

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

v2.7

Contents

| | |
|------------------------------------|---|
| Section 1 Introduction | 3 |
| Section 2 Possible scenarios | 4 |

Section 1

Introduction

1. Introduction

External events can on occasion make it difficult or even impossible for FTSE Russell clients to trade securities on certain markets. Such events include the temporary closure of a stock exchange, with government, central bank or monetary authority imposed restrictions on the repatriation of foreign capital, and the imposition of sanctions preventing new investment in a country.

This paper sets out how FTSE Russell would typically look to respond in the light of such events. It should be stressed however that, by their very nature, the course of such events will be uncertain. FTSE Russell's chosen course of action will depend on its analysis of the circumstances pertaining at the time and no commitment can be given that FTSE Russell will follow the proposed actions set out below.

FTSE Russell will always seek to communicate decisions regarding the inclusion or suspension of countries within its indices, or the choice of reference prices for a particular index or security, to its clients in as timely manner as events allow. Relevant technical notices will be sent directly to our clients and information will be provided on our website. Our client servicing teams globally will also be available to answer any specific queries clients may have.

Section 2

Possible scenarios

2. Possible scenarios

2.1 Restrictions are imposed on the repatriation of foreign capital

Should a government, central bank or monetary authority impose restrictions that prevent or hinder foreign investors repatriating their capital, FTSE Russell will first consult with members of the appropriate FTSE Russell external advisory committees and market participants, where relevant, on the perceived impact and likely duration of such restrictions.

If, following consultation, FTSE Russell determines that the impact of the restrictions is likely to be severe and/or to last longer than 20 local business days (as measured by normal trading days for the local market), FTSE Russell will remove securities in the affected country from the FTSE Russell indices.

If, however, FTSE Russell determines that the restrictions will be limited in their impact or are likely to be of short duration – fewer than 20 local business days – the FTSE Russell indices will continue to be calculated as normal.

Should the restrictions persist beyond 20 local business days, FTSE Russell will at that stage give further consideration to whether the affected securities should remain in or be removed from the FTSE Russell indices. At that stage, if FTSE Russell decides to retain the affected securities in the FTSE Russell indices, the decision will be revisited after a further 10 local business days, and – if the securities are again retained – after a further period of 10 local business days. If restrictions still remain in place 40 local business days after their original imposition, FTSE Russell will delete the securities from the FTSE Russell indices.

The process of removing the affected securities would typically be completed with two local business days' advanced notice. If the local stock exchange is functioning normally, such that sales can be settled and repatriation is slow but feasible, FTSE Russell will remove the affected securities at market price with two local business days' notice. If those conditions are not in place, FTSE Russell will remove the securities from the FTSE Russell indices at zero value with two local business days' notice.

To assist existing investors in benchmarking their performance, if securities from the affected country are removed from the FTSE Russell indices, a standalone country index will be created based on local exchange prices. FTSE Russell will look to create custom combinations of the revised FTSE Russell indices excluding the affected country and the standalone country index. New investors will be able to use the revised FTSE Russell indices for benchmarking performance.

Once the restrictions have been lifted, the market will not be automatically re-included in the standard FTSE Russell indices, but rather the status of the market in the respective FTSE country classification frameworks will be re-evaluated. This process will follow FTSE standard country classification procedure and timetable for a new market, and the country may be required to spend a period of time on the relevant watch-list before its status is confirmed.

2.2 A national stock market closes for an extended period

If a national stock market closes unexpectedly, and investors are unable to trade at alternative venues, FTSE Russell will apply the following policy.

Securities in the country index will be held at their last traded price for a period of up to 20 local business days (as measured by normal trading days for the local market). During this period, FTSE Russell will consult with its external advisory committees and market participants, where relevant, as to the best course of action and the timing of any action before making a decision on its course of action.

If the consensus is that the exchange is likely to reopen in the near future, the suspension period may be extended by a further 10 local business days. After expiry of this period, the situation will be revisited and the suspension period may be extended for a further period of 10 local business days.

If the original consensus is that the closure is likely to be for an extended period, or if after the expiry of the second 10 local business days suspension period (i.e. 40 local business days after the original announcement) the exchange has not provided a firm date at which trading is expected to recommence, FTSE Russell will delete the securities from the FTSE Russell indices. The securities will be deleted at zero value or, if FTSE Russell determines a valid price for a security can be obtained on grey markets, that price may be used in preference. The country index will cease calculation.

Should the stock market reopen after the country's constituents have been removed from the FTSE Russell indices but within three months of the original closure, securities that recommence trading will be evaluated for inclusion in the FTSE Russell indices as if they were new issues. Once a minimum of five securities from the affected country have become eligible for inclusion, FTSE Russell will recommence calculation of the country index and re-include the country in the FTSE Russell indices with effect from the next quarterly review.

If the stock exchange remains closed for a period of time greater than three months, individual securities will not be readmitted to the FTSE Russell indices and instead the country will have its status within the FTSE country classification framework reassessed. The procedure that FTSE Russell will follow in these circumstances will be the same as that summarised above in Section 2.2 for countries where repatriation restrictions have been imposed.

2.3 Sanctions are imposed which restrict investment into foreign jurisdictions

As sanctions will usually vary according to the domicile of the investor, the situation where investment into foreign jurisdiction is restricted is more nuanced than with the imposition of repatriation restrictions or exchange closures. Sanctions may not be universally enacted, and the investment restrictions that are imposed may apply to certain countries, industries, named companies or companies with substantial ownership from named individuals.

For the following scenarios, FTSE Russell will review the sanctions on a case-by-case basis, but generally the index treatment will be as follows:

- Should sanctions, either primary or secondary, be imposed that prohibit US, UK and/or European Union (EU) natural or legal persons from investing in particular countries, industries, named companies or companies linked to sanctioned individuals, FTSE Russell will delete the sanctioned securities from FTSE Russell indices with the provision of a minimum two business days advanced notification at market value. Where sanctions take immediate effect, or where FTSE Russell cannot provide a minimum of two business days' advance notice prior to the sanctions becoming effective to enable deletion at market value, the sanctioned securities will be deleted from FTSE Russell indices at zero value. If the sanctioned securities are suspended, they will be deleted from FTSE Russell indices at a zero value.
- Where sanctions are imposed on existing index constituents restricting their ability to raise capital from US, UK or EU natural or legal persons, for example via the issuance of new shares, FTSE Russell will retain those index constituents within FTSE Russell indices but suspend the implementation of capital raising corporate events. Upon the lifting of sanctions, FTSE Russell will recommence the implementation of corporate events.

- Where sanctions are imposed that prohibit investment by investors other than US, UK or EU natural or legal persons in particular countries, industries, named companies or companies linked to sanctioned individuals, FTSE Russell will consider the creation of custom indices for clients affected by such sanctions. However, no index constituents will be deleted from standard FTSE Russell indices as a result of such sanctions, and capital raising events for constituents in standard FTSE Russell indices affected by such sanctions will continue to be applied.

Companies with sanctions imposed on them will only be considered for index inclusion in standard FTSE Russell indices – from the date of sanctions being removed. For the purposes of index eligibility they will be evaluated as a new issue at a subsequent index review.

Longer term responses to the imposition of sanctions, if appropriate, will be determined following consultation with the FTSE Russell external advisory committees and market participants, where relevant.

The [FTSE Russell Treatment of Sanctioned Index Constituents](#) document details the index treatment of FTSE Russell index constituents that have either been previously subject to sanctions, or are currently subject to sanctions, which have been imposed by the jurisdictions listed above, that either restrict or prohibit the trading or holding of the named listed securities.

2.4 Exceptional market disruption

Should market conditions be such that the ability of investment managers to implement major index events, including index reviews, is compromised, FTSE Russell will review the market conditions on a case-by-case basis and may consult with its external advisory committees and market participants to determine the best course of action.

In the event of exceptional market disruption, FTSE Russell may postpone implementation of the event, including an index review and country classification changes, until market conditions have stabilized or the event can be managed appropriately.

If it is determined that the implementation of an index event should be postponed, FTSE Russell will provide advance notice of the postponement along with the intended course of action.

2.5 Exceptional trading restrictions in a security

Should the trading of shares of a security be restricted or prohibitive as such that the ability of investment managers to replicate the benchmark treatment is compromised, FTSE Russell will review on a case-by-case basis and may consult with its external advisory committees and market participants before determining the best course of action. This may include postponing or cancelling the implementation of any index changes in the security (including scheduled index review changes); or removing constituents from the FTSE Russell indices. Such changes to previously communicated index treatment will be implemented with a minimum of two business days' advanced notice. If it is determined that the severity of the trading restrictions warrants the immediate removal of the security from the FTSE Russell indices, the security may be removed at zero value.

For example, if index users report that they cannot replicate index changes within FTSE Russell indices due to brokers, custodians, or central depositories having ceased supporting the trading or holding of a constituent, due to regulatory or legal restrictions, then FTSE Russell will seek to verify the scope of those restrictions by consulting with its client advisory committees and other relevant stakeholders, as appropriate, before determining whether to delete the constituent from FTSE Russell indices (or to reverse any scheduled review changes). For example, due to US federal law, trading in stocks that generate the majority of their revenue from the sale of recreational cannabis in the USA may not be supported by custodians and therefore these stocks may be deemed ineligible for inclusion to the FTSE Russell indices to facilitate index replication.

Where a constituent is deleted due to trading restrictions, it will only be re-considered for index eligibility once those restrictions have been lifted. For the purposes of index eligibility, the stock will be evaluated as a new issue.

2.6 Indices including depositary receipts

Where an index includes Depositary Receipts (DRs) and trading of those DRs is suspended by the trading venue, FTSE Russell will apply the following policy. The DRs in the index will be held at their last traded price for a period of up to 20 local business days (as measured by normal trading days for the local market). During this period, FTSE Russell will consult with its external advisory committees and market participants, where relevant, as to the best course of action and the timing of any action.

If the consensus is that the trading venue is likely to recommence DR trading in the near future, the suspension period may be extended by a further 10 local business days. After expiry of this period, the situation will be revisited and the suspension period may be extended for a further period of 10 local business days.

If the original consensus is that the suspension of DRs is likely to be for an extended period, or if after the expiry of the second 10 local business days suspension period (i.e. 40 local business days after the original announcement) the trading venue has not provided a firm date at which trading of DRs is expected to recommence following consultation by FTSE Russell with its external advisory committees and market participants, where relevant, and depending on the fungibility of the DRs, FTSE Russell may choose to remove the DRs from the index at the equivalent price of the underlying local shares.

In cases where the underlying local shares cease trading or capital repatriation of their sale proceeds becomes restricted, it may still be possible for the calculation of the index to continue, at least temporarily. FTSE Russell will consult its external advisory committees and those clients with products based on such indices to establish whether trading in the DRs is likely to remain viable. If the consensus is that such trading will not remain viable, FTSE Russell will look to delete the DRs from the index while adequate liquidity remains to facilitate investor exit. The future composition of such indices will be determined following consultation with FTSE Russell's external advisory committees and the affected parties.

2.7 Fixed Income markets

Due to the predominantly over-the-counter (OTC) trading of fixed income markets, rare occurrences where index users are unable to trade a market are likely due to a market disruption event (i.e., the sudden imposition of capital controls) rather than, for example, an exchange closure. FTSE Russell references its Statement of Principles for Fixed Income Indices to determine the most appropriate course of action in cases where a market disruption event is deemed to have taken place.

For more information about our indexes, please visit www.lseg.com/en/ftse-russell/.

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