constituent securities, headroom is tested based on data as of the quarterly shares in issue and free float cut-off date in March, June, September and December.

   For non-constituent securities, headroom is tested based on data as of the review cut-off date in March, June, September, December.

   Please note: the headroom test will take into account any foreign ownership limit changes scheduled to take effect up to and including the review effective date, based on information as of the shares in issue and free float cut-off date.

iii. Where the headroom of an existing constituent falls below 10%, its investability weight will be reduced at the next quarterly review by an absolute value of 10%, on a quarterly basis. For example, if Company A’s current investability weight is 49% (i.e. equal to the FOL), a 10% absolute reduction will result in an adjusted investability weight of 39% (49%-10%). Any subsequent headroom adjustment will also be at 10% and result in the investability weight decreasing to 29% (39%-10%).

   If Company B’s current investability weight is 30% (i.e. the free float is more restrictive than the FOL), a 10% absolute reduction will result in an adjusted investability weight of 20% (30%-10%).

iv. Where the FOL for an existing constituent has been reached intra-review and zero headroom is available, its investability weight will be reduced by an absolute value of 10% with the provision of a T+2 advanced notification from the date of discovery.

v. Where discovery occurs on the Thursday or Friday prior to a quarterly review effective date, then the FOL decrease will be applied after the index review effective date with a provision of a T+2 advanced notification

vi. Where the foreign ownership of an existing constituent is reported as approaching its FOL, a headroom test will be conducted at the subsequent quarterly review and if headroom falls below 10%, its investability weight will be reduced by 10% in conjunction with the review effective date.

vii. Following the first headroom adjustment of 10%, the investability weight will continue to be reduced at subsequent quarterly reviews in increments of 10% until the headroom level increases to 10% or above. As a result of these quarterly 5% downward adjustments, should the investability weight of the security fall to 5% under this process, the security will no longer be eligible to remain in the index.

viii. The investability weight of an existing constituent which has been subject to headroom adjustments will have its most recent 10% adjustment reversed at a quarterly review subject to a minimum 20% headroom being available at the quarterly testing period (as illustrated below).

   For example, Company A has an FOL of 49%, foreign holdings of 32% and a current investability weight of 29%.

   Step 1: The foreign headroom test is calculated as 35% (i.e. (49%-32%)/49%), resulting in the headroom adjusted investability weighting being increased from 29% to 39%.

ix. In the event a security with a headroom adjustment increases its foreign ownership limit (FOL), the increase in the FOL will implemented in two, 50% tranches, subject to 20% or above headroom availability at the testing period.

   For example, Company A had two headroom adjustments down from a FOL of 49% to a current investability weight of 29%

Company A – Initial FOL of 49%	
(Q1) First Headroom Adjustment	39% (10% reduction from 49%)
(Q2) Second Headroom Adjustment	29% (10% reduction from 39%)

The Company announces an increase to its FOL from 49% to 60%. The increase in the FOL will be implemented in the following steps:

Company A announces an FOL increase to 60% (11% increase)	
(Q1) Subject to 20% headroom availability, FOR is increased by 50% of the 11% increase	29% + 5.50% = 34.50%
(Q2) Subject to 20% headroom availability, FOR is increased by remaining 50% of the 11% increase	34.50% + 5.50% = 40%
(Q3) Subject to 20% headroom availability, reverse second headroom adjustment of 10.0%	40% + 10% = 50%
(Q4) Subject to 20% headroom availability, reverse first head room adjustment of 10.0%	50% + 10.00% = 60%

– First quarterly review following the announcement of an increase in FOL to 60%; 50% of the FOL increase (in this case 5.50%) will be implemented (subject to 20% or above headroom availability at the testing period).

– Second quarterly review; the remaining 50% of the FOL increase will be implemented (subject to 20% or above headroom availability at the testing period).

– Subsequent quarterly reviews; if the headroom availability remains at 20% or above, the previous headroom adjustments will be reversed on a quarterly basis in increments of 10%.

x. In the event a security with a headroom adjustment decreases its foreign ownership limit (FOL), the decrease in the FOL will be implemented in full with the provision of a T+2 advanced notification from the date of discovery.

Where the effective date of an FOL decrease is during the review week, then the FOL decrease will be implemented in conjunction with the index review effective date, subject to any prior scheduled FOL changes related to Rule C – Minimum foreign headroom requirement (see rules A and B above).

For example, Company A had a headroom adjustment down from a FOL of 49% to a current investability weight of 29.0%. The Company announces a decrease in the FOL to 46% (a decrease of 3% from the previous FOL of 49%).

The existing adjusted investability weight will be decreased by the 3% reduction in FOL at the next quarterly review, resulting in Company A having a new investability weighting of 26% (29% – 3%).

xi. An existing constituent with a headroom adjustment, that passes the index eligibility screens (for example – liquidity, minimum size, investability weight) will not be eligible for index promotion from FTSE Fledgling to FTSE All-Share until all headroom adjustments have been reversed. An index demotion from FTSE All-Share to FTSE Fledgling will proceed for an existing constituent with a headroom adjustment.

xii. Securities are assigned their official foreign ownership limit. However, if permission is required from a local regulator to purchase additional shares beyond a certain permission threshold, then the more restrictive permission level is assigned as the foreign ownership limit. For example, a security may have a foreign ownership limit of 24%, however, any purchase beyond 22% requires prior permission from the local regulatory authority. In this example, the security would be assigned a foreign ownership limit of 22%.

xiii. Where a non-constituent passes the relevant headroom test, but individual foreign investors or institutions are only permitted to hold a maximum of 1% of the free float adjusted shares in issue, the security will not be eligible for index membership.

xiv. Unless there is an increase in the foreign ownership limit, a headroom adjustment will not be reversed for a period of 6 months (i.e. if a headroom adjustment has been implemented at the June review then the earliest it can be reversed is at the following March review).

xv. If, following a headroom adjustment, a constituent has been removed from the index as a result of its investability weight falling to 5% or below, it will only be reconsidered for inclusion after a period of 12 months from its deletion. For the purposes of index eligibility it will be considered as a new issue.

xvi. Securities which are deleted for failing headroom, but which after a period of 12 months meet all eligibility criteria including the minimum 20% foreign headroom requirement, will initially be added to the index at a minimum investability weight of 5%, subject to the foreign ownership limit still being in place.

If a foreign ownership limit no longer applies, then the security will be added at its free float.

xvii. Subsequent headroom reversals will be implemented in increments of 10% until the security reaches its foreign ownership limit, subject to the security continuing to meet the minimum 20% headroom test.

Appendix A
Further information

A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:

Glossary.pdf

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at info@ftserussell.com.

Website: www.lseg.com/en/ftse-russell/

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