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# Implementation of the Expansion of Eligible Stocks under Northbound Stock Connect within the FTSE Global Equity Index Series

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# Background

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FTSE Russell completed [phase 1 of the inclusion of China A shares](#) in the [FTSE Global Equity Index Series](#) (FTSE GEIS) in June 2020. Eligible China A shares are included in the FTSE GEIS across Large, Mid and Small Cap segments at a 25% inclusion factor via the Northbound Stock Connect Scheme. China A constituents represent approximately 7.07% of the FTSE Emerging All Index as of 31 March 2023.

## Expansion of Eligible Stocks under Northbound Stock Connect

On 19 January 2023, the Stock Exchange of Hong Kong Limited (HKEX) issued a [circular](#) on the updated eligibility criteria in relation to the expansion of eligible stocks within the Stock Connect programme.

The expansion of eligible stocks became effective from 13 March 2023, resulting in the addition of 598 stocks listed on Shanghai Stock Exchange (SSE) and 436 stocks listed on Shenzhen Stock Exchange (SZSE) on the eligible Northbound Stock Connect buy and sell list<sup>1</sup>.

## Consultation Purpose

In light of the significant increase in number of newly eligible stocks under the Northbound Stock Connect, FTSE Russell is seeking feedback from the market participants on:

- i) Whether the newly added stocks resulting from the expanded Stock Connect universe that meet the FTSE GEIS eligibility criteria for index inclusion should be implemented in a single tranche or multiple tranches.
- ii) When the implementation should commence.
- iii) The minimum period of notice required in advance of the implementation.

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<sup>1</sup> Source: <https://www.hkex.com.hk/-/media/HKEX-Market/Services/Circulars-and-Notices/Participant-and-Members-Circulars/SEHK/2023/CT01023E.pdf>

## Responding to the consultation

The proposals set out in this consultation document are included in order to seek market feedback and may or may not result in changes to FTSE Russell indices or data solutions.

Index users and other stakeholders are invited to respond by **15 May 2023**. The responses will be reviewed by the FTSE Russell Index Governance Board and an update on FTSE Russell's proposed approach will be communicated in due course.

Consultation responses should be submitted at <https://www.surveymonkey.co.uk/r/HH8DR5W>

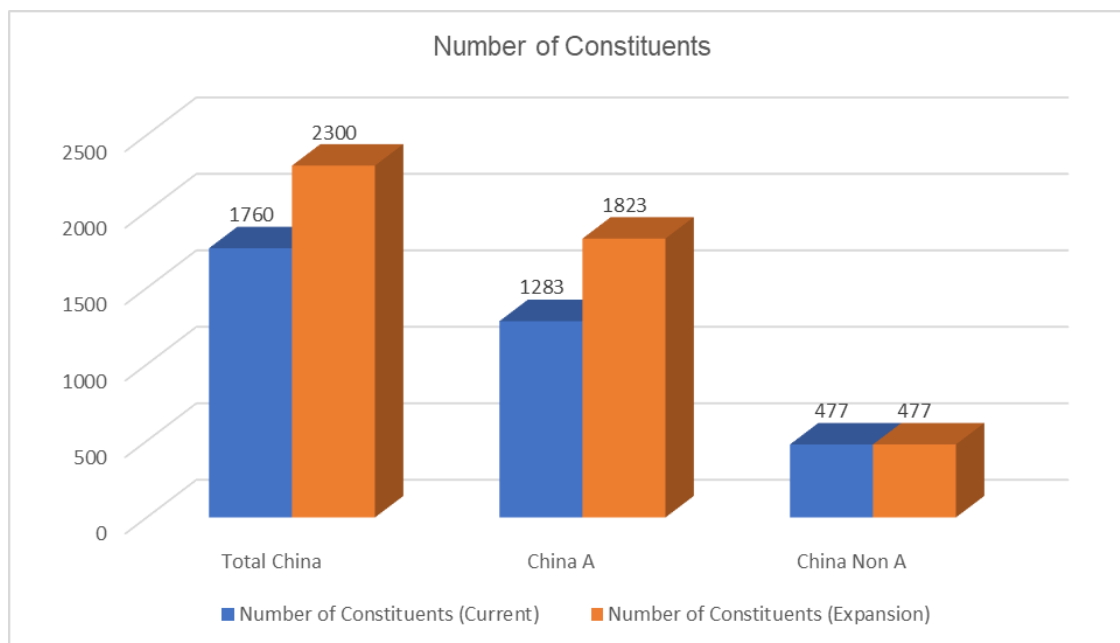
All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation results, but no individual responses will be published and no respondents will be named.

If you have any questions about this survey, or if you encounter any technical issues, please contact [committeesecretary@ftserussell.com](mailto:committeesecretary@ftserussell.com).

# Supporting Data and Impact Analysis

If all eligible stocks from the Stock Connect expansion were to be included in the FTSE Global All Cap Index, the indicative projected impact would be as follows:

- An additional **540** China A securities would be included in the FTSE GEIS.



FTSE Russell data as of 31 March 2023

The impact analysis was conducted by selecting the existing constituents of the FTSE China A All Cap Index, within the FTSE Global China A Inclusion Index (via all access routes), from expanded list of eligible stocks within the Northbound Stock Connect to determine the projected impact to the FTSE China A Stock Connect CNH All Cap Index within FTSE Global All Cap Index. The respective inclusion and exclusion levels for March 2023 can be accessed through the link [here](#).

The 540 new additions represent **0.912%** weight increase for China A and **0.642%** weight increase for total China<sup>2</sup> within the FTSE Emerging All Cap Index.

Market	% Mkt Cap (Current)	% Mkt Cap (Expansion)	% Change
Total China	34.547%	35.189%	0.642%
China A	7.071%	7.983%	0.912%
China Non A	27.476%	27.206%	-0.270%
Taiwan	18.139%	17.961%	-0.178%
India	16.145%	15.987%	-0.158%
Brazil	5.632%	5.577%	-0.055%
Saudi Arabia	4.268%	4.226%	-0.042%
South Africa	3.732%	3.696%	-0.037%
Mexico	3.045%	3.015%	-0.030%

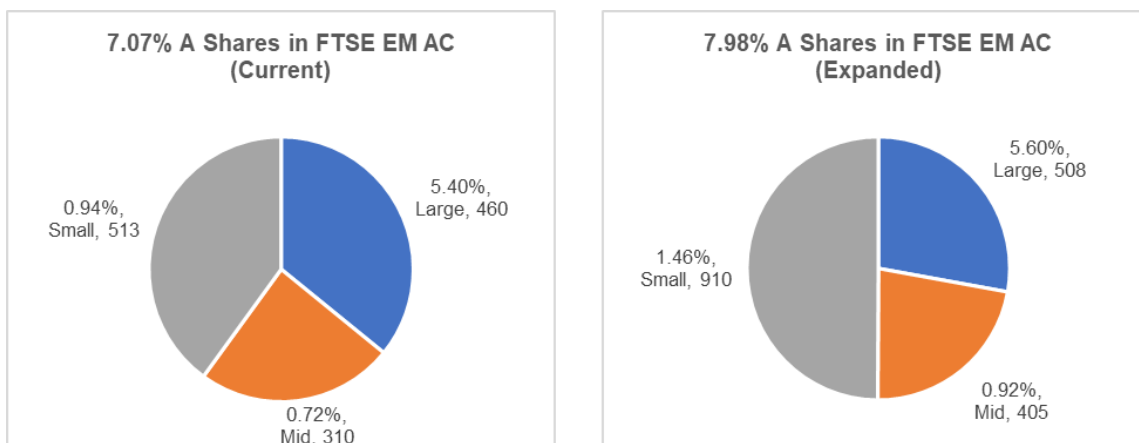
Thailand	2.938%	2.909%	-0.029%
Indonesia	2.317%	2.294%	-0.023%
Malaysia	1.910%	1.891%	-0.019%
UAE	1.535%	1.520%	-0.015%
Turkey	1.045%	1.035%	-0.010%
Qatar	0.978%	0.969%	-0.010%
Kuwait	0.978%	0.968%	-0.010%
Philippines	0.833%	0.825%	-0.008%
Chile	0.678%	0.671%	-0.007%
Greece	0.439%	0.435%	-0.004%
Hungary	0.182%	0.180%	-0.002%
Czech Republic	0.176%	0.174%	-0.002%
Colombia	0.145%	0.144%	-0.001%
Iceland	0.121%	0.120%	-0.001%
Egypt	0.097%	0.096%	-0.001%
Romania	0.076%	0.076%	-0.001%
Pakistan	0.044%	0.044%	0.000%

FTSE Russell data as of 31 March 2023

The expansion is likely to result in a greater exposure to China A Small Cap constituents with the FTSE Emerging All Cap Index.

	Number of cons (Current)	Number of cons (Expanded)	Change	% wgt in FTSE EM AC (Current)	% wgt in FTSE EM AC (Expanded)	Change
China A	1283	1823	540	7.07%	7.98%	0.91%

Size segment breakdown relevant to the % wgt in the FTSE Emerging All Cap Index:



FTSE Russell data as of 31 March 2023

<sup>2</sup> Total China refers to all China Share classes, namely A, B, H, Red Chip, P Chip, S Chip, and N Shares.

To implement the 540 new additions to FTSE GEIS on a one-off basis, the projected index turnover in the FTSE Emerging All Cap Index is expected to be **1.96%**.

	Number of New Adds	Inv. Mkt Cap (CNY mn)	Index Turnover	Average (Days to Trade)	Maximum (Days to Trade)
FTSE China A All Cap	540	468,979.24	1.96%	0.50	2.88

FTSE Russell data as of 31 March 2023

Additionally, based on the three months average daily trade value in US\$, and assuming a fund size of US\$100bn with trading limited to a maximum participation rate of 20% of the daily turnover, the expected average number of days required to trade the new additions is **half a day** and the maximum number of days required to trade is **less than three days**.

Please see the list of names of indicative additions and their respective Days to Trade analysis at <https://www.ftserussell.com/governance/market-consultations>.

# Consultation Questions

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1. Based on the analysis, what is your preferred implementation approach for the inclusion of the new China A additions resulting from the expanded Stock Connect universe?

- Single tranche
- Multiple tranches (please note the preferred number of tranches in the comment box)
- Other – please use the comment box below to provide your answer.

Please enter your comments here:

2. When should the implementation of the new China A additions commence?

- September 2023 semi-annual review
- March 2024 semi-annual review
- Other – please use the comment box below to provide your answer.

Please enter your comments here:

3. What is the minimum period of notice required in advance of the implementation?

- One month
- Three months
- Other – please use the comment box below to provide your answer.

Please enter your comments here:

4. Are there any other factors FTSE Russell should consider, or feedback that you would like to provide, regarding the implementation of the China A Stock Connect Expansion?

Please enter your comments here:



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