

# Consultation on enhancing the FTSE Russell free float methodology

November 2024



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RUSSELL**

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## Introduction

FTSE Russell is conducting a consultation regarding a proposal to enhance the free float restrictions methodology and research process in order to improve transparency, simplification and replicability of the index methodologies.

### Responding to the consultation

The questions posed as part of this consultation are intended to gather feedback from all market participants and may or may not result in changes to our indices.

Index users and market stakeholders are invited to respond by **13 December 2024**.

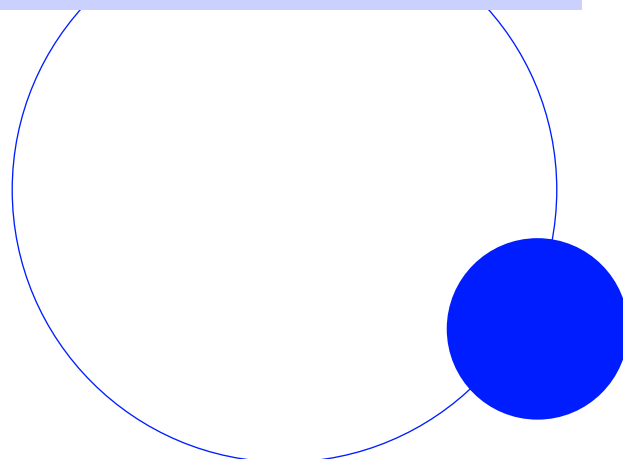
The consultation results will be reviewed by the FTSE Russell Index Governance Board in accordance with the [FTSE Russell Policy for Benchmark Methodology Changes: Ground Rules \(lseg.com\)](https://www.ftserussell.com/lseg.com).

Any changes will be communicated by via an announcement, which will be available on the FTSE Russell public website.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.com/r/XQQ52Y5>

All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation feedback, 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).



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## Background

FTSE Russell equity indices are weighted by investable market cap, so that they include company shares that are available to public investors. Investable market cap applies the most restrictive of free float, foreign ownership limits (FOL) and lock-up restrictions. Shares where the holders are restricted from selling, locked up, or held by insiders as defined by FTSE Russell are removed from the indices.

Russell Indexes pioneered the application of free float to index constituents in 1984, and FTSE adopted free float weighting in 2001. The current FTSE Russell equity index free float restrictions methodology was implemented in June 2017, following the FTSE Russell merger.

## Context for the Market Consultation

FTSE Russell's free float data is currently sourced from regulatory filings. Due to the number of securities within FTSE Russell indices, FTSE Russell has historically been unable to incorporate updates from non-primary filings. As a result, challenges to incorporate transactions disclosed in non-primary filings may lead to corrections during the query period.

Following integration of the data businesses into LSEG Data & Analytics (formerly known as Refinitiv), FTSE Russell is now proposing enhancements to the free float restrictions methodology and research process, to improve transparency, timeliness, frequency and precision of free float calculations, which are applied to a security's index weight.

## Proposal

FTSE Russell proposes to utilize the "LSEG Data & Analytics Ownership and Profiles Data" ("O&P") product as a primary data source in the FTSE Russell free float restrictions research process. In addition, FTSE Russell proposes to modify the current methodology, removing 10% buffers (detailed in below section).

The O&P product sources shareholder data from more than 70 countries and includes sources such as U.S. Securities and Exchange Commission (SEC) filings, international declarable stakes notifications, UK share registers, and more.

Further information regarding the O&P product can be found through the following link:

<https://www.lseg.com/en/data-analytics/financial-data/company-data/ownership-and-profiles>

## Target timeline

FTSE Russell intends to implement with the effective date of the June 2025 FTSE Russell equity index reviews.



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## Proposed methodology change summary

### Proposed free float restriction updates

Shares held by the following shareholder types will be fully restricted where the holding is disclosed. These holdings will therefore not be included in free float.

- Corporations and Employee Share Plans (ESOP)
- All individual holders disclosed within corporate filings, regardless of amount
- Shares held by private equity firms and venture capital funds

Shareholder Type	Definition	Restriction % (greater than or equal to)	Change from %
Corporations and Employee Share Plans (ESOP)	Shares held by public companies, non-listed subsidiaries of public companies, private companies, employee share plans (ESOP), or holding companies.	0%	<i>10% restriction on private companies (other types already restricted at 0%)</i>
Foundations	Shares held by foundations and endowments.	0%	<i>No change</i>
Government Agencies	Shares directly owned by state, regional, municipal and local governments (excluding shares held by independently managed pension schemes for governments).	0%	<i>No change</i>
Individual Investors	All individual holders disclosed within corporate filings will be restricted, regardless of amount.	0%	<i>10%</i>
Portfolio Holdings	Where a single portfolio holding is 30% or greater, it will be regarded as strategic and therefore restricted.	30%	<i>No change</i>
Sovereign Wealth Funds	Shares that are held by sovereign wealth funds.	10%*	<i>No change</i>
Treasury Shares	Shares that are held in treasury.	0%	<i>No change</i>
Venture Capital and Private Equity	Shares held by private equity firms and venture capital funds are generally considered restricted.	0%	<i>10%</i>

\* Please note: the 10% threshold will not apply to an existing or prospective constituent that is eligible for addition to the index with an investability weight of less than 5% under rule 6.2 A of the FTSE Global Equity Index Series. The shares will be restricted regardless of the percentage held.

## Proposed Methodology Examples

Below are examples of securities, using data as of July 31, 2024, illustrating the difference between the current float methodology and the proposed float methodology. The variations in free float are primarily attributed to the following factors:

- **Removal of 10% buffers:** Founders, promoters, former directors, individuals, venture capital and private equity firms without a strategic connection were previously subject to restrictions only if their holdings exceeded 10%. Under the proposed methodology, these holders will now be restricted regardless of the size of their holdings.
- **Restriction of individual investors:** Individual holders will now be subject to restrictions regardless of the size of their holdings. This includes holders who were previously too small to be reflected in beneficial ownership tables.
- **Capturing holdings within non-primary filings:** FTSE Russell will now update for transactions included in non-primary filings, such as SEC Form 4's and SEC Form 13G's.

Ticker	Company Name	FTSE Russell Free Float (Current Methodology)	FTSE Russell Free Float (Proposed Methodology)	Difference
ADS	Adidas	92.40%	89.03%	-3.37%
GOOGL	Alphabet Class A	99.93%	99.58%	-0.35%
GOOG	Alphabet Class C	87.57%	86.22%	-1.35%
AAPL	Apple	94.01%	94.68%	0.67%
7267	Honda Motor Co	98.84%	96.24%	-2.60%
LSEG	London Stock Exchange Group	92.74%	94.21%	1.46%
PETR3	Petrobras ON	49.74%	49.74%	0.00%
Z74	Singapore Telecommunications	45.51%	42.23%	-3.28%
VOLV B	Volvo B	98.62%	94.43%	-4.19%

## Turnover Analysis

Preliminary index turnover analysis due to free float changes as of September 2024 index reviews is shown below.

The preliminary index turnover analysis reflects the potential changes to Investable Weight Factor (IWF), which applies the most restrictive of free float, foreign ownership limits (FOL) and lock-up restrictions. The preliminary analysis also does not reflect potential changes to index eligibility, e.g. voting rights, liquidity, etc. Please refer to individual index Ground Rules for additional details.

		Hypothetical Two-way Turnover* (New Methodology)	Hypothetical Two-way Turnover* (Current Methodology)	Index Transitional Turnover**
<b>Index Code</b>	<b>Index Name</b>	<b>9/23/2024</b>	<b>9/23/2024</b>	
AWORLD	FTSE All-World Index	3.50%	2.19%	1.96%
AWXUSAS	FTSE All-World ex US Index	5.09%	2.25%	3.73%
ASX	FTSE All-Share Index	3.22%	1.59%	2.20%
GEISLMS	FTSE Global All Cap Index	3.41%	1.82%	2.21%
GXUSS	FTSE Global All Cap ex US Index	5.37%	2.23%	4.11%
GEISSC	FTSE Global Small Cap Index	16.41%	13.51%	4.57%
SCXUSAS	FTSE Global Small Cap ex US Index	17.51%	12.11%	8.08%
GDXUS	FTSE Developed All Cap ex US Index	4.51%	1.78%	3.62%
AWD	FTSE Developed Index	3.12%	2.14%	1.61%
AWDXUS	FTSE Developed ex US Index	4.43%	2.08%	3.23%
AWDEURS	FTSE Developed Europe Index	4.56%	2.37%	3.11%
AWDEXUKS	FTSE Developed Europe ex UK Index	4.74%	1.99%	3.67%
AWDPAC	FTSE Developed Asia Pacific Index	4.80%	1.95%	3.87%
AWDPACXJ	FTSE Developed Asia Pacific ex Japan Index	4.89%	1.97%	3.72%
AWALLE	FTSE Emerging Index	7.21%	3.21%	5.12%
<b>UK</b>				
UKX	FTSE 100 Index	2.85%	1.67%	1.52%
MCX	FTSE 250 Index	7.72%	4.67%	4.25%
SMX	FTSE Small Cap Index (UK)	9.49%	3.69%	7.86%
<b>China</b>				
WICHN	FTSE China Index	5.72%	2.78%	4.17%
XIN0	FTSE China 50 Index	8.31%	7.86%	2.29%
XINA50	FTSE China A50 Index	3.84%	3.84%	0.00%
<b>Japan</b>				
WIJPN	FTSE Japan Index	4.66%	2.08%	3.96%
<b>HDY</b>				
AWHDY	FTSE All-World High Dividend Yield Index	11.14%	9.46%	2.35%
<b>Infrastructure</b>				
FGCII	FTSE Global Core Infrastructure Index	3.64%	1.53%	2.65%
FDCII	FTSE Developed Core Infrastructure Index	2.68%	1.25%	1.91%
<b>FTSE4Good</b>				
4GUK	FTSE 4Good UK Select Index	2.51%	1.38%	1.44%
4GUS	FTSE 4Good US Select Index	1.74%	1.48%	0.79%
<b>Real Estate</b>				
ENHG	FTSE EPRA Nareit Global Index	4.23%	2.68%	2.17%
ENGL	FTSE EPRA Nareit Developed Index	3.87%	2.52%	1.88%
FNRE	FTSE Nareit Equity REITs Index	1.94%	1.60%	0.46%

		Hypothetical Two-way Turnover* (New Methodology)	Hypothetical Two-way Turnover* (Current Methodology)	Index Transitional Turnover**
Index Code	Index Name	7/1/2024	7/1/2024	
RU1000	Russell 1000 Index	3.39%	2.79%	1.01%
RU1000G	Russell 1000 Growth Index	23.24%	23.18%	0.96%
RU1000V	Russell 1000 Value Index	27.12%	26.83%	1.01%
RU2000	Russell 2000 Index	20.85%	20.35%	4.00%
RU2000G	Russell 2000 Growth Index	52.63%	52.20%	4.37%
RU2000V	Russell 2000 Value Index	41.97%	41.51%	3.62%
RUMIDCAP	Russell Midcap Index	21.16%	20.76%	1.63%
RU3000	Russell 3000 Index	3.10%	2.43%	1.15%
RUTOP200	Russell Top 200 Index	7.41%	6.96%	0.81%
RLARGE	Russell Top 50 Index	12.80%	12.49%	0.58%
RMICRO	Russell Microcap Index	37.21%	36.74%	7.11%

\* Hypothetical Two-Way Turnover (New Methodology) is intended to illustrate the one-off turnover impact when transitioning from the live index (current methodology) at price cut-off date to the new methodology.

\* Hypothetical Two-Way Turnover (Current Methodology) serves as a benchmark for comparison against the turnover under the new methodology.

\*\* Index Transitional Turnover represents the total absolute weight difference between the two methodologies under identical conditions as of a specific date. This value represents the cumulative aggregate of the absolute security level differences, where all negative differences are converted to positive before aggregation. The resulting transitional turnover value may exceed the direct net difference between the two methodologies.

## Questions

1. Do you support FTSE Russell's proposal to enhance the free float restrictions methodology with implementation targeted in June 2025?

Yes

No

Comments:

2. Do you have any concerns with the estimated turnover provided within the consultation? If so, please specify any indices/markets that concern you and comment regarding solutions FTSE Russell should consider.

Yes

No

Comments:

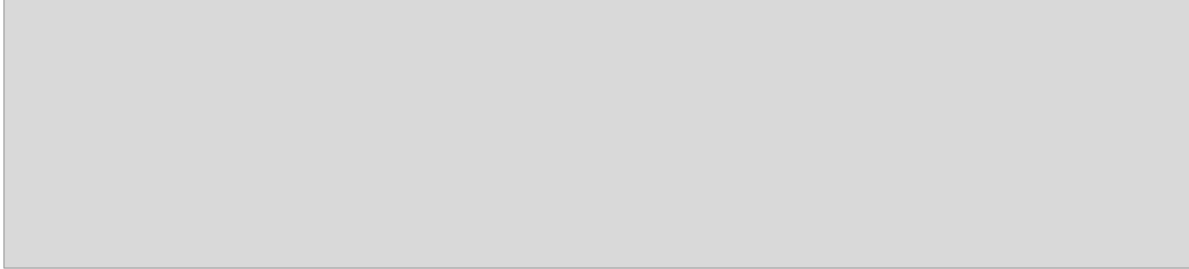
3. Do you have any additional feedback regarding the proposed changes outlined in this consultation?

Yes

No



Comments:



Please contact your local client services team on [info@ftserussell.com](mailto:info@ftserussell.com) or your respective account manager if you have any questions or would like to schedule a call to discuss this topic in greater detail.

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For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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