Ground Rules

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FTSE Static Basket Index Series

v1.0

FTSE RUSSELL
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Section 1

Introduction

1. Introduction

1.1 This document sets out the Ground Rules for the construction and maintenance of the FTSE Static Basket Index Series.

1.2 The FTSE Static Basket Index Series is designed to track the performance of a pre-selected static basket of securities.

1.3 The FTSE Static Basket Indices may be calculated at price, gross or net return level and may also have a percentage or fixed point decrement applied to the performance.

1.4 The indices that are price return, gross total return or net total return are calculated and disseminated in real time while decrement indices are calculated and disseminated end of day.

The list of indices along with their description and parameters can be found in the index catalogue which can found using the following link: FTSE Static Basket Index Series Catalogue

1.5 The FTSE Static Basket Index Series does not take account of ESG factors in its index design.

1.6 FTSE Russell

1.6.1 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.

1.6.2 FTSE Russell hereby notifies users of the index series 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 series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

1.6.3 Index users who choose to follow this index series or to buy products that claim to follow this index series should assess the merits of the index series 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 for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules;
- any errors or inaccuracies in these Ground Rules;
- any non-application or misapplication of the policies or procedures described in these Ground Rules; and/or
- any errors or inaccuracies in the compilation of the index series 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 series[1].

2.1.2 FTSE maintains the Ground Rules of the index and associated policies as set out in these Ground Rules.

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 best reflect the aim 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.

[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

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

3.2 Corporate Actions and Events Guide

This document details the guiding principles for the treatment of corporate actions that affect this Index Series:

Corporate Actions Methodology

3.3 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 summarizes 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 the FTSE Russell Product Governance Board.

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

Statement_of_Principles.pdf

3.4 Queries and Complaints

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

Benchmark_Determination_Complaints_Handling_Policy.pdf

3.5 Index Policy for Trading Halts and Market Closures

3.5.1 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

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

3.6.1 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

3.7 Recalculation Policy and Guidelines

Where an inaccuracy is identified, FTSE Russell will follow the steps set out in FR Global Equity Indices Recalculation Policy and Guidelines below when determining whether an index or index series should be recalculated and/or associated data products reissued:

Recalculation Policy and Guidelines

3.8 Policy for Benchmark Methodology Changes

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

Policy_for_Benchmark_Methodology_Changes.pdf

3.9 FTSE Russell Governance Framework

3.9.1 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[2], the European benchmark regulation[3] and the UK benchmark regulation[4]. The FTSE Russell Governance Framework can be accessed using the following link:

FTSE_Russell_Governance_Framework.pdf

3.10 Withholding Tax Guide

The following Withholding Tax Guide applies to this Index Series.

FR Indices Withholding Tax Guide

3.11 Real Time Status Definitions

3.11.1 Please refer to the following guide for details of real time status definitions for indices that 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.

Appendix A

Calculation methodology

4. Overview

This Appendix outlines the calculation methodology for the FTSE Static Basket Index Series.

An Index is calculated on each Index Business Days and is defined by its "**Weighting Methodology**", its "**Return Type**", its "**Rebalancing Schedule**", and whether a "**Decrement Methodology**" is applied.

The starting value of the Index is the Index Base Value and the date for which the Index Base Value applies is the Index Base Date. The date on which the Index starts to be calculated is the Index Launch Date.

The Series uses a divisor driven methodology. The value of an Index equals the aggregate market value of all index securities divided by the divisor of the Index. The divisor is an arbitrary number chosen at the inception of the index to fix the starting value of the Index (say, at 100). The divisor serves the purpose of scaling such aggregate value to a lower magnitude, which is more desirable for reporting purposes. In the event of any corporate action or rebalance event affecting the market value of the index, the divisor is adjusted to offset the change in the market value of the Index so that the value of the Index does not jump up or down drastically.

4.1 Return Type

If an Index has a Return Type set at "**Price**", the Index is calculated without considering the cash dividends on Index securities. With the mathematical manipulations, the price return index is computed as follows:

$$\boldsymbol{Index_t = \frac{\sum_{i=1}^{n} p_{i,t} \times q_{i,t} \times FX_{i,t}}{Divisor_t}}$$

where:

$p_{i,t}$ = price of securities i=1,2,…,n, on Index Business Day t

n = the number of securities in the index

$q_{i,t}$ =the number of shares outstanding for security i on Index Business Day t

$FX_{i,t}$ = the WMR FX rate from local currency of security i to index currency on Index Business Day t

If an Index has a Return Type set at "**Gross**", the Index is calculated with a price adjustment for issuance of dividends. When a company issues a dividend, the price of the security drops in the exact amount of the per share dividend amount. Leaving aside subsequent market movements of the security price, the impact of a constituent security dividend upon an index is a drop in the value of the index. The gross total return index is computed as follows:

$$Index_t = \frac{\sum_{i=1}^{n}\left(p_{i,t} \times q_{i,t} \times FX_{i,t}\right) + \left(Div_{i,t} \times q_{i,t} \times FX_{i,t}\right)}{Divisor_t}$$

Where:

$p_{i,t}$ = price of securities i=1,2,…,n, on Index Business Day t

n = the number of securities in the index

$q_{i,t}$ =the number of shares outstanding for security i on Index Business Day t

$FX_{i,t}$ = the WMR FX rate from local currency of security i to index currency on Index Business Day t

$Div_{i,t}$ = per share dividend on ex-date for security i

All quantities in the equation above are end-of-day quantities. The numerator is computed as per the ex-date for any dividends. The divisor is also adjusted for total return indices on the day following the dividend ex-date. This is done to ensure that the index doesn't fall back down to previous levels (prior to dividend ex-date). This adjustment is done by calculating an adjusted market cap for the total return index immediately after dividend ex-date. The adjusted market cap is the price only market cap as on the dividend ex-date (i.e., excluding index dividend). Once this is divided by the total return index value as on dividend ex-date, an adjusted divisor is available which is used for calculations from the next day onwards.

If an Index has a Return Type set at "**Net**", the Index is calculated with a price adjustment for issuance of dividends after taxes. The dividend is adjusted by the tax rate of the country the security lists as its home domicile. The price of the security drops in the exact amount of the per share after tax dividend amount. Leaving aside subsequent market movements of the security price, the impact of a constituent security after tax dividend upon an index is a drop in the price of the index. The net total return index is computed as follows:

$$Index_t = \frac{\sum_{i=1}^{n}\left(p_{i,t} \times q_{i,t} \times FX_{i,t}\right) + \left(Div_{i,t} \times q_{i,t} \times FX_{i,t}\right) \times (1 - Tax_i)}{Divisor_t}$$

Where:

$p_{i,t}$ = price of securities i=1,2,…,n, on Index Business Day t

n = the number of securities in the index

$q_{i,t}$ =the number of shares outstanding for security i on Index Business Day t

$FX_{i,t}$ = the WMR FX rate from local currency of security i to index currency on Index Business Day t

$Div_{i,t}$ = per share dividend on ex-date for security i

Tax_i = tax rate for security i domicile

Separate tax rates are maintained for each country and are deducted from the dividend as part of the index calculation. A handful of countries have specific withholding rules where taxes are withheld by the company and a tax credit is issued. These countries with their special withholding rules are covered in Corporate Actions Methodology.

4.2 Weighting methodology

If an Index has a Weighting Methodology set at “Market Cap”, the number of shares outstanding for a security will be based on the free float adjusted number of shares of such security, subject to a potential cap, and using market data as of the close of the relevant Selection Date.

If an Index has a Weighting Methodology set at “Fixed Weight”, the number of shares outstanding for a security will be based on the Weight of such security divided by the price of such security using market data as of the close of the relevant Selection Date. The weights will then drift from their original assigned weights as the price of the security changes until the next rebalancing.

4.3 Rebalancing schedule

The Index is reweighted with an Effective Date (the day on which such weights are effective) on the first Index Business Day of April, July, October and January using market data as of the previous Selection Date.

The Selection Date, in respect of an Effective Date, is the day that is 10 Index Business Days before such Effective Date.

4.4 Decrement methodology

If a Decrement Methodology is applied to an Index, the Index shall be calculated in accordance with the following formula:

$$Index_t = Index_{t-1} \times \left(\frac{S_t}{S_{t-1}} - PD \times \frac{ACT_{t-1,t}}{DCF}\right) - FD \times \frac{ACT_{t-1,t}}{DCF}$$

Where:

S_t = value of underlying index on which the decrement is applied on day t;

S_{t-1} = value of underlying index on which the decrement is applied on day (t-1);

PD = level of percentage decrement applied to the underlying index;

FD = level of fixed decrement applied to the underlying index;

$ACT_{t-1,t}$ = the number of calendar days between day (t-1) (excluded) and day t (included);

DCF= the day count convention applicable to the methodology;

If the Index has a negative value, the value of the Index will be set to zero and its calculation/publication will be discontinued.

Disclaimer

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