



FTSE Russell Client Consultation on Security Eligibility



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Introduction

We have been working hard to bring together the combined insights, knowledge and client focus of the FTSE and Russell Index businesses. We are committed to protecting and enhancing the strengths of both businesses, and recognize that high client engagement, market consultation and consensus building play an important role in this process. As part of our commitment to strive to develop the best possible index solutions for our clients, we have been reviewing the methodologies of our global indexes with a view to their converging on best practice. A number of methodology and index policy changes have already been enacted as part of this process, most notably in the area of corporate action treatment.

As part of the methodology review, we would now like to solicit client feedback on the eligibility of various security and company types. This feedback will be used to fine tune the eligibility requirements set out in the index methodology documents.

To this end, we would like to solicit index stakeholder feedback on the eligibility of the following security types in global indices:

- a. Depositary receipts
- b. Variable interest entities
- c. Preference shares
- d. Non-voting shares
- e. Certificates and savings shares

We would also like to solicit preliminary feedback on the desirability of imposing additional eligibility requirements on constituent securities and/or companies. This feedback will be used to judge the likely demand for additional index series that incorporate quantitative governance eligibility hurdles.

Responding to the consultation

Please provide answers to this consultation online at

<https://www.surveymonkey.com/r/LT3GWKK>

The consultation will close on November 22, 2015. All responses will be treated as confidential.

Note: questions 1-4 in the online questionnaire relate to your personal information.

Depository Receipts

5. **Should securities that trade only as Depository Receipts be eligible for global index inclusion?**
 - Yes
 - no

6. **Where companies have issued shares and Depository Receipts, when should the DR be included in preference to the underlying share?**
 - Always
 - Never
 - Only when the underlying share fails liquidity requirements whilst the DR passes
 - If so, must the DR and underlying share trade in the same time zone?

Variable Interest Entities (VIEs)

VIEs give the holder contractual rights to certain income streams but do not necessarily provide voting rights.

- Alibaba and Baidu do not furnish voting rights
 - Tencent does
-
7. **Should VIEs be eligible for inclusion in global indices?**
 - Always
 - Only when the VIE trades as a share (as distinct from a Depository Receipt)
 - Never

Variable Interest Entities (VIEs) - Nationality Assignment

8. **If VIEs are eligible, what nationality should they be assigned assuming that the incorporation is in a low taxation or benefit driven country?**
 - The location of the underlying company's assets
 - The location of the underlying company's revenue
 - The location of the underlying company's headquarters

- The primary location of trading of the VIE's shares or depositary receipts
9. **Would it matter if a VIE were assigned a nationality in a different time zone to the primary location of trading?**

Preference Shares

Preference shares give holders preference to dividend payments over holders of ordinary shares but usually with decreased or no voting rights.

10. **Should preference shares be eligible for inclusion in FTSE Russell global indices?**
- Always
 - Only when they are clearly not fixed income instruments
 - Only for certain countries where their use is prevalent (e.g. Sweden)
 - Never

Certificates and Savings Shares

Certain countries issue other equity-like securities with different, or no, voting rights and different dividend entitlements.

11. **Which of the following should be eligible for inclusion in FTSE Russell global indices**
- Participation certificates (e.g. Austria, France, Switzerland)
 - Investment certificates (e.g. France)
 - Savings shares (e.g. Italy)
 - Limited or non-voting shares (e.g. Norway, Sweden)

Company Eligibility

12. **Which company structures should ordinarily be considered eligible for FTSE Russell Global Indices?**
- Limited Partnerships
 - Limited Liability Partnerships
 - Master Limited Partnerships
 - Limited Liability Companies
 - Investment Trusts

- Business Development Companies

13. **Where you think a company structure should be included only in certain countries, please specify which countries**

Minimum Governance Requirements - Longer term considerations

14. **Should FTSE Russell create versions of its global indices that only include securities with some minimum share of the total company voting rights?**

- No
- Yes
- If so, what percentage?

15. **Should FTSE Russell create versions of its global indices that only include companies in which the aggregate voting rights available to non-restricted investors exceeds some minimum threshold?**

- No
- Yes
- If so, what percentage?

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

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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.

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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