Russia – Ukraine related sanctions and treatment in FTSE Russell Indices - FAQ

Effective 14 March 2022

v1.1
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Introduction

1. Why were Russian companies removed from FTSE Russell Equity Indices?

Following consideration by the FTSE Russell Index Governance Board of the feedback received from the independent advisory committees, other market participants and given the current market conditions, FTSE Russell announced the removal of Russian companies from its Equity Indices in accordance with Rule 2.1 of the FTSE Russell Index Policy ‘In the Event Clients are Unable to Trade a Market’.

The announcement detailing the removal of Russian companies can be found using the following link:

02 March 2022 Announcement.

2. What was the weight of Russia within the FTSE Emerging All Cap Index prior to deletion, and how does that compare with its weight historically?

As of the close 04 March 2022, Russia had a weight of 1.4% within the FTSE Emerging All Cap Index. The eleven markets larger than Russia within the FTSE Emerging All Cap Index are detailed below:

<table>
<thead>
<tr>
<th>Country</th>
<th>China</th>
<th>Taiwan</th>
<th>India</th>
<th>Brazil</th>
<th>Saudi Arabia</th>
<th>South Africa</th>
<th>Thailand</th>
<th>Mexico</th>
<th>Malaysia</th>
<th>Indonesia</th>
<th>UAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight</td>
<td>32.5%</td>
<td>20.1%</td>
<td>15%</td>
<td>6.4%</td>
<td>4.4%</td>
<td>4.4%</td>
<td>2.9%</td>
<td>2.4%</td>
<td>2.1%</td>
<td>1.8%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>01 February 2022</th>
<th>01 March 2021</th>
<th>01 March 2017</th>
<th>01 March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historic Weight of Russia</td>
<td>2.9%</td>
<td>2.7%</td>
<td>4.4%</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

3. Which companies were impacted by the 02 March 2022 announcement and when?

All companies included within FTSE Russell equity indices which traded on the Moscow Exchange (MOEX) were removed from the indices for the open on Monday 07 March 2022.

Russian Global Depositary Receipts (GDRs) listed on the International Order Book (IOB) were also removed for the open on Monday 07 March 2022.

The full list of impacted companies can be found in the appendices of the 02 March 2022 notice.

4. At what price were the impacted companies removed?

All equities removed as a result of this action were removed at zero value.
5. Will FTSE Russell remove constituents which do not have a nationality assignment of Russia, but do have links to Russia (e.g. economic exposure or major shareholders) assuming that they are not sanctioned?

No. Any company which is determined to be non-Russian according to the FTSE Russell Determining Nationality rules and is not otherwise sanctioned will remain eligible for the FTSE Russell equity indices.

6. Why are FTSE Russell deleting, UK assigned, Evraz, Plc., Polymetal International Plc., Petropavlovsk Plc., and Raven Property Group Plc., from all FTSE Russell indices, if only constituents with a nationality assignment of Russia, or are subject to sanctions, are within scope?

Please refer to the informative notice dated 11 March 2022 for treatment of these companies. These companies were not deleted directly due to links to Russia; rather, they were deleted because their ongoing inclusion could not be replicated due to international brokerage firms no longer accepting trades for these names. Consequently, FTSE Russell invoked its Statement of Principles, and communicated their deletion accordingly.

7. When might Russian equities be eligible to re-join FTSE Russell indices?

Following the deletion of Russia from all FTSE Russell Equity Indices, Russia will be classified as an ‘Unclassified’ market within the FTSE Equity Country Classification scheme. Once regular trading resumes on MOEX and all restrictions on non-resident investors have been lifted, the market will not be re-included in the standard FTSE Russell global indices automatically, but rather the status of the market will be re-evaluated as part of the FTSE Equity Country Classification process. This process will follow the standard FTSE Equity Country Classification procedure and timetable for a new market, and the country may be required to spend a period of time on the relevant Watchlist before its status is confirmed. The minimum period for a country to be included on the Watchlist is six months, if all eligibility criteria are met.

8. Will FTSE Russell continue to track the performance of Russian equities following deletion from FTSE Russell indices?

To assist existing investors in benchmarking their performance, the FTSE Russia Unclassified Index, a standalone country index using local exchange prices, was made available to clients from Monday 07 March 2022.

9. Does the FTSE Russia Unclassified Index reflect the imposition of USA, UK and the European Union (EU) sanctions?

Index constituents of the FTSE Russia Unclassified Index that are prohibited from being held due to the imposition of sanctions by the USA, UK and/or EU have been deleted from the index. Further details on the treatment of sanctions within the FTSE Russia Unclassified Index are detailed in section 2.3 of the FTSE Russell Treatment of Sanctioned Index Constituents guide.
Furthermore, effective from 07 June 2022, OFAC announced that U.S. persons are prohibited from purchasing both new and existing debt and equity securities issued by any entity in the Russian Federation, including those entities that are not currently subject to sanctions. This prohibition does not prohibit U.S. persons from selling, divesting or continuing to hold existing debt and equity securities issued by an entity in the Russian Federation to non-U.S. persons.

FTSE Russell notification detailing index treatment: notification

10. Why did FTSE Russell remove Russian Government Bonds and Bonds Issued by Russian Entities from its Fixed Income Indices?

FTSE Russell announced that all ruble and non-ruble denominated Russian government bonds, and hard currency bonds issued by Russian entities would be removed from the FTSE fixed income indices effected as of March 2022 month-end (April 2022 profiles).

FTSE Russell's Index Governance Board deemed the imposition of the sanctions by the United States, the European Union and the United Kingdom, along with the sudden imposition of capital controls by the Russian government, to constitute a market disruption event.

In making this determination, FTSE Russell acted in accordance with its published FTSE Fixed Income Index Statement of Principles and the FTSE Fixed Income Country Classification Framework. The FTSE Fixed Income Country Classification Framework allows for the following:

“In the case of a market disruption event (i.e., the sudden imposition of prohibitive capital controls), FTSE Russell will reference its Statement of Principles to determine whether an off-cycle review of Market Accessibility Levels should be triggered.”

The announcement detailing the removal of Russian bonds from the FTSE fixed income indices can be found using the following link: 04 March 2022 Announcement

11. Which bonds were impacted by the 04 March 2022 announcement and when?

A list of the ruble and non-ruble denominated Russian government bonds is contained in the 04 March 2022 announcement.

FTSE Russell will publish a follow-up announcement that contains details of the hard currency bonds issued by Russian issuers that be excluded from all FTSE fixed income indices after a thorough due diligence of the impacted securities and with sufficient notice in advance of March 2022 month-end rebalances. The list of impacted bonds is expected to broadly align with those bonds assigned a Country of Russia based on the FTSE fixed income index methodology.

12. At what price were the impacted bonds removed?

The price and accrued interest for all ruble-denominated government bonds, hard currency domestic ("RU" ISINs) government bonds and explicitly sanctioned Russian entities were set to zero, effective as of 07 March 2022.

FTSE Russell continues to reflect updated prices for hard currency bonds issued by Russian entities through March 2022 month-end rebalances to the extent that it is feasible.
13. **Why is FTSE Russell removing bonds issued by non-government Russian entities from the indices?**

Securities issued by non-government Russian entities are excluded on the basis of the capital controls that have been imposed by the Russian government that prevent repatriation of currency out of Russia. This is also the rationale for the exclusion of Russian government bonds.

14. **What is the exposure in FTSE Fixed Income Indices to Russian bonds?**

Total exposure for securities issued by Russian entities amounts to 79 unique ISINS totalling USD 59,720.7 million par amount outstanding, total exposure, including Russian government bonds, amounts to 119 unique ISINS totalling 181,790.1 million par amount outstanding across FTSE Fixed income indices.

| Details of Impacted Securities Issued by Russian Entities in FTSE Fixed Income Indices |
|-----------------------------------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| Index                                      | Count of Government bonds | MV (%) of Government bonds | Count of Non-government bonds | MV (%) of Non-government bonds | Total bond count | Total MV (%) |
| EMGBI                                      | 26                           | 1.90                     | 0                             | 0.00                         | 26             | 1.90         |
| WorldBIG                                   | 14                           | 0.03                     | 15                            | 0.01                         | 29             | 0.04         |
| EMUSDBBI                                   | 10                           | 0.54                     | 63                            | 1.30                         | 73             | 1.84         |
| USBIG                                      | 10                           | 0.044                    | 2                             | 0.003                        | 12             | 0.047        |
| EUROBIG                                    | 4                            | 0.02                     | 10                            | 0.03                         | 14             | 0.05         |
| WorldHYM                                   | 0                            | 0.00                     | 4                             | 0.06                         | 4              | 0.06         |

* Source: FTSE Russell. Data as of 28 February 2022.

15. **What is the exposure in FTSE Fixed Income Indices to Ukraine and Belarus government bonds?**

FTSE Russell continues to monitor the evolving market conditions for Ukraine and Belarus government bonds. As of 14 March 2022, they remain index eligible.

**Ukraine:**

As of 28 February 2022, 51 UAH-denominated Ukrainian government bonds with UAH 371.3 (USD 12.4) billion in par amount outstanding are eligible for the FTSE Frontier Emerging Markets Government Bond Index (FRNTEMGBI), comprising 3.31% of the index, on a market value weighted basis.

As of 28 February 2022, 10 USD-denominated Ukrainian government bonds with USD 16.3 billion in par amount outstanding are eligible for the FTSE USD Emerging Markets Broad Bond Index (EMUSDBBI), comprising 0.30% of the index, on a market value weighted basis. These securities are also included in other FTSE fixed income indices that derive their membership from the EMUSDBBI, such as the FTSE EM USD Government Bond Index (EMUSDGBI).

**Belarus:**

As of 28 February 2022, 5 USD-denominated Belarus government bonds with USD 3.3 billion in par amount outstanding are eligible for the FTSE USD Emerging Markets Broad Bond Index (EMUSDBBI), comprising 0.04% of the index, on a market value weighted basis. These securities are also included in other FTSE fixed income indices that derive their membership from the EMUSDBBI, such as the FTSE EM USD Government Bond Index (EMUSDGBI).
16. **When might Russian bonds be eligible to re-join FTSE Russell indices?**

FTSE Russell assessed the market against its published [Fixed Income Country Classification](#) criteria and announced on 04 March 2022 that the Market Accessibility Level for local currency, fixed-rate Russian government bonds will change from “1” to “Unassigned”, effective immediately.

This same framework will be used to assess the market accessibility of Russia/Russian bonds to evaluate whether it meets the minimum criteria for re-entry in the future. FTSE Russell will continue to monitor the situation and assess updates as they become available.

17. **What is the treatment of Russian securities in the FTSE Russell Sustainable Investment Indices?**

Securities in the FTSE Russell Sustainable Investment equity and fixed income Indices will follow the treatment of FTSE Russell equity and fixed income indices as detailed in the published notices.

18. **What is changing?**

Historically FTSE Russell has published the six highest-ranking non-constituents of the FTSE 100 and the 12 highest-ranking non-constituents of the FTSE 250 at the time of the periodic review. The appropriate reserve list was ranked with the highest-ranked company added to the index in the event that one or more constituents were deleted from the FTSE 100 or FTSE 250 intra-quarter.

However, effective from December 2020, reserve lists for the FTSE 100 Index and the FTSE 250 Index will no longer be utilised to select a replacement company for intra-quarter deletions. Replacement companies will instead be selected from the existing constituents of the FTSE All-Share index.

For illustration purposes, company A is being deleted from the FTSE 100, a replacement company is therefore required. FTSE Russell will rank the existing FTSE All-Share constituent list to identify the highest-ranking company (using prices three business days prior to the deletion of company A) that is not currently a member of the FTSE 100, which will serve as the replacement company.

19. **How is the market capitalisation of the replacement company determined?**

The replacement company will be selected by identifying the highest-ranking non-constituent company of the FTSE 100 or FTSE 250 (whichever applicable) by full market capitalisation (i.e. before the application of any investability weighting).

Where a company has two or more classes of listed equity shares, the secondary lines will be included in the market capitalisation calculation of the company, based on the market price of that secondary line.

For the avoidance of doubt, the share number and close price used in the calculation of the full market capitalisation will be that reflected in the monitored list as at close on the business day prior to the date of selection. Please note that the FTSE Russell share number is updated in accordance with methodology detailed within the Corporate Actions and Events Guide for Market Capitalisation Weighted Indices (section 5) and may not always reflect the actual shares a company has outstanding at that point in time.

For illustration purposes:

**Tuesday (after market close)** – FTSE Russell announce the deletion of company A from the FTSE 100 index and its replacement company. The replacement company will have been ranked using the share number and close price (reflected in the monitored list) as at Monday close.
20. **Will pending share updates be included in the market capitalisation calculation?**

No, only those shares reflected in the monitored list at the time of selection will be used in the calculation.

**For illustration purposes:**

**Example A**

Company A conducts a primary placing or buy back; however, the change does not breach the FTSE Russell parameters for an intra-quarter update. The share update within FTSE Russell indices is therefore deferred to the next quarterly review. The monitored list is not updated until the next quarterly review.

In the event that a replacement company is required to be selected in advance of the next quarterly share updates, the calculation of company A’s market capitalisation will not reflect the new shares outstanding number as a result of the primary placing/buy back.

**Example B**

Company B conducts a primary placing or buy back and the change does breach the FTSE Russell parameters for an intra-quarter update. The share update within FTSE Russell indices is therefore implemented with T+2 notice. The monitored list is updated in line with the implementation date.

In the event that a replacement company is required to be selected subsequent to the implementation date, the calculation of company B’s market capitalisation will reflect the new shares outstanding number incorporating the primary placing/buy back.

**Please note:** where the share update is still pending implementation and therefore not reflected in the monitored list at the time of reserve company selection, company B’s market capitalisation will not reflect the pending update (as demonstrated below).

- **Monday** – FTSE Russell tracker products reflect a pending intra-review share update for company B effective T+2 (i.e. implemented close of business Wednesday, effective Thursday open).
- **Tuesday** – replacement company selected (at which point company B’s share update is still pending).
- **Wednesday** (at market close) – company B share number updated.
- **Thursday** – monitored list reflects new shares outstanding for company B.

21. **Where a secondary line is a non-constituent of the FTSE All-Share Index, how are share updates announced?**

Non-constituent secondary lines are updated in line with the methodology detailed within the Corporate Actions and Events Guide for Market Capitalisation Weighted Indices (section 5); however, no notice is provided in advance of implementation as no index replication action is required. The new shares outstanding number will simply be reflected in the monitored list on the effective date.

For further details of the monitored list, product please e-mail info@ftserussell.com.

22. **What is the treatment for secondary lines that newly adopt a London Stock Exchange listing?**

Secondary lines will be added to the monitored list on their first day of unconditional trading and will be included within the company market capitalisation calculation from that point.
23. **Where the selection of a replacement company is shortly after the FTSE UK Index Series Review announcement, what is the treatment?**

Where a FTSE 100 or FTSE 250 company is scheduled to be deleted after the periodic review changes have been announced but before they have been implemented, the highest-ranking constituent of the FTSE All-Share (which is not currently a member of the FTSE 100 or FTSE 250) is selected as the replacement company. However, if that replacement company is already scheduled to be added as part of the index review, then the next highest-ranking company is selected as the replacement.

Where a company being deleted is already due to be replaced in the FTSE 100 or FTSE 250 as part of the periodic review, it will be replaced by the largest company previously announced as a review addition to the index. In other words, the review addition will be brought forward and implemented concurrent with the intra-quarter deletion.

24. **Will a company subject to a corporate event (e.g. takeover or spin-off) be eligible to serve as a replacement company?**

If the highest-ranking company selected is subject to an ongoing corporate event that remains subject to conditions and pending completion (at the point of selection), it will still be selected as the replacement company.

For illustration purposes:

If the selected highest-ranking FTSE All-Share constituent is the target of a takeover offer where either:

– the offer has been declared wholly unconditional; or

– where the acquisition is structured as a scheme of arrangement and the only remaining significant condition is court sanction at the point of selection and is pending removal from the FTSE All-Share index,

the company will not be considered as a replacement and the next highest-ranking company will serve as the replacement company instead. However, if the offer is pending completion with substantive conditions outstanding, the company will be selected as the replacement company. FTSE Russell will not assume completion of a takeover until the conditions detailed within the corporate action guide are achieved.
Further information

If you have any questions and would like to speak to a client services individual directly, please do not hesitate to contact us on the numbers below or via e-mail at info@ftserussell.com.

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