

# FTSE India Quality and Yield Select Index

v1.8

# Contents

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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 India Quality and Yield Select Index calculated by FTSE Russell.

1.2 The FTSE India Quality and Yield Select Index has been designed to reflect the performance of relatively high quality and high yield Indian securities.

1.2.1 The FTSE India Quality and Yield Select Index does not take account of ESG factors in its design.

1.3 These Ground Rules should be read in conjunction with the relevant underlying index Ground Rules which are available at [www.lseg.com/en/ftse-russell/](http://www.lseg.com/en/ftse-russell/).

1.4 A Price Index, Total Return Index and Net of Tax Index will be calculated on a real time basis in US dollars.

The Total Return indices include income based on ex dividend adjustments. All dividends are applied as declared.

The Net of Tax Total Return index is calculated based on the US RIC withholding tax rates applicable to dividends received by institutional investors who are not resident in the same country as the remitting company and who do not benefit from double taxation treaties.

### 1.5 FTSE Russell

1.5.1 FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiary FTSE Global Debt Capital Markets Inc.), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited.

1.5.2 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.

1.5.3 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 index.<sup>1</sup>

2.1.2 FTSE is responsible for the daily calculation, production and operation of the FTSE India Quality and Yield Select 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 the 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;
- disseminate the indices.

### 2.2 Amendments to these Ground Rules

2.2.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims of the index series. 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 Ground Rules should subsequently be updated to provide greater clarity.

<sup>1</sup> 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:

3.3.2 [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 Benchmarks<sup>2</sup>, the European benchmark regulation<sup>3</sup> and the UK benchmark regulation<sup>4</sup>. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

### **3.8 Real Time Status Definitions**

3.8.1 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](#)

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<sup>2</sup> IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

<sup>3</sup> 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.

<sup>4</sup> The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019.

## Section 4

# Eligible securities

## 4. Eligible securities

4.1 All constituents of the FTSE India Index are eligible for inclusion. For information regarding the eligibility of constituents to the FTSE India Index, please see the Global Equity Indices methodology that can be found at [www.lseg.com/en/ftse-russell/](http://www.lseg.com/en/ftse-russell/).

### 4.2 Selection criteria

#### 4.2.1 Yield screen

Constituents of the FTSE India Index are ranked in descending order by yield and the bottom 10% are excluded. If more than 10% constituents have 0% yield, all the 0% yield constituents will be removed."

Yield is calculated as the natural logarithm of each company's 12-month trailing dividend yield. Companies whose trailing dividend yield is zero are assigned a Z-Score of minus three. The Z-Score calculation and missing data treatment follow the descriptions in Appendix A.

#### 4.2.2 Quality screen

Constituents of the FTSE India Index are ranked by quality and the bottom 10% are excluded. Quality is defined as a composite of Profitability and Leverage for each FTSE India Index constituent. The Profitability and Leverage Z-Scores are combined to create a single Z-Score for Quality following the procedure and missing data treatment described in Appendix A. Annual reported financial statement items are sourced from a third party data provider.

#### Profitability

Profitability is defined by combining the Z-Scores (Appendix A) of the following three measures:

$$A. ROA = \frac{Net\ Income}{Average\ Total\ Assets} \quad (1)$$

$$B. \Delta\ Asset\ Turnover = \frac{Sales_t}{Total\ Assets_t} - \frac{Sales_{t-1}}{Total\ Assets_{t-1}} \quad (2)$$

$$C. Accruals = \frac{\Delta WC + \Delta NCO + \Delta FIN}{Average\ Total\ Assets} * (-1) \quad (3)$$

Note, a high level of Accruals is considered an indicator of lower levels of future profitability. We therefore reverse the sign by multiplying by minus 1 in equation (3).

Note that the terms in equations (1), (2), (3) are defined by:

$$Average\ Total\ Assets = (Total\ Assets_t + Total\ Assets_{t-1})/2$$

$$WC\ (Working\ Capital) = (Current\ Assets - Cash\ \&\ Short-term\ Investments) - (Current\ Liability - Short-term\ Debt)$$

$$Non-current\ Net\ Operating\ Assets\ (NCO) = (Total\ Assets - Current\ Assets - Investments\ and\ Advances) - (Total\ Liability - Current\ Liabilities - Long-term\ Debt)$$

*Net Financial Assets (FIN) = (Short-term Investments + Long-term Investments) – (Long-term Debt + Short-term Debt + Preferred Stock)*

Negative total or average assets are assigned a neutral Z-Score of zero.

### **Leverage ratio**

Leverage is the ratio of Operating Cash Flow to Total Debt measured relative to the industry (ICB) median stock level.

$$\text{Leverage Ratio} = \frac{\text{Operating Cash Flow}}{\text{Total Debt}} \quad (4)$$

The Leverage measure is normalised following the procedure described in Appendix A.

A company whose net operating cash flow is greater than total debt or has no debt is assigned a maximum Leverage Ratio of one.

### **Financials**

Constituents of the FTSE India Index that are classified as Financials (ICB Industry Code Financials 30)<sup>5</sup>, utilise ROA as the sole measure of Quality. Certain Quality measures such as operating cash flow and accruals cannot meaningfully be calculated or are not applicable to financial companies.

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<sup>5</sup> FTSE indices migrated to the new ICB classification system in March 2021.

## Section 5

# Periodic review of constituents

## 5. Periodic review of constituents

### 5.1 Periodic review

- 5.1.1 The FTSE India Quality and Yield Select Index will be reviewed semi-annually in March and September using data as of the data cut-off date. The data cut-off date is the close of business on the last trading day of February and August respectively.
- 5.1.2 All constituents in the FTSE India Index that pass the screens outlined in Section 4.0 will be included in the FTSE India Quality and Yield Select Index.
- 5.1.3 The constituents of the FTSE India Quality and Yield Select Index are weighted by investable market capitalisation and are capped quarterly.
- 5.1.4 The price date for the application of capping will be the close of the second Friday of the capping month using shares in issue and investability weights effective after the close on the third Friday of the capping month.
- 5.1.5 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.
- 5.1.6 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.

**5.3 Index back-histories**

5.3.1 The availability of data in quality screens prior to the September 2014 is simulated through the application of six-month lag.

## Section 6

# Changes to constituent companies

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## 6. Changes to constituent companies

### 6.1 Intra-review additions

6.1.1 The FTSE India Quality and Yield Select Index will not accept intra-review additions.

### 6.2 Intra-review deletions

6.2.1 A constituent will be removed from the FTSE India Quality and Yield Select Index if it is also removed from the FTSE India Index and its weight will be distributed pro-rata amongst the remaining constituents.

## Section 7

# Corporate actions and events

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## 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)
- 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 Suspended companies

7.4.1 FTSE Russell's treatment can be found using the following link:

[Suspended Companies Rule.pdf](#)

## Section 8

# Index calculation

## 8. Index calculation

### 8.1 Prices

8.1.1 The FTSE India Quality and Yield Select Index uses actual closing mid-market or last trade prices, where available, for securities with local market quotations. Further details can be accessed using the following link:

[Closing Prices Used For Index Calculation.pdf](#)

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 exchange rates are used in the index calculations which are disseminated in real-time.

8.2.2 Exchange rates used in the End of Day calculations are WM/Reuters Closing Spot Rates™, collected at 16:00 UK time (further information on the WM/Reuters Closing Spot Rates service is available from The WM Company).

### 8.3 Index calculation

8.3.1 The index levels will be displayed to eight decimal points.

8.3.2 The 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 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.
- $d$  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.

## Appendix A

# Z-Score calculation

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- A. Individual stock factor values are normalised cross-sectionally to create Z-Scores within each eligible universe according to:

$$Z_{j,i} = (F_{j,i} - \mu_j) / \sigma_j \quad (1)$$

where  $F_{j,i}$  is the  $J^{th}$  factor value of the  $i^{th}$  stock and  $\mu_j$  and  $\sigma_j$  are the cross-sectional factor mean and standard deviation respectively. Z-Scores that are greater (less) than three (minus three) are truncated to a value of three (minus three). Post-truncation, individual Z-Scores are renormalized by the re-application of equation (1). All Z-Scores, including truncated ones are included in this re-application. This process is repeated until all Z-Scores lie in a range between plus and minus three.

- B. If a factor consists of multiple sub-factors, e.g. Profitability which has three components, a stock's initial factor Z-Score is formed by taking the average of its individual sub-factor Z-Scores calculated via section A. This average is taken across non missing sub-factor Z-Scores. The normalisation procedure detailed in section A is then re-applied to this average to form the final factor Z-Score.
- C. For all factors with the exception of yield, stocks with missing factor data are allocated a neutral Z-Score of zero after the application of the normalisation procedure detailed in section A and section B. For Yield missing (or zero) values are assigned a Z-Score of minus three.

## Appendix B

# Index opening and closing hours

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Index	Open	Close
FTSE India Quality and Yield Select Index	03:45	21:10

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### Notes:

- A. 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.
- B. The Index will not be disseminated on US market holidays and may close early on business days prior to US market holidays. Variations to the official hours of the Index will be published by FTSE Russell.
- C. Timings are based on UK time (GMT or BST).

## Appendix C

# Status of index

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A Price Index, Total Return Index and Net of Tax Index will be calculated on a real-time basis in US dollars.

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

[Real Time Status Definitions.pdf](#)

## Appendix D

# Further information

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

[Glossary.pdf](#)

Further information on the FTSE India Quality and Yield Select Index is available from FTSE Russell.

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at [info@ftserussell.com](mailto:info@ftserussell.com).

Website: [www.lseg.com/en/ftse-russell/](http://www.lseg.com/en/ftse-russell/)

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