

FTSE China incl A 25% Technology Capped Index

v1.4



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Section 1

Introduction

1. Introduction

1.1 This document sets out the Ground Rules for the construction and management of the FTSE China Incl A 25% Technology Capped Index. Copies of these Ground Rules are available from FTSE Russell.

1.2 The FTSE China Incl A 25% Technology Capped Index is designed to represent the performance of the Chinese technology industry.

1.3 These Ground Rules should be read in conjunction with the FTSE Global Equity Index Series Ground Rules and the Corporate Actions and Events Guide, which are available at www.lseg.com/en/ftse-russell/.

1.4 Price, total return and net total return indices will be calculated on an end-of-day and real-time basis in US Dollars.

The total return indices include income based on ex-dividend adjustments.

The underlying tax rate information is available from FTSE Russell.

1.5 The base currency of the index is US Dollars (USD).

1.6 FTSE Russell

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.

1.7 FTSE Russell hereby notifies users of the index that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index and therefore any financial contracts or other financial instruments that reference the index should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.8 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules; and/or
- any inaccuracies in these Ground Rules; and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules; and/or
- any inaccuracies in the compilation of the index or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index¹.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out periodic index reviews of the index and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews; and
- disseminate the indices.

2.2 Amendments to these Ground Rules

2.2.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to best reflect the aims of the index. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

2.2.2 As provided for in the Statement of Principles for FTSE Russell Equity Indices, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules or to set a precedent for future action, but FTSE Russell will consider whether the Rules should subsequently be updated to provide greater clarity.

¹ The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation)

Section 3

FTSE Russell index policies

3. FTSE Russell index policies

These Ground Rules should be read in conjunction with the following policy documents, which can be accessed using the links below.

3.1 Corporate Actions and Events Guide

3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

3.2 Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles, which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by FTSE Russell's Index Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

3.3 Queries and Complaints

3.3.1 FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark Determination Complaints Handling Policy.pdf](#)

3.4 Index Policy for Trading Halts and Market Closures

Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

3.5 Index Policy in the Event Clients are Unable to Trade a Market or a Security

3.5.1 Details of FTSE Russell's treatment can be accessed using the following link:

[Index Policy in the Event Clients are Unable to Trade a Market or a Security.pdf](#)

3.6 Policy for Benchmark Methodology Changes

Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

3.7 FTSE Russell Governance Framework

3.7.1 To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks², the European benchmark regulation³ and the UK benchmark regulation⁴. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

3.7.2 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.

Further details of the foreign ownership restrictions can be accessed using the following link:

[Foreign Ownership Restrictions and Minimum Foreign Headroom Requirement.pdf](#)

3.7.3 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. $(FOL - \text{foreign holdings})/FOL$.

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. $(49\% - 39\%)/49\%$.

Further details of the minimum foreign headroom requirement can be accessed using the following link:

[Foreign Ownership Restrictions and Minimum Foreign Headroom Requirement.pdf](#)

3.7.4 Real Time Status Definitions

Please refer to the following guide for details of real time status definitions for indices which are calculated in real time.

[Real Time Status Definitions.pdf](#)

² IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013

³ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds

⁴ The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019

Section 4

Eligible securities

4. Eligible securities

4.1 Eligible universe

4.1.1 The index constituents are drawn from the following indices:

- FTSE China Index; and
- FTSE China A Stock Connect CNH Index.

4.2 Selection criteria

4.2.1 All constituents in the eligible universe (rule 4.1) with industry categorised as technology (industry code 10) by the new Industry Classification Benchmark (ICB) will be selected for the index.

Ground Rules can be accessed using the following link:

[ICB Rules_new.pdf](#)

4.2.2 Constituents from FTSE China A Stock Connect CNH Index will have a 25% inclusion factor applied to their investable market capitalisations. Future updates in the inclusion factor will follow the treatment applied in the FTSE Global Equity Index Series.

Section 5

Periodic review of constituents

5. Periodic review of constituents

5.1 Periodic review

- 5.1.1 The FTSE China Incl A 25% Technology Capped Index will be reviewed quarterly in March, June, September and December.
- 5.1.2 Changes arising from each index review will be implemented after the close of business on the third Friday (i.e. effective the following Monday) of the review month.
- 5.1.3 The constituents of the FTSE China Incl A 25% Technology Capped Index are capped quarterly using prices available on the close on the second Friday of the review month, adjusted for corporate actions to the third Friday, and constituents, shares in issue and free float after the third Friday of the review month. The capping is implemented after the close of business on the third Friday of the review month.
- 5.1.4 The calculation will take into account any corporate actions/events that take effect after close on the second Friday of the review month up to and including the review effective date if they have been announced and confirmed by the second Friday of the review month.
- 5.1.5 Corporate actions/events announced after the second Friday of the review month that become effective up and including the review effective date will not result in any further adjustment.

5.2 Capping methodology

Stage 1

Rank all companies based on index weights in descending order.

Any companies whose weights are greater than 10% are capped at 10%. The weights of all lower-ranking companies are increased correspondingly. The weights of lower-ranking companies are then checked and if they exceed 10%, they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.

If the total index weight of those companies whose individual weights exceed 5% is greater than 40% in aggregate, the procedure moves onto stage 2 below. Otherwise no further capping is required.

Stage 2

a. Capping the largest company at 10%

If more than one company is capped at 10% in stage 1, then weights of all subsequent companies previously capped at 10% are changed in accordance with the rules detailed below.

For example, if the second-largest company is capped at 10%, its weight will be reduced to 9% as detailed in stage 2b below. Thus only one company will have a 10% weight in the index.

b. Capping the second-largest company at 9%

If the weight of the second-largest company is greater than 9%, the company's weight is capped at 9% and the weights of the remaining uncapped companies are increased correspondingly.

Following this procedure, if the total index weight of those companies whose individual weights exceed 5%, is NOT greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, is greater than 40% then the procedure moves onto stage 2c.

Please note: where the 40% threshold is breached, we move to stage 2c even, if the second-largest company has not been capped.,

c. Capping the third-largest company at 8%

If the weight of the third-largest company is greater than 8% the company's weight is capped at 8% and the weights of the remaining uncapped companies are increased correspondingly.

Following this procedure, if the total index weight of those companies whose individual weights exceed 5% is NOT greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5% IS greater than 40% then the procedure moves onto stage 2d.

Please note: where the 40% threshold is breached, we move to stage 2d even if the third-largest company has not been capped.

d. Capping the fourth-largest company at 7%

If the weight of the fourth-largest company is greater than 7%, the company's weight is capped at 7% and the weights of the remaining uncapped companies are increased correspondingly.

Following this procedure, if the total index weight of those companies whose individual weights exceed 5% is NOT greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5% IS greater than 40%, then the procedure moves onto stage 2e.

Please note: where the 40% threshold is breached, we move to stage 2e even if the fourth-largest company has not been capped.

e. Capping the fifth-largest company at 6%

If the weight of the fifth-largest company is greater than 6%, the company's weight is capped at 6% and the weights of the remaining uncapped companies are increased correspondingly.

Following this procedure, if the total index weight of those companies whose individual weights exceed 5% is NOT greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5% IS greater than 40%, then the procedure moves onto stage 2f.

Please note: where the 40% threshold is breached we move to stage 2f even if the fifth largest company has not been capped.

f. Capping the sixth-largest company at 4%

If the weights of the sixth-largest company and any lower ranking companies are greater than 4%, those companies' weights are capped at 4% and the weights of lower-ranking companies are increased correspondingly.

The process then moves to stage 3.

Stage 3

Following the application of stage 2, the weights of each company are checked. If the total index weight of those companies whose individual weights exceed 5% is greater than 40% in aggregate, then further capping is required and stage 2 is repeated.

Section 6

Changes to constituent companies

6. Changes to constituent companies

6.1 Intra-review additions

6.1.1 Additions to the FTSE China Incl A 25% Technology Capped Index will be considered for inclusion at the next quarter review.

6.2 Intra-review deletions

6.2.1 A constituent will be removed from the FTSE China Incl A 25% Technology Capped Index if it is also removed from the indices in the eligible universe (rule 4.1). The deletion will be concurrent with its deletion from the indices in the eligible universe and its weight will be distributed pro-rata amongst the remaining constituents in the relevant FTSE China Incl A 25% Technology Capped Index.

6.2.2 A constituent will be removed from the index if it is no longer eligible due to industry classification change. The deletion will be concurrent with the industry classification change and its weight will be distributed on a pro-rata basis amongst the remaining constituents in the Index.

Section 7

Corporate actions and events

7. Corporate actions and events

7.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

A corporate action is an action on shareholders with a prescribed ex-date. The share price will be subject to an adjustment on the ex-date. These include the following:

- capital repayments;
- rights issues/entitlement offers;
- stock conversion;
- splits (sub-division)/reverse splits (consolidation); and
- scrip issues (capitalisation or bonus issue).

A corporate event is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index. Where an index adjustment is required, FTSE Russell will provide notice advising of the timing of the change.

7.2 Shares in issue

Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide.

7.3 Investability weightings

7.3.1 Changes to free float for constituent securities are covered in the Corporate Actions and Events Guide.

7.4 Suspension of dealing

Suspension of dealing rules can be found within the Corporate Actions and Events Guide.

7.5 Takeovers, mergers and demergers

The treatment of takeovers, mergers and demergers can be found within the Corporate Actions and Events Guide.

7.5.1 If the effect of a merger or takeover is that one constituent is absorbed by another constituent from the same new Industry Classification Benchmark (ICB) industry, the resulting company will remain a constituent of the index if it remains in the underlying index.

7.5.2 If a constituent is acquired by a non-constituent from an ineligible new ICB industry, the original constituent will be removed.

7.5.3 If a constituent is split to form two or more companies, the two or more companies arising from the split will be eligible for inclusion if it remains in the underlying index and is classified as technology (industry code 10) by the new ICB. Where one or more of the resulting companies is ineligible, the ineligible company will be removed from the index.

7.6 Trading under the Northbound China Stock Connect Scheme Buy-and-Sell List

China A shares will be removed from FTSE China Incl A 25% Technology Capped Index if they are removed from the Northbound China Stock Connect Scheme Buy-and-Sell List. The deletion will be concurrent with the Northbound China Stock Connect Scheme Buy-and-Sell List. Where limited notification has been provided of a change to the Northbound China Stock Connect Scheme Buy-and-Sell List, FTSE Russell will provide notice advising of the timing of the change.

Section 8

Index calculation

8. Index calculation

8.1 Prices

8.1.1 The FTSE China Incl A 25% Technology Capped Index uses closing mid-market or last-trade prices, where available, for securities with local market quotations in the calculation of the end-of-day index values. Further details can be accessed using the following link:

[Closing Prices Used For Index Calculation](#)

8.1.2 Reuters real-time share prices are used during the intra-day calculation period.

8.2 Foreign exchange rates

8.2.1 Reuters real-time cross exchange rates are used during the intra-day calculation period for the FTSE China Incl A 25% Technology Capped Index.

8.2.2 The WM/Reuters Closing Spot Rates™ are used in the calculation of the end-of-day index values in US Dollars.

8.3 Index calculation

8.3.1 The FTSE China Incl A 25% Technology Capped Index is calculated using the following formula:

$$\sum_{i=1}^N \frac{(p_i \times e_i \times s_i \times f_i \times c_i)}{d}$$

Where:

- $i=1,2,\dots,N$;
- N is the number of securities in the FTSE China Incl A 25% Technology Capped Index;
- p_i is the latest trade price of the component security (or the price at the close of the index on the previous day);
- e_i is the exchange rate required to convert the security's currency into the index's base currency;
- s_i is the number of shares in issue used by FTSE Russell for the security as defined in these Ground Rules;
- f_i is the investability weighting factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE Russell for each security in the underlying index;
- c_i is the capping factor to be applied to a security to correctly weight that security in the index; and
- d is the divisor, a figure that represents the total issued share capital of the index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index.

Section 9

Industry Classification Benchmark (ICB)

9. Industry Classification Benchmark (ICB)

9.1 Classification structure

9.1.1 The index constituents are classified into industries, supersectors, sectors and subsectors as defined by the new ICB.

9.1.2 Details of the ICB are available from FTSE Russell and published on the FTSE Russell website (www.lseg.com/en/ftse-russell/) and can be accessed using the following links:

[Industry Classification Benchmark](#)

[ICB Rules_new.pdf](#)

Appendix A

Eligible markets and sources of trading

Markets eligible for the FTSE China Incl A 25% Technology Capped Index

Country	Exchange location	Market section(s)	Share classes
China (the People's Republic of China)	Shanghai	Main board	A shares
	Shenzhen	Main board	B shares
		Small- and medium-enterprise board	
		ChiNext board	
Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong)	Hong Kong	Main board	H shares
			Red chips
			P chips
Singapore (the Republic of Singapore)	Singapore	Main board	S chips
United States of America (the United States)	New York	NYSE	N shares
		NYSE America	
		NASDAQ Capital Market	
		NASDAQ Global Select	
		NASDAQ Global Market	

Appendix B

Index opening and closing hours

Index	Open	Close
FTSE China Incl A 25% Technology Capped Index	01:30	21:10

Notes:

- A.** For constituents who trade on New York Stock Exchange, NYSE Arca and NASDAQ closing prices are downloaded from Thomson Reuters at 21:30. Since the New York Stock Exchange, NYSE Arca and NASDAQ do not release official closing prices until several hours later, the price used in the index may not match this official close. If the downloaded closing price is subsequently overwritten by the official closing price, the downloaded closing price is retained in the index calculation.
- B.** The real-time foreign exchange rates are used throughout the period of calculation. Therefore foreign exchange movements are taken into account in the index calculation for each constituent even though the underlying market for that constituent may be closed.
- C.** Variations to the official hours of the Index will be published by FTSE Russell.
- D.** Timings are based on UK time (GMT or BST).

Appendix C

Status of index

The index may be calculated in real time.

For further details of real time definitions please refer to the following guide:

[Real Time Status Definitions.pdf](#)

Appendix D

Further information

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

[Glossary.pdf](#)

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

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

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