

Minimum voting rights hurdle

v2.3



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Section 1

Introduction

Introduction

FTSE Russell solicited feedback from index users and other stakeholders in June 2017 on whether FTSE Russell indices should include a minimum hurdle rate for the percentage of a company's voting rights in the hands of non-restricted shareholders.

FTSE Russell reviewed the responses to the consultation and subsequently discussed these with FTSE Russell's external advisory committees. As a result of those discussions, FTSE Russell determined that a 5% minimum voting rights hurdle should be implemented in standard FTSE Russell indices for potential new constituents with effect from the September 2017 reviews. A five-year grandfathering period was afforded to existing constituents, which expired in September 2022. The 5% minimum voting rights hurdle only applies to companies assigned a developed market nationality within the FTSE Equity Country Classification scheme.

This document is intended to facilitate the understanding of how this methodology update will be managed and to address commonly asked questions.

Section 2

FAQ

1. What is the minimum voting rights hurdle?

In order to be considered for index inclusion, companies assigned a developed market nationality are required to have greater than 5% of the company's voting rights (aggregated across all of its equity securities, including, where identifiable, those that are not listed or trading) in the hands of unrestricted (free float) shareholders as defined by FTSE Russell.

Please note: for details of FTSE's equity country classification, please see https://research.ftserussell.com/products/downloads/Matrix-of-Markets_latest.pdf

Companies assigned an emerging market nationality are not subject to this requirement.

2. Which FTSE Russell indices will apply a minimum voting rights hurdle?

The hurdle will apply to all standard FTSE Russell indices (where referenced in the ground rules), including: the Russell US Indices; FTSE Global Equity Index Series (FTSE GEIS); FTSE UK Index Series and all derived indices; all non-capitalisation weighted indices including the FTSE and Russell RAFI Index Series; and all factor indices.

3. When did this become effective?

For non-constituents, the rule became effective from the October 2017 index reviews.

Existing constituents with a developed market nationality were afforded a five-year grandfathering period to comply and the rule therefore applied from 2022.

The grandfathering period expired in September 2022. For the avoidance of doubt, existing grandfathered constituents of FTSE GEIS (and derived indices) were subject to the minimum voting rights requirement from the September 2022 semi-annual review and existing grandfathered constituents of the Russell US (and derived indices) will be subject to the minimum voting rights requirement from the June 2023 reconstitution (the first annual reconstitution after the grandfathering period ended). The minimum voting rights test will be conducted using data as of the rank date for the 2023 annual reconstitution.

The FTSE GEIS micro-cap index excluded non-constituent companies that failed the voting rights hurdle from the launch date of the micro-cap extension in June 2018.

4. How does FTSE Russell determine what percentage of a company's voting rights is in public hands?

For the purposes of this analysis, the percentage of a company's voting rights in public hands is calculated as:

$$\frac{\text{The number of votes in the hands of shareholders that are unrestricted as determined by the application of FTSE Russell free float definitions}}{\text{The total number of votes conferred by the shares outstanding of all the company's voting securities including those that have not been admitted to trading on a regulated venue}}$$

For example, company A has 100m listed class A shares each conferring one vote, free float is 65%. It also has 300m unlisted class B shares each conferring 10 votes.

The test to assess whether the listed class A line has the required greater than 5% of the company's voting rights is as follows:

$$\frac{65\text{m (i. e. } 100\text{m Class A voting rights} * 65\% \text{ float)}}{3.1\text{bn (i. e. } 100\text{m Class A} + 3\text{bn Class B)}} \\ = 2.097\% \text{ of the company's voting rights in public hands}$$

5. When will FTSE Russell conduct the voting rights' test and when will constituents failing the test be removed from the impacted indices?

FTSE Russell will conduct an annual review of existing constituents in June each year based on data as of the last business day in April. Constituents failing the voting rights requirement will be removed in conjunction with the June review (e.g. at the FTSE GEIS and FTSE UK Index Series' June reviews and the Russell US annual reconstitution, where applicable).

For indices which are not reviewed in June and are not derived from indices which are reviewed in June, constituents failing the voting rights' test during the annual voting rights' review in June will be removed from these indices at their next review.

6. Potential new additions (e.g. quarterly IPOs and other non-constituents) will be screened on a quarterly basis and excluded if the voting rights requirement is not satisfied. Will the hurdle percentage rate be subject to a regular review?

The 5% rate at which the hurdle is currently set, along with its definition, will be reviewed on an annual basis, with any change to the requirement being announced in March.

7. Will FTSE Russell publish a list of companies impacted by this rule?

In conjunction with the annual voting rights' review of existing constituents in June, a list will be published, which will detail all constituents of the FTSE GEIS Developed Total Cap, and Russell 3000E indices that have voting rights of 25% or less in public hands. This list will also include companies which have been (or are scheduled to be) deleted from the aforementioned indices due to failing the voting rights' requirement. The updated list will be published shortly after the publication of the indicative reconstitution and review files.

The current list can be found using the FTSE Russell website (www.ftserussell.com/products/index-notices/home/getnotices/all) and searching for minimum voting rights hurdle).

8. If, as part of the annual country classification review, a market is promoted from emerging market status to developed market status, how will existing constituents be treated?

Constituents with an emerging market status are not subject to the minimum voting rights hurdle. However, if an emerging market is promoted to developed market status, existing constituents will be tested for voting rights and those failing the hurdle will no longer be eligible for index inclusion and will therefore be deleted in conjunction with the country classification change.

9. What is the treatment for new securities resulting from spin-offs, reorganisations or mergers?

Companies resulting from merger, spin-off or reorganisation transactions will generally not be reviewed for voting rights implications at the time of the event. However, if the prospectus/circular/scheme document explicitly states that the deal terms are structured to actively alter the voting structure of the resultant company, whereby a specific holder (or holders acting in concert) hold 95% or more of the voting rights, FTSE Russell will generally deem the company immediately ineligible and will not add or continue to include the company in the index*. In circumstances where information is unclear, it may be necessary for FTSE Russell to defer assessing eligibility until the subsequent annual review of voting rights.

*Companies may be temporarily added if it facilitates the replication of the index. Advance notice will be provided if a temporary addition is necessary. Spin-off companies will be removed from the index with notice once the company commences trading.

10. IPOs that are evaluated using the fast entrant criteria within the FTSE indices do not include shares being offered in an over-allotment option (greenshoe) for the purposes of fast entry evaluation. How does this impact the voting rights hurdle calculation?

Over-allotment shares will not be factored into the voting rights calculation at the time of fast entry evaluation. Once (if) the over-allotment option is exercised, they will be accounted for when the company is next tested for eligibility.

11. If a potential new IPO addition within a developed market fails the voting rights requirement as a fast entrant or at the quarterly review, when will it be re-evaluated for index inclusion?

The company will be re-evaluated in accordance with the stated review schedules for the impacted indices. For example, at the semi-annual review for FTSE GEIS and associated indices, at the next annual review of the FTSE UK Index Series, and at the following annual reconstitution within the Russell US indices.

12. If a constituent is deleted from the indices due to failing the voting rights requirement, when will the company become eligible for potential re-addition?

The company will be re-evaluated once at least one year has passed since its deletion from the indices. For example, if a company is deleted from FTSE GEIS and the Russell US Indexes at the June 2024 index review and annual reconstitution due to failing the annual voting rights test, it may be re-added to the Russell US Indexes at the June 2025 annual reconstitution and to FTSE GEIS at the September 2025 semi-annual index review, if it passes the voting rights requirement.

Note, the FTSE GEIS three-month trading record requirement will not be applied to companies which have previously been deleted from the indices due to failing the annual voting right screen only (and are being evaluated for index inclusion after their one-year exclusion).

13. Outside of the annual voting rights screen, will a constituent's voting rights be evaluated if it is scheduled to change membership? For example, a company which is scheduled to be promoted from FTSE GEIS Small Cap to Mid Cap at the March semi-annual review, will the company's voting rights be reviewed and will the promotion proceed regardless of the voting rights in public hands at that time?

The voting rights test will not be conducted outside of the annual review and therefore the promotion in the example above will proceed regardless of the number of voting rights in public hands. The company's voting rights will then be reviewed during the annual review in June.

Appendix A

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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