
FTSE Russell Client Consultation: Proposed inclusion of Japanese small cap companies and change of underlying benchmark for FTSE Blossom Japan Index

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Purpose of Consultation

The purpose of this consultation is to invite index users and other stakeholders to provide feedback on the inclusion of Japanese small cap companies to the FTSE Blossom Japan Index by changing the underlying benchmark from FTSE Japan Index to FTSE All Cap Japan Index.

Background

Since its launch in 2017, the FTSE Blossom Japan Index has helped to catalyse improvements in corporate practices with respect to global environmental, social and governance standards in Japan. This has been achieved in part through a programme of positive engagement and communication with corporates, giving them a clear understanding of FTSE Russell's ESG ratings data model.

Approximately 40% of the constituents of the companies in the underlying index qualify for inclusion in the FTSE Blossom Japan Index. This has been achieved through the improving corporate practices of large and mid cap companies in the underlying benchmark.

In addition, the opportunity for inclusion in the index provides further incentive for companies to improve their ESG scores by enhancing their ESG practices and disclosure in order to meet the index eligibility criteria.

Proposed Inclusion of Small Cap Companies into FTSE Blossom Japan Index

In December 2019, FTSE Russell expanded its ESG ratings coverage for Japanese companies to include small caps, bringing the total number of securities covered by FTSE Russell's ESG ratings in Japan to 1300. The intended aim of this increased coverage is to promote and encourage improvements in ESG practices across all Japanese companies, including small caps.

This expanded ESG ratings coverage now provides for the opportunity to further promote improved ESG practices by making Japanese small cap companies eligible for inclusion in the FTSE Blossom Japan Index.

1. In line with existing FTSE Blossom Japan Ground Rules, it is proposed that the same ESG ratings threshold should apply to small companies as to those in large and mid market capitalisation size bands.¹ As at December 2019, this would mean that four small cap companies would become eligible for entry to the index. (*This number will be updated when June rating are released.)
2. The inclusion of Small Cap companies in the FTSE Blossom Japan Index would necessitate a change in the underlying index from the FTSE Japan index to the FTSE All Cap Japan index. Sufficient time should be allowed to clearly communicate and explain the change to clients and affected companies.

The proposed changes would be effective from the December 2020 index review.

¹As of December 2019, the ESG rating threshold for inclusion in the index is a score of 3.3 and the deletion threshold is 2.9.
https://research.ftserussell.com/products/downloads/FTSE_Blossom_Japan_Index_Ground_Rules.pdf

Impacts

The impact of this proposal on FTSE Blossom Japan Index if it was implemented can be seen in Figure 1.

Figure 1. Impact of proposed inclusion of Japanese small cap companies



Responding to the consultation

FTSE Russell would like to receive feedback on the following questions regarding the inclusion of Japanese small cap companies into the FTSE Blossom Japan Index.

Please submit your response to the questions included in this consultation online at:

<https://www.surveymonkey.co.uk/r/XQ962KZ>

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

Question 1: Should Japanese small cap companies be eligible for inclusion in the FTSE Blossom Japan index?

- Yes
- No
- If “No” is selected please provide further comments in the box below.

Question 2: If you answered yes to Question 1, do you agree that the benchmark for the FTSE Blossom Japan Index should be changed from the FTSE Japan index to the FTSE All Cap Japan index to provide for the inclusion of small cap companies?

- Yes
- No
- If “No” is selected please provide further comments in the box below.

Question 3: Do you support the application of the same ESG rating inclusion threshold to small cap companies as used for large and mid cap companies?

- Yes
- No
- If “No” is selected please provide further comments in the box below.

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FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

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