

FAQs

FTSE  
Russell

# Changes to Russell Europe SMID 300 Index Effective 20 June 2016

May 2016

# FAQs Re. Russell Europe SMID 300 Index Changes

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## 1. What changes will be introduced with the June 2016 review?

FTSE Russell announced on 4 May 2016 that it would implement changes to the Russell Europe SMID 300 Index effective 20 June 2016.

Below is the summary of the key changes that will be implemented:

- The index name will be changed from the current Russell Europe SMID 300 Index to FTSE Developed Europe SMID Cap Tradable Plus Index, which will become part of the new FTSE Tradable Plus Index Series.
- The index underlying universe will change from the current Russell Developed Europe SMID Index to FTSE Developed Europe All Cap Index.
- The index constituent selection criteria will change. In particular, there will be enhancements to liquidity and tradability screens, and addition of new borrowing cost and available borrowing capacity screens based on Markit data.
- The review frequency, review data cut-off dates and review effective dates will change.
- The administrator of the index will change from Frank Russell Company to FTSE International Limited.

## 2. How will the index constituent selection and weighting criteria change?

The index constituent selection and weighting criteria have been changed, particularly in liquidity and borrowing cost screening. Borrowing capacity and tradability screenings are also introduced under the new methodology:

- Current liquidity screening eliminates securities with ADTV (Average Daily Traded Value) of €2,000,000. Effective 20 June, liquidity will be determined by the ADTV over the previous 252 trading days inclusive of suspension days. Securities with fewer than 22 days of trading data will be ineligible, and for each underlying universe, securities with the lowest 10% by ADTV will be excluded.
- Currently the index does not incorporate any borrowing cost screen. Effective 20 June, at annual reviews securities with a borrowing cost average >200 bps will be ineligible, and at interim (quarterly) reviews constituents with a borrowing cost average >400 bps will be deleted and not replaced. Borrowing cost data will be provided by Markit.

- Currently there is no screening regarding available borrowing capacity. Under the new rules, at annual reviews (March) securities with a borrowing utilisation >25% will be ineligible; and at interim reviews constituents with a borrowing utilisation >50% will be deleted and not replaced. Borrowing capacity data will be provided by Markit.
- Currently the tradability screening is based on DTT (Days To Trade) and takes the first 300 with the lowest DTT as final constituents. From 20 of June onwards, eligible securities will be ranked by DTT, the bottom 10% (highest days to trade) will be removed. **Then, the top 300 remaining securities by free float adjusted market capitalisation, rather than by the lowest DTT, are selected as index constituents.**

The following table summaries the constituent selection and weighting process under the current and new rules:

Category	Current Rules (As of 4 May 2016)	New Rules (Effective 20 June 2016)
<b>Determining Eligible Stocks</b>	Starting universe is the 75th to 95th percentile for a security that is new to Russell Developed SMID Index, and 72.5th to 97.5th percentile for an existing constituent in the index	Starting universe is FTSE Developed Europe All Cap Index as of the effective date. Remove all stocks categorised as Large Cap
<b>Selection of Stocks</b>	<ol style="list-style-type: none"> <li>1) Remove those without a listing on a European Securities Exchange</li> <li>2) Determine Average Daily Traded Value (ADTV) of eligible stocks</li> <li>3) Remove those with ADTV of € 2mn or less</li> <li>4) Determine Days-to-Trade (DTT) = float adjusted market cap/ADTV</li> <li>5) <b>Rank stocks by DTT, first 300 with lowest DTT are selected as the final eligible universe</b></li> </ol>	<ol style="list-style-type: none"> <li>1) Determine ADTV of all stocks in Eligible Selection Universe. ADTV is based on 252 days back from cut-off date. Stocks with &lt; 22days trading data are excluded</li> <li>2) Remove bottom 10% by ADTV from eligible universe</li> <li>3) Remove all stocks with borrowing cost average in previous month (cut-off-date back 1 month) &gt; 200 bps</li> <li>4) Remove all stocks with active borrowing utilisation as of cut-off date &gt; 25%</li> <li>5) Determine DTT = Free-Float Market Cap / ADTV.</li> <li>6) Remove bottom (largest) 10% by Days-to-Trade from eligible universe</li> <li>7) The remaining stocks are the final Eligible Selection Universe</li> <li>8) <b>Select the largest (up to) 300 stocks by free-float market capitalisation</b></li> </ol>
<b>Weighting Constituents</b>	Weight each stock by free float market capitalisation	Weight each stock by free-float market capitalisation

### 3. Why is FTSE Russell introducing these changes?

The changes are based on client feedback, and are intended to further improve the liquidity, tradability, and market representation of the index.

### 4. What is the FTSE Tradable Plus Index Series?

The FTSE Tradable Plus Index Series comprises the FTSE UK Mid Cap Tradable Plus Index and the FTSE Developed Europe SMID Cap Tradable Plus Index. The indexes are designed to reflect the performance of the constituents drawn from their respective underlying universes after the application of liquidity, borrowing cost and borrowing capacity screens designed to facilitate replication of the indexes.

Price, Total Return and Net of Tax Indexes are calculated on a real-time basis. The Total Return Indexes include income based on ex dividend adjustments. All dividends are applied as declared.

### 5. What changes will be made to the index review calendar?

Category	Current Rules (As of 4 May 2016)	New Rules (Effective 20 June 2016)
<b>Review Frequency</b>	Annual reconstitution in June  No interim reviews	Annual Review in March  Quarterly review of borrowing cost and available borrowing capacity in June, September, December. Note that no new stocks will be selected at interim reviews
<b>Review Data Cut-Off Date</b>	1 <sup>st</sup> Friday of review month	1st Friday of review month
<b>Review Effective Date</b>	Last Friday in June, unless when the last Friday in June is 28th, 29th or 30th, then reconstitution will occur on the Friday prior	First business day following the third Friday of the review month.

The key review dates and their relevant data cut off days between June 2016 and December 2017 are therefore as follows:

	Review Data Cut Off Day	Review Effective Day
June 2016 Quarterly Review	3 Jun. 2016	20 Jun. 2016
September 2016 Quarterly Review	2 Sept. 2016	19 Sept. 2016
December 2016 Quarterly Review	2 Dec. 2016	19 Dec. 2016
March 2017 Annual Review	3 Mar. 2017	20 Mar. 2017
June 2017 Quarterly Review	2 Jun. 2017	19 Jun. 2017

September 2017 Quarterly Review	1 Sept. 2017	18 Sept. 2017
December 2017 Quarterly Review	1 Dec. 2017	18 Dec. 2017

## 6. Will the file format change?

No. The file format will stay the same for all relevant product files.

## 7. Will the vendor codes change?

No. The vendor codes will remain the same.

## 8. When will the changes take effect?

The ground rule changes will become effective on 20 June 2016.

## 9. Where can I find further information about the changes?

Please refer to the revised ground rules (effective 20 June 2016) for further information:

[http://www.ftse.com/products/downloads/FTSE Tradable Plus Index Series Ground Rules.pdf](http://www.ftse.com/products/downloads/FTSE_Tradable_Plus_Index_Series_Ground_Rules.pdf)

The FTSE Russell research team has also prepared some analysis highlighting the impact of the change. Please contact [info@ftserussell.com](mailto:info@ftserussell.com) if you would like to request a copy.

**For more information about our indexes, please visit [ftserussell.com](http://ftserussell.com).**

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### EMEA

+44 (0) 20 7866 1810

### North America

+1 877 503 6437

### Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 3581 2764

Sydney +61 (0) 2 8823 3521