



Reclassification of China A Shares to Secondary Emerging Market Status

Implementation Plan

Commencing June 2019
v2.4



Contents

1.0	Transition of China A Shares from Unclassified to Secondary Emerging market status.....	5
2.0	What percentage of China A Shares will be added to FTSE GEIS?	6
3.0	Why are China A Shares being added at 25% of their respective investability weight?	7
4.0	Why is the third tranche being delayed until March 2020 and not being implemented in December 2019?	7
5.0	FTSE Russell is including China A Share securities that are available under the Northbound China Stock Connect Scheme Buy-and-Sell-List. How can these securities be traded by international investors?	7
6.0	Which China A Share constituents will be included in the FTSE Global All Cap Index?	7
7.0	What is the FTSE China A Stock Connect CNH All Cap Index?	7
8.0	Will China A Shares be reviewed as part of the Asia Pacific ex Japan regional review?	8
9.0	Why are FTSE Russell reviewing China outside of the Asia Pacific ex Japan region?	8
10.0	How will China A Share securities be screened for index eligibility? Will they be treated as current index constituents or non-constituents?	8
11.0	How will Chinese multiple lines be treated within the China regional review?	8



12.0	When was the indicative list of China A Share securities which were eligible for inclusion to FTSE GEIS from June 2019 published?	9
13.0	What are the index review cut-off levels for China as a standalone region and for the Asia Pacific ex China ex Japan region?	9
14.0	What is the impact on constituents of reviewing China as a standalone region?	10
15.0	What is the constituent count of China and its different shares classes in the FTSE Global All Cap?	10
16.0	What are the projected weights of China in FTSE Global All Cap, FTSE All-World and FTSE Emerging All Cap indexes following the completion of Phase 1 of the China A Share inclusion program?	11
17.0	When will FTSE Russell publish the FTSE GEIS, June 2020 quarterly review results?.....	11
18.0	What is the cut-off date for selecting China A Shares to FTSE GEIS at the June 2020 quarterly review?	11
19.0	Which liquidity thresholds was China A Shares assessed against in March 2019?	12
20.0	What investability weight will be used to conduct the liquidity screen?	12
21.0	How will Initial Public Offerings (IPO) via Stock Connect – be treated?	12
22.0	Will China A Share securities be tested for foreign headroom?	13
23.0	What will be the treatment of China A Share securities which are added to FTSE GEIS from June 2019, but which fail index eligibility at a subsequent review?	13



24.0	What happens if the China A Share security is no-longer available to foreign investors via Stock Connect?	13
25.0	What will be the index treatment of corporate actions and events on days when the Stock Connect program is closed?	14
26.0	How will the weight of China A Shares within FTSE GEIS be increased following the completion of Phase 1?.....	14
27.0	How will any future reclassification of China be managed?	14
28.0	When will China A Shares be eligible for derived (including Partnership) and custom indexes which are based on a FTSE GEIS universe?	15
29.0	What will happen to the existing FTSE Global China A Inclusion Indexes?.....	15
30.0	How will the current inclusion factor of China A Shares in the FTSE Global China A Inclusion Indexes be aligned with the inclusion factor of China A Shares in FTSE GEIS by June 2020?	15
31.0	Will Petrochina (A) be eligible for inclusion in FTSE GEIS?	16
32.0	How will China A Share constituents be aligned across FTSE Russell Indexes?	16



FAQ

1.0 Transition of China A Shares from Unclassified to Secondary Emerging market status.

In September 2018, FTSE Russell announced the reclassification of China A Share securities available under the Northbound China Stock Connect Scheme Buy-Sell-List, with the reclassification commencing from June 2019. The initial announcement of the inclusion, referred to as Phase 1 was based on 25% of each security's investability weight and implemented in three tranches as illustrated in the table below:

Phase 1	Tranche One	Tranche Two	Tranche Three
Review Schedule	June 2019	September 2019	March 2020
Effective Date	Open Monday 24 June 2019	Open Monday 23 September 2019	Open Monday 23 March 2020
Proportion	20%	40%	40%

This version of the China A Shares FAQ details the inclusion of China A Shares into FTSE Russell indexes following the decision ([notice](#)) by FTSE Russell to amend the Tranche Three inclusion proportion from 40% to 10%. The remaining 30% will be added in conjunction with the June 2020 quarterly review.

The implementation of China A Shares will be based on those China A Share securities available under the Northbound China Stock Connect Scheme Buy-and-Sell-List.

The first phase ("Phase 1") of the inclusion of China A Shares to Secondary Emerging market status within the FTSE Global Equity Index Series (GEIS) will be conducted in four tranches. Phase 1 commenced in conjunction with the FTSE GEIS June 2019 quarterly review and will be completed in conjunction with the June 2020 quarterly review.

After each tranche, FTSE Russell will evaluate the ability of index trackers to replicate the benchmark change prior to commencing the next tranche. The initial inclusion of China A Shares will be based on 25% of each security's investability weight, implemented in the following proportions:

Phase 1	Tranche One	Tranche Two	Tranche Three	Tranche Four
Review Schedule	June 2019	September 2019	March 2020	June 2020
Effective Date	Open Monday 24 June 2019	Open Monday 23 September 2019	Open Monday 23 March 2020	Open Monday 22 June 2020
Proportion	20%	40%	10%	30%

The table below illustrates the number of Large, Mid, Small and Micro Cap constituents in FTSE GEIS as of, 31 March 2020.

31 March 2020	Large Cap	Mid Cap	Small Cap	Micro Cap	Total
China A Shares	302	406	393	12	1,113

The China A Shares index eligibility universe for the FTSE Global All Cap Index will be based on the FTSE China A Stock Connect CNH All Cap Index. China A Shares will be priced in CNH currency (offshore Chinese Yuan Renminbi) in FTSE GEIS.

The FTSE China A Stock Connect CNH All Cap Index which prices securities in CNH currency (offshore Chinese Yuan Renminbi) was launched on Monday, 24 June 2019. The FTSE China A Stock Connect All Cap Index which prices securities in CNY currency (onshore Chinese Yuan Renminbi) is also available.

The official foreign ownership limit (FOL) for China A Share securities is 30%, however once foreign ownership holding reaches 28% no further foreign purchases are permitted. Therefore in accordance with the 'Foreign Ownership Restrictions and Minimum Foreign Headroom Requirement' rule [Minimum Foreign Headroom Guide](#), China A Shares will be added to FTSE GEIS based on a foreign ownership limit of 28% and the FOL of China A Shares in the FTSE China Inclusion Indexes also reflected a FOL of 28% in conjunction with the June review 2019.

2.0 What percentage of China A Shares will be added to FTSE GEIS?

Phase 1 of the inclusion of China A Shares will be based on 25% of each security's investability weight.

For illustration purposes, if a security has an investability weight of 28%, and an investable market capitalization of USD 20bn it will be added to the FTSE Global All Cap Index with a investability weight of 7.0% ($28\% * 25\% = 7.0\%$) and an investable market capitalization of USD 5bn ($20bn * 25\% = 5bn$) over four tranches.

Phase 1	Tranche One	Tranche Two	Tranche Three	Tranche Four
Review Schedule	June 2019	September 2019	March 2020	June 2020
Proportion	20%	40%	10%	30%
Company A Share investability weight added	1.4%	2.8%	0.7%	2.1%
Investable market cap	USD 1bn	USD 2bn	USD 0.5bn	USD 1.5bn
Inclusion Factor	5%	15%	17.5%	25%
Total Investability weight	1.4%	4.2%	4.9%	7.0%
Total Investable market cap	USD 1bn	USD 3bn	USD 3.5bn	USD 5bn

3.0 Why are China A Shares being added at 25% of their respective investability weight?

China A Shares are being added at 25% of their respective investability weight in the light of the anticipated inflows and the demonstrated capacity of Stock Connect and the Chinese Yuan Renminbi (CNH) offshore currency.

4.0 Why is the third tranche being delayed until March 2020 and not being implemented in December 2019?

The December 2019 quarterly review is effective from the open on Monday, 23 December 2019.

To ensure there is sufficient liquidity in both the equity and currency markets around the holiday period, the third tranche is delayed until March 2020.

To avoid unnecessary trading in Saudi Arabia constituents, the December 2019 implementation of Saudi Arabia was also delayed until 2020.

5.0 FTSE Russell is including China A Share securities that are available under the Northbound China Stock Connect Scheme Buy-and-Sell-List. How can these securities be traded by international investors?

Stock Connect is a program that links the Hong Kong Stock Exchange to the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Stock Connect permits international investors access to the China A Share market using brokerage accounts in Hong Kong and without the requirement of obtaining a Qualified Foreign Institutional Investor (QFII) or a Renminbi Qualified Foreign Institutional Investor (RQFII) license.

Trading can be conducted by pre-funding and/or opening a Special Segregated Account (SPSA) that provides Delivery-versus-Payment (DvP).

6.0 Which China A Share constituents will be included in the FTSE Global All Cap Index?

The constituents of the FTSE China A Stock Connect CNH All Cap Index will be used as the underlying universe for screening China A Shares for the FTSE Global All Cap Index.

7.0 What is the FTSE China A Stock Connect CNH All Cap Index?

The FTSE China A Stock Connect CNH All Cap Index reflects the China A Shares eligible under the Northbound China Stock Connect Scheme Buy-and-Sell-List. The FTSE China A Stock Connect CNH All Cap index is a subset of the FTSE China A All Cap index that is reviewed semi-annually in March and September as part of the FTSE GEIS China regional review.

The FTSE China A Stock Connect CNH All Cap was launched in June 2019. The constituents are identical to those in the FTSE Stock Connect All Cap Index but priced in CNH.

8.0 Will China A Shares be reviewed as part of the Asia Pacific ex Japan regional review?

Effective from the March 2019 FTSE GEIS semi-annual review, the various China Share classes (including China A shares) will be reviewed as a standalone region. Therefore, markets in the Asia Pacific region will be reviewed as follows:

- Asia Pacific ex China ex Japan
- China – including the following Share classes: A, B, H, N Share, P, Red and S Chip
- Japan

As part of the China regional review, China A Shares that pass the index inclusion screens and that are eligible under the Northbound China Stock Connect Scheme Buy-and-Sell list will be included in the FTSE China A Stock Connect CNH All Cap index and will be added to the FTSE Global All Cap from June 2019, subject to them continuing to be available on the Stock Connect program.

9.0 Why are FTSE Russell reviewing China outside of the Asia Pacific ex Japan region?

FTSE Russell is reviewing China outside of the Asia Pacific ex Japan region due to its size and impact (including historical volatility) that the mainland Chinese market would have on other companies as part of the review process.

The Chinese equity market is the second largest equity market in the world and if included in the Asia Pacific ex Japan regional universe would account for over 50% of the review weight (54% at the September 2018 review). Reviewing China as part of the Asia Pacific ex Japan region would cause a significant impact on the existing regional review constituents and cut-off levels.

10.0 How will China A Share securities be screened for index eligibility? Will they be treated as current index constituents or non-constituents?

China A Share securities which are constituents of the FTSE China A All Cap index (a component of the FTSE Global China A Inclusion Indexes) as at the March 2019 cut-off date (Monday, 31 December 2018) will be screened as index constituents for the size eligibility screens.

All other China A Share securities, which are not constituents of the FTSE China A All Cap Index will be treated as non-constituents for the size eligibility screens. For liquidity screening see Question 19.

FTSE Global All Cap Index eligibility, will be based on the FTSE China A All Cap securities which are available via the Northbound China Stock Connect Scheme Buy-and-Sell List.

11.0 How will Chinese multiple lines be treated within the China regional review?

As with other countries, different listed Chinese share classes (A*, B and H) will be combined to form a full company market capitalization and this company market capitalisation is used for ranking purposes throughout the review process. Companies as a whole, rather than individual securities are assigned to Large, Mid or Small Cap tiers.

Index constituent eligibility screens, such as liquidity, investability weight and trading screening are conducted at a security level.

* Total A Shares = Tradable A Shares + Non-Tradeable A Shares + Non-negotiable Shares

12.0 When was the indicative list of China A Share securities which were eligible for inclusion to FTSE GEIS from June 2019 published?

The initial indicative list of China A Share securities eligible for inclusion to FTSE GEIS from June 2019 was reflected in the FTSE Watch List Index products from Monday, 18 March 2019. The final list of China A Share securities that will be added to FTSE GEIS in conjunction with the June 2019 review was published from Friday, 24 May 2019 subject to them continuing to be available under the Northbound China Stock Connect Scheme Buy-and-Sell List and not being flagged by the local stock exchanges as approaching their foreign ownership limit or being suspended from trading.

13.0 What are the index review cut-off levels for China as a standalone region and for the Asia Pacific ex China ex Japan region?

The tables below illustrate the market capitalization threshold levels (USD millions) used for the September 2019 FTSE GEIS review based on a cut-off date of Friday, 28 June 2019,

Gross Market Cap Inclusion and Exclusion Levels (USD m)

	68% - Large Cap Inclusion	72% - Large Cap Exclusion	86% - Mid Cap Inclusion	92% - Mid Cap Exclusion	98% - Small Cap Inclusion	101% Small Cap Exclusion
Asia Pacific ex China ex Japan	4,712.14	3,652.71	2,910.74	565.85	179.17	56.22
* China	4,323.73	3,533.06	3,454.34	820.58	471.53	283.06

* China A, B, H, N Share, P, Red and S Chip

**0.04% of All-World Asia Pacific ex China ex Japan Gross Market Cap

***0.04% of All-World China Gross Market Cap

Investable Market Cap Inclusion and Exclusion Levels

	Inclusion Level		Exclusion Level	
	Regional Small Cap %	Inv. Mkt Cap (USD m)	Regional Small Cap %	Inv. Mkt Cap (USD m)
Asia Pacific ex China ex Japan	0.05%	297.54	0.01%	59.51
* China	0.1%	338.80	0.02%	67.76

* China A, B, H, N Share, P, Red and S Chip

FTSE Global Equity Index Series September 2019 Quarterly Inclusion Levels: [\(September 2019 Inclusion Levels\)](#)

14.0 What is the impact on constituents of reviewing China as a standalone region?

The table below illustrates the index constituent count for Asia Pacific ex Japan as of the 24 December 2018, and the index constituent count of Asia Pacific ex China ex Japan and China as a standalone region based on the cut-off levels detailed in Question 13.

	*Asia Pacific ex Japan	**China (as a component of Asia Pacific ex Japan)	***Asia Pacific ex China ex Japan	China (ex A) ****	***** China A	***** Total China
Large Cap	526	162	440	192	303	495
Mid Cap	467	113	339	94	387	481
Small Cap	1,444	198	1,242	174	328	502
Total	2,437	473	2,021	460	1,018	1,478

*Asia Pacific ex Japan - FTSE Global All Cap as of 24 December 2018 (December quarterly review)

**China B, H, N Share, P, Red and S Chip – FTSE Global All Cap (24 December 2018)

***Asia Pacific ex China ex Japan – FTSE Global All Cap as of 31 December 2019

****China B, H, N Share, P, Red and S Chip – FTSE Global All Cap (31 December 2019)

***** China A– FTSE Global All Cap Index (31 December 2019)

***** China A, B, H, N Share, P, Red and S Chip – FTSE Global All Cap Index (31 December 2019)

15.0 What is the constituent count of China and its different shares classes in the FTSE Global All Cap?

The table below illustrates the index constituent count of China and its different share classes in the FTSE Global All Cap Index as of, 31 March 2020 (i.e. following the implementation of Tranche 3).

China	A Share	B Share	H Share	N Share	P Chip	Red Chip	S Chip	Total
Large	302	5	100	18	40	23	0	488
Mid	406	21	24	7	31	12	2	503
Small	393	13	20	22	98	21	1	568
Total	1101	39	144	47	169	56	3	1559

16.0 What are the projected weights of China in FTSE Global All Cap, FTSE All-World and FTSE Emerging All Cap indexes following the completion of Phase 1 of the China A Share inclusion program?

The table below illustrates the weight in index of China (ex A Shares) based on prices and index constituents as of 31 March 2020 compared to the projected weight in index of China A Shares and Total China post Phase 1 implementation based on prices as of close on 31 March 2020

	Global All Cap	Emerging All Cap	All-World	Emerging
China ex A Shares*	3.98%	37.15%%	4.23%	38.93%
China A**	0.73%	6.77%	0.71%	6.50%
China***	4.71%	43.92%	4.94%	45.43%

*Weight of China (B, H, N, P, Red and S) based on prices and index constituents as of close on 31 March 2020

**Projected weight of China A Share as of June 2020 reflecting the Country Classification change for Saudi Arabia (EM) and based on a China A Share foreign ownership limit of 28%

***Projected weight of China A, B, H, N Share, P, Red and S Chip as of June 2020

17.0 When will FTSE Russell publish the FTSE GEIS, June 2020 quarterly review results?

The provisional June 2020 FTSE GEIS quarterly review changes were published on Friday, 22 May 2020. The list of additions was locked down from Monday, 11 June 2020 subject to the additions continuing to be available under the Northbound China Stock Connect Scheme Buy-and-Sell List and not being flagged by the local stock exchanges as approaching the foreign ownership limit or being suspended from trading.

18.0 What is the cut-off date for selecting China A Shares to FTSE GEIS at the June 2020 quarterly review?

Thursday 21 May 2020 is the cut-off date for selecting new additions to FTSE GEIS that are eligible under the Northbound China Stock Connect Scheme Buy-and-Sell list as part of the June 2020 quarterly index review.

19.0 Which liquidity thresholds was China A Shares assessed against in March 2019?

Constituents will be tested for liquidity at the March 2019 review. Current index constituents of the FTSE China A All Cap Index will require median daily trading volume per month of at least 0.04% of the shares in issue (after the application of any investability weight weightings, see Question 20) for at least eight out of twelve months prior to a full market review.

China A Share securities which are not constituents of the FTSE China A All Cap index at the March 2019 review will be tested as non-constituents and will require median daily trading volume per month of at least 0.05% of the shares in issue (after the application of any investability weight weightings) for at least ten out of twelve months.

Additionally, all securities will be screened as part of a new trading eligibility rule (Rule 6.5 in the FTSE GEIS ground rules: [Ground Rules](#)).

Securities that have not traded on 60 or more trading days in the preceding 12 months will be ineligible for index inclusion. The new rule was implemented in conjunction with the March 2019 FTSE GEIS semi-annual review.

FTSE Global All Cap Index eligibility, will be based on the FTSE China A All Cap securities which are available via the Northbound China Stock Connect Scheme Buy-and-Sell List.

20.0 What investability weight will be used to conduct the liquidity screen?

When testing liquidity, 100% (not 25%) of the investability weight will be used for the calculation. For example, if a security has an investability weight of 28%, as at the last date in the testing period, it will be tested for liquidity at its 28% investability weight (and not 7.0%).

21.0 How will Initial Public Offerings (IPO) via Stock Connect – be treated?

Foreign investors are currently not permitted to participate in China A Share Initial Public Offerings (IPO) available via the Stock Connect program and hence China A Shares will not be assessed for fast entry.

IPOs will be assessed for index eligibility at a subsequent quarterly or semi-annual review. An IPO eligible for inclusion at a quarterly/semi-annual review will be added to FTSE GEIS based on the same tranche factor as existing China A Share index constituents in FTSE GEIS.

22.0 Will China A Share securities be tested for foreign headroom?

China A Share securities are screened for foreign headroom. Please refer to the FTSE GEIS ground rules for additional details. The following China A Share securities were flagged by the local stock exchanges as either in breach of or approaching their foreign ownership limit, as a result they were not added to FTSE GEIS from June 2019.

- Han's Laser Technology (A) (Local Code, 002008)
- Midea Group (A) (Local Code, 000333)

The following China A security was flagged by the local stock exchanges as being in breach of or approaching its foreign ownership limits and hence was not added to FTSE GEIS from September 2019:

- Midea Group (A) (Local Code, 000333)

Following the June 2019 inclusion of China A Share to FTSE GEIS, any FTSE GEIS China A Share constituent that is in breach of the minimum headroom requirement will have a headroom adjustment applied to its investability weight. Its scheduled inclusion factor increase will proceed. The table below illustrates the increase in the investability weight of two China A Share securities during Phase 1. Security 1 does not experience any headroom issues during Phase 1. Security 2 experiences headroom issues at the September 2019 tranche.

Implementation Schedule	China A Share security 1	China A Share security 2	Notes
June 2019	$28\% \times 0.05 = 1.4\%$	$28\% \times 0.05 = 1.4\%$	Security 1 and 2 do not experience a headroom issues
September 2019	$28\% \times 0.15 = 4.2\%$	$18\% \times 0.15 = 2.7\%$	Security 2 experiences headroom issues. FOL is reduced but factor increase proceeds
March 2020	$28\% \times 0.175 = 4.9\%$	$18\% \times 0.175 = 3.15\%$	Security 1 and 2 do not experience any headroom issues
June 2020	$28\% \times 0.25 = 7.0\%$	$18\% \times 0.25 = 4.5\%$	Security 1 and 2 do not experience any headroom issues

Please refer to the Foreign Ownership Restrictions and Minimum Foreign Headroom Policy Guide: [\(Minimum Headroom Requirement Rule\)](#)

23.0 What will be the treatment of China A Share securities which are added to FTSE GEIS from June 2019, but which fail index eligibility at a subsequent review?

If a partially added China A Share security fails index eligibility, it will be deleted in accordance with the index methodology and subsequent quarterly tranches of the security will not be implemented.

24.0 What happens if the China A Share security is no-longer available to foreign investors via Stock Connect?

If a China A Shares security is added to FTSE GEIS and is subsequently removed from the list of securities available via Stock Connect, the security will be deleted from FTSE GEIS with the provision of a T+2 notification. In the event that the China A Share is removed from the Stock Connect eligibility list in close proximity to an index review, FTSE Russell may use its discretion to delete the stock from FTSE GEIS in conjunction with index review.

25.0 What will be the index treatment of corporate actions and events on days when the Stock Connect program is closed?

Within FTSE GEIS, the implementation of corporate actions and index review changes will continue to proceed in conjunction with their effective dates on days that the Stock Connect program is closed. For index reviews, this means after the close of business on the third Friday in March, June, September and December (i.e. effective the following Monday).

26.0 How will the weight of China A Shares within FTSE GEIS be increased following the completion of Phase 1?

Decisions concerning future increases in the weight of China A Shares within FTSE GEIS will be dependent on (but not limited to) developments with respect to the following factors.

To consider QFII/RQFII as an eligible access route for international investment within the FTSE Equity Country Classification Framework and corresponding increase in the weight of China A Shares and expansion of the current investible universe of securities within FTSE GEIS, the must-requirements are:

- Availability of Delivery versus Payment (DvP) and Elimination of Pre-Funding
- Ability to use multiple brokers
- Aggregation of trading

If constituents accessible through Stock Connect are to be included at increased investability weights, the must-have requirements via the Stock Connect route are:

- Trading holiday alignment with the local stock exchanges in Stock Connect
- Increase in the breadth of Stock Connect coverage
- Aggregation of trading

27.0 How will any future reclassification of China be managed?

As a result of the reclassification of China A Shares to Secondary Emerging market status the following China equity classes will be classified as Secondary Emerging – A, B, H, N Share, P, Red and S Chip.

Subject to foreign investors continuing to have accessibility to all the China equity classes, and future reclassification of the Chinese market will be implemented based on all the eligible equity classes being treated as a single market and not as individual equity classes.

28.0 When will China A Shares be eligible for derived (including Partnership) and custom indexes which are based on a FTSE GEIS universe?

China A Shares were included in the FTSE RAFI, FTSE RAFI QSR and Russell RAFI Index Series as part of the March 2020 annual review process.

China A Shares will be added to FTSE Global Equity Index Series (GEIS) derived indexes as per the announced timetable ([FTSE Russell Derived Indexes Timetable](#)). The inclusion factor at which China A and Saudi Arabia will be added to the capitalization weighted derived indexes will be aligned with the inclusion factors assigned in FTSE GEIS at that point in time.

Derived Cap Weighted Indexes

Once China A Shares have been added to the cap weighted derived indexes any further inclusion factor changes to China A Shares in FTSE GEIS will be mirrored in the cap weighted derived indexes irrespective of whether a review is scheduled for those derived indexes. For example, if China A Shares are being added to a derived index from September 2019 the eligible China A Share securities will be added with an inclusion factor of 15% with the remaining 10% split over March and June 2020, with 2.5% being added in March 2020 and 7.5% being added in June 2020 (see Question 2).

Derived Non-Market Cap Weighted Indexes

Once China A Shares have been added to the non-market cap weighted derived indexes any further inclusion factor changes to China A Shares in FTSE GEIS will be reflected in the non-market cap weighted derived indexes product files although these changes will be neutralized as part of the index calculation process.

Custom index clients can contact FTSE Russell info@ftserussell.com for details regarding their custom indexes.

29.0 What will happen to the existing FTSE Global China A Inclusion Indexes?

The existing FTSE Global China A Inclusion Indexes will continue to be calculated and managed in conjunction with the existing rules and are suitable for investors who are using the QFII and RQFII access routes. The inclusion indexes provide all investors with an indication of the number of constituents and index weight when all China A Shares are eligible for trading under the Northbound China Stock Connect Scheme Buy-and-Sell list. The “no Quota” version of these indexes provides an indication of China A shares weights in FTSE global indexes at their full investability weight, i.e. the full weight when all future phases are complete. The “Inclusion” version of these indexes from June 2020 will follow the same inclusion process as FTSE GEIS, with the only difference being that the index will have a broader number of China A Shares included – taken from the FTSE China A All Cap Index. (see Question 30)

30.0 How will the current inclusion factor of China A Shares in the FTSE Global China A Inclusion Indexes be aligned with the inclusion factor of China A Shares in FTSE GEIS by June 2020?

FTSE Russell will use the FTSE Global China A inclusion factor as of close on Wednesday, 5 June 2019 to commence aligning the inclusion factors in FTSE GEIS and the FTSE Global China A Inclusion Index. The inclusion factor as of close on Wednesday, 5 June 2019 was 0.157488.

The below table illustrates how this inclusion factor of 15.7488% will be aligned to 25% by June 2020 using the same Phase 1, four tranche approach being implemented in FTSE GEIS.

In conjunction with the current FTSE Global China A Inclusion index methodology the inclusion factor will continue be updated between Monday, 18 March 2019 and Friday, 21 June 2019 for corporate actions.

From the June 2019 review the FTSE Global China A Inclusion Indexes will no longer update the China A Inclusion quota adjustment factor for corporate actions as outlined in Section 7 of the index rules (version 2.3). Following the decision to extend the Phase 1 inclusion of China A Shares in FTSE GEIS across four tranches, the China A inclusion factor within the FTSE Global China A Inclusion indexes will remain unchanged at 21.2995% for the March 2020 index review.

Future updates in the weight of China A shares following the June 2020 review will be aligned with the approach and schedule of FTSE GEIS (see Question 26).

Phase 1	Tranche One	Tranche Two	Tranche Three	Tranche Four
Review Schedule	June 2019	September 2019	March 2020	June 2020
Proportion	20%	40%	10%	30%
Inclusion factor for China A Shares in FTSE GEIS	5%	15%	17.5%	25%
Inclusion factor China A Shares in 'Inclusion' Index (based on an initial Inclusion Factor of 15.7394% as of 18 March 2019)	17.5990%	21.2995%	21.2995%	25%

31.0 Will Petrochina (A) be eligible for inclusion in FTSE GEIS?

Following the methodology change permitting the inclusion of large securities with a free float of 5% or below ([notice](#)), PetroChina (A) was assessed for index eligibility for FTSE GEIS at the March 2020 semi-annual review.

32.0 How will China A Share constituents be aligned across FTSE Russell Indexes?

To ensure consistency and alignment in the management of China A Share securities within FTSE Russell indexes the following steps will be implemented by September 2019:

Treatment of stocks that are either suspended or subject to breach of price limit

China A Shares (available via the Northbound China Stock Connect Scheme Buy-and-Sell List) that were constituents of the FTSE China A All Cap Index but are either suspended from trading or subject to the breach of price limit in advance of the June 2019 review were not added to the FTSE Global Equity Index Series (GEIS) in conjunction with the June 2019 quarterly review. The following China A Share securities were suspended in advance of the June review and were not added:

- Boya Bio Pharmaceuticals Group (A) (Local Code, 300294)
- Hengtong Optic-Electric (A) (Local Code, 600487)

- Hubei Dinglong Chemical (A) (Local Code, 300054)
- Wonders Information (A) (Local Code, 300168)
- Xinjiang Tianye (A) (Local Code, 600075)

Suspended China A Share securities that resumed regular trading following the June review were added to FTSE GEIS in conjunction with the September 2019 semi-annual review with an inclusion factor of 15% (China A Share tranche 2 inclusion factor).

Suspended China A Share securities that did not resume trading, were deleted from the FTSE China A All Cap index in conjunction with the September 2019 semi-annual review.

Treatment of stocks that failed headroom

Han's Laser Technology (A) (Local Code, 002008) and Midea Group (A) (Local Code, 000333) failed the FTSE Russell minimum headroom requirement screen in March 2019 (see Question 22).

If both these securities pass the minimum headroom requirement screen in advance of the FTSE GEIS September 2019 semi-annual review, they would have been added to FTSE GEIS with an inclusion factor of 15%.

If either of the securities fail the minimum headroom requirement screen in advance of the FTSE GEIS September 2019 semi-annual review, they would have been deleted from the FTSE China A All Cap index in conjunction with the September review.

Treatment of stocks with different Large, Mid and Small size segments

The following securities had different Large, Mid and Small size segments between FTSE GEIS and FTSE China A All Cap Index as of June 2019 due to the timing of their respective index review schedules.

- China Shipping Container Lines (A) (Local Code, 601866)
- Guangshen Railway (A) (Local Code, 601333)
- Hisense Kelon Electrical Holdings (A) (Local Code, 000921)

Please note, that the number and size segment of China A share securities (available via the Northbound China Stock Connect Scheme Buy-and-Sell List) in the FTSE GEIS and FTSE China A All Cap indexes were aligned as of the September 2019 FTSE GEIS semi-annual review (effective from the open on Monday, 23 September 2019).

For more information about our indexes, please visit ftserussell.com.

© 2020 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, “FTSE Canada”) and (4) MTSNext Limited (“MTSNext”), (5) Mergent, Inc. (“Mergent”), (6) FTSE Fixed Income LLC (“FTSE FI”), (7) The Yield Book Inc (“YB”) and (8) Beyond Ratings S.A.S. (“BR”) All rights reserved.

FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, MTSNext, Mergent, FTSE FI, YB and BR. “FTSE®”, “Russell®”, “FTSE Russell®”, “MTS®”, “FTSE4Good®”, “ICB®”, “Mergent®”, “The Yield Book®”, “Beyond Ratings®” and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, FTSE Canada, Mergent, FTSE FI, YB or BR.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group index data and the use of their data to create financial products require a licence with FTSE, Russell, FTSE Canada, MTSNext, Mergent, FTSE FI, YB, BR and/or their respective licensors.

About FTSE Russell

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.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit www.ftserussell.com.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office:

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