

Market consultation

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FTSE EPRA Nareit Global Real Estate Index Series Nationality and Regional Representation Consultation



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Introduction

Index partners FTSE Russell, the European Public Real Estate Association (EPRA) and the National Association of Real Estate Investment Trusts® (Nareit) are inviting users, market participants and other stakeholders to participate in a consultation on the FTSE EPRA Nareit Global Real Estate Index Series.

The purpose of the consultation is to ensure that the nationality assignments of index constituents, overall regional representation and index composition remain appropriate and consistent with the index objectives. The feedback received from the consultation will assist FTSE Russell, EPRA and Nareit in their consideration of potential future enhancements to the Index Series.

The consultation will close on 20 May 2021 and the results will be presented to the FTSE EPRA Nareit Global Real Estate Index Advisory Committees for discussion in June 2021. Any methodology changes resulting from the consultation will be communicated in advance of their application via the usual mechanisms.

If any changes to the guidelines are deemed necessary prior to the June review, these will be communicated on or before 27 May 2021. Please note all analysis provided within this paper was correct as of 31 March 2021.

Potential changes to methodologies may be implemented over an extended period of time to ensure an orderly transition.

If you have any questions about this consultation, or if you encounter any technical issues, please contact Rachel Pawson at Rachel.pawson@lseg.com.

Responding to the Consultation

The proposals set out in this consultation document are included in order to gather feedback and may or may not result in changes to our indexes or data solutions.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.co.uk/r/W7G2H56>

All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation results, but no individual responses will be published and no respondents will be named.

If you have any questions about this survey, or if you encounter any technical issues, please contact Rachel.pawson@lseg.com

Background

Asia Pacific and North America representation within the Developed Index

Some index users have raised concerns regarding the potential under-representation of companies from the Asia Pacific region within the Developed component of the FTSE EPRA NAREIT Global Real Estate Index Series. Currently, there are 93 Asia Pacific companies within the Developed index (from a total of 342) which have an approximate index weight of 24.4% (see Appendix A).

The representation of Americas constituents is higher on a relative basis due to the differing inclusion thresholds and eligibility rules governing this (and other) region. The implications are outlined as follows:

- At present, non-constituents within the EMEA and Americas regions must have a 0.10% investable market capitalisation weight of their respective regional indexes to be eligible for inclusion. However, the threshold within the Asia Pacific region is higher, at 0.30% (see Appendix B).
- Further, existing constituents of the EMEA and Americas regions with an investable market capitalisation of below 0.05% of their respective regional indexes are removed from the Developed index. Conversely, the threshold within the Asia Pacific region is higher, at 0.15%.
- Historically, higher thresholds in Asia Pacific were due to (per rule 4.6) *the construction of residential homes for sale being considered relevant real estate activity in the Asia Region and Emerging Markets only*. At the time of writing, only 17 of the 93 Asia Pacific index constituents derive any income this way.
- The significant representation of North American (particularly US) companies within the Global and Developed indexes is often cited as contrary to the diversification objective of the index, while also increasing the risk of breaching the regulatory requirements and best practice principles regarding over-exposure.
- Currently, US securities represent approximately 54.9% of the Global index, and including Canada, the weight of North America increases to approximately 57.7%. Noting the pending inclusion of interconnection revenue as being eligible for the purposes of the EBITDA test, with the consequent addition of Data Center REITs, this is likely to increase to nearly 60%.

The consultation will ask whether regional thresholds should be aligned. If this takes place, up to 42 additional Asia Pacific Developed companies could join the index, with the maximum impact to the weight of the region being an increase to approximately 25.61% (1.2% increase).

Nationality

To create a clear distinction between Developed and Emerging Markets, determine the nationality of constituents and ascertain membership of the FTSE EPRA Nareit Emerging and Developed indices, an EBITDA criterion was introduced to the Nationality Rule in 2012. This resulted in the following Ground Rule 4.9 (see Appendix B):

An existing constituent which has previously been assigned a nationality of a Developed market that has over each of the previous two years derived less than 50% of its total annual EBITDA from Developed markets will be assigned the nationality of the Emerging market from which it has derived the greatest percentage of its EBITDA over those two years.

When applied, the above rule results in issues for companies that are incorporated and listed in either Singapore or Hong Kong, but are developing properties in China. In addition, the rule reduces the representation of Asia in the FTSE EPRA Nareit Developed Index because the aforementioned companies are assigned a nationality of China within the FTSE Nareit indices and become constituents of the FTSE EPRA Nareit Emerging Index.

To this end, the consultation will also ask whether the EBITDA criterion within the Nationality Rule is sufficient and fit for purpose given the implications for representation outlined above.

Consultation questions

1. **Should the exposure of the FTSE EPRA NAREIT Developed Index to Developed Americas (Canada and United States) be capped to minimise concentration risk? Please also provide the reasoning for your response.**

- A. Yes – to 50%
- B. Yes – to 60%
- C. Yes – but a different percentage (please provide an alternative threshold)
- D. No/other (please specify)

2. **Should the minimum size thresholds for Asian companies be aligned with the EMEA and Americas thresholds? This means that the current inclusion threshold and exclusion threshold would be lowered from 0.30% to 0.10% and from 0.15% to 0.10% respectively. Please see Appendix B for details of the current thresholds.**

- A. Yes
- B. No

3. **Does the current EBITDA test for the purpose of determining the Nationality of a constituent as per Ground Rule 4.9 in Appendix C remain fit for purpose?**

- A. Yes
- B. No

4. **If your answer to Q3, was B (no), how should nationality be determined for the purposes of the FTSE EPRA Nareit indices?**

- A. A rule similar to rule 4.9 currently in place but the reliance on EBITDA should be reduced (examples in next question)
- B. The FTSE nationality rule should take precedence for companies with FTSE nationalities of Hong Kong and Singapore, and EPRA Nareit nationalities of China
- C. The FTSE nationality rule should apply to all companies (see Appendix D)
- D. Some other rule (please specify)

5. If your answer to Q4 was A, how should the rule for assigning nationality be modified?

- A. EBITDA should be supplemented with tests for assets and/or revenues in those instances where EBITDA does not lead to an unambiguous determination of nationality, for example:

In the event that a company's EBITDA breakdown from Developed and Emerging markets cannot be unambiguously determined, the company's nationality will instead be assigned on the basis of the geographic breakdown of assets as published in the company's annual reports. If the company's assets breakdown from Developed and Emerging markets also cannot be unambiguously determined, the company's nationality will be assigned on the basis of the geographic breakdown of the company's revenues as published in the company's annual reports. If the geographic breakdown of neither the company's EBITDA nor the revenues nor assets can be unambiguously determined, the company's FTSE nationality assignment as per Appendix D will be retained.

- B. EBITDA should be replaced by assets
C. EBITDA should be replaced by revenues
D. Some other rule (please specify)

6. Are there any further enhancements to the FTSE EPRA Nareit Global Real Estate Index Series that should be considered?

If yes, please specify:



Appendix A

Regional Representation in the FTSE EPRA Nareit Global Real Estate Series

Index	Number of constituents	Investible Market Cap €M	Weight of Asia Pacific	Weight of China
FTSE EPRA Nareit Developed Global Real Estate Index Series	342	1,400,229.7	24.39%	N/A
FTSE EPRA Nareit Developed Global Real Estate Index Series plus China Inclusion Threshold	362	1,483,304.4	28.62%	5.60%
FTSE EPRA Nareit Developed Global Real Estate Index Series plus China Exclusion Threshold	378	1,493,934.0	29.13%	6.27%
Current member Chinese companies below Asia Exclusion threshold	21	6,114.9	N/A	N/A
China within the Emerging Index	57	99,819.2	81.29%	61.61%
Asia Developed Companies above Exclusion threshold which pass liquidity (approx.)	26	17,828.9	25.48%	N/A

Data as 31 March 2021.



Appendix B

FTSE EPRA Nareit Global Real Estate Index Series – Inclusion and Exclusion Thresholds

5.4 Additions to the Index Series

At the quarterly review, non-constituent securities that have an investable market capitalisation (after the application of investability weightings) equal to or greater than the following basis points of their respective regional index will be eligible for index inclusion:

Developed Markets

- a) Asian Stocks 0.30%
- b) EMEA Stocks 0.10%
- c) Americas Stocks 0.10%

Emerging Markets

- a) Asian Stocks 0.20%
- b) EMEA Stocks 0.30%
- c) Americas Stocks 0.30%

AIM Market

- a) AIM Stocks 1.50%

Prospective additions must also have at least 50% of their total assets invested in real estate at the time of entering the index.

5.5 Deletions from the Index Series

At the quarterly review, an existing constituent of the FTSE EPRA Nareit Global Real Estate Index Series is deleted from the Index Series if it has an investable market capitalisation (after the application of investability weightings) of less than the following basis points in their respective region:

Developed Markets

- a) Asian Stocks 0.15%
- b) EMEA Stocks 0.05%
- c) Americas Stocks 0.05%

Emerging Markets

- a) Asian Stocks 0.10%
- b) EMEA Stocks 0.15%
- c) Americas Stocks 0.15%

AIM Market

- a) AIM Stocks 0.75%

Index	Inclusion (€m) March 2021	Exclusion (€m) March 2021
Developed Asia	1,011.1	505.6
Developed EMEA	247.5	123.8
Developed America	781.7	390.8
Emerging Asia	251.7	125.8
Emerging EMEA	46.4	23.2
Emerging America	42.9	21.4

Data as 31 March 2021.

Appendix C

FTSE EPRA Nareit Global Real Estate Index Series – Nationality guidelines

4.9 Assignment of Nationality

4.9.1 The procedures for assigning nationalities to prospective constituents of the FTSE EPRA Nareit Global Real Estate Index Series will generally follow the procedures set out in the FTSE Determining Nationality document which is available on the FTSE Russell website and can be accessed using the following link:

[Determining Nationality.pdf](#)

4.9.2 A prospective constituent, which would otherwise have been assigned a nationality of a Developed market, that has over each of the previous two years derived less than 75% of its total annual EBITDA from Developed markets (as classified by FTSE Russell) will instead be assigned the nationality of the Emerging market (as classified by FTSE Russell) from which it has derived the greatest percentage of its EBITDA over those two years. Prospective constituents that have only one year of audited financial statements in their latest annual report (as defined by Rule 4.8A) or English IPO prospectus will be reviewed and classified based on the most recent available one year audited financial statements.

4.9.3 An existing constituent which has previously been assigned a nationality of a Developed market that has over each of the previous two years derived less than 50% of its total annual EBITDA from Developed markets (as classified by FTSE Russell) will be assigned the nationality of the Emerging market from which it has derived the greatest percentage of its EBITDA over those two years.

4.9.4 A constituent whose nationality was determined by the application of Rules 4.9.2 or 4.9.3 above may have its nationality changed to that of a different Emerging market if for two consecutive years the greatest percentage of its EBITDA is derived from that Emerging market.

4.9.5 A constituent whose nationality was determined by the application of Rules 4.9.2 or 4.9.3 above may have its nationality changed to that assigned in the FTSE Global Equity Index Series if for two consecutive years the company derives more than 75% of its EBITDA from Developed markets.

4.9.6 In cases where an existing constituent undergoes a significant corporate event, the nationality of that company may be assessed based on the most recent one year audited financial statements in the latest annual report or restructuring prospectus.

For the full set of Ground Rules, please see:

[FTSE EPRA Nareit Global Real Estate Index Series.pdf](#)



Appendix D

FTSE Russell Determining Nationality

1.0 Determining Nationality

1.1 A company will be allocated to a single country.

1.2 If a company is incorporated in one country and has its sole listing in the same country, FTSE will allocate the company to that country.

1.3 In all other circumstances, FTSE will base its decision on assessment of various factors including, but not necessarily limited to, the following:

- The investor protection regulations present in the country of incorporation;
- The country in which the company is domiciled for tax purposes;
- The location of its factors of production;
- The location of its headquarters;
- The location of company meetings;
- The composition of its shareholder base;
- The membership of its board of directors;
- The currency denomination of the company's shares;
- The perception of investors.

In certain circumstances, outlined in Rules 1.4 to 1.6, consideration will also be given to the relative liquidity of trading in those countries where the company's shares trade. In calculating the liquidity associated with a country, trading volumes will be amalgamated from all trading venues which have admitted the shares to trading based on a listing conferred by that country's listing authority. Trades taking place on multi-lateral trading facilities will be included in the calculation and assigned to the country that conferred the listing to the company provided that the country of listing and the multilateral trading facility operate within a similar time zone.

1.4 If a company is incorporated in a country, has a listing in that country and listings in other countries, FTSE will normally assign the company to the country of incorporation. If the company fails FTSE's liquidity test in the country of incorporation, FTSE may assign the company to the country which exhibits the greatest liquidity. However, save for the circumstances set out in Rule 1.6, a company incorporated in a country other than a developed country (as classified in the FTSE Global Equity Index Series) may not be assigned to a developed country.

1.5 If a company is incorporated in a country, and is listed only in countries other than the country of incorporation, FTSE will normally allocate the company to the country with the greatest liquidity. However,

save for the circumstances set out in Rule 1.6, a company incorporated in a country other than a developed country may not be assigned to a developed country.

1.6 If a company is incorporated in a country other than a developed country, has no listing in that country and is listed only in one or more developed countries, that company will only be eligible for FTSE Global Equity Index Series inclusion if the country of incorporation is internationally recognised as having a low taxation status that has been approved by FTSE. For companies incorporated in approved low taxation countries, FTSE will normally assign the company to the developed country with the greatest liquidity. A current list of the approved low taxation jurisdictions can be accessed using the following link:

[Low Taxation Jurisdictions.pdf \(ftserussell.com\)](#)

1.7 Once a company's nationality has been determined by virtue of the liquidity tests in Rules 1.5 and 1.6, if it subsequently fails the semi-annual index liquidity test within the country it has been assigned to or if the country with greatest liquidity is different to that assigned for two consecutive years, FTSE will review the company's nationality assignment.

1.8 Other than meeting the conditions of Rule 1.2, should a company make a change to its circumstances (such as a change in incorporation or adoption of an additional listing), FTSE may defer the consideration of whether to change a company's nationality assignment for a minimum period of three months up to a maximum period of up to 12 months, this will allow FTSE to properly assess the subsequent evolution of its trading liquidity and of the other criteria listed in Rule 1.3. If following such an assessment period, FTSE decides to change a company's nationality assignment, the change will become effective at a semi-annual review in March or September following publication of the decision.

1.9 Where a company's nationality has been determined as either UK or Australia, if the shares are traded in CDI form (Crest Depository Interest or Chess Depository Interest respectively), the CDI will be considered as eligible subject to meeting all other index eligibility criteria.

1.9.1 Please refer to the [Guide to Chinese Share Classes](#) which details whether a security should be designated as a Chinese Share Class.

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