

December 2023

Public minutes

FTSE Russell Americas Regional Equity Advisory Committee

07 December 2023



**FTSE
RUSSELL**
An LSEG Business

lseg.com/en/ftse-russell

Attendees

Members: twenty (20); apologies: five (5)

FTSE Russell: eight (8) including the Chair and Committee Secretary

Attendees were reminded of their obligations in relation to confidentiality of information, conflicts of interest and competition law. There were no declarations.

1. **Statutory governance matters and committee information**

1.1 Membership changes

1.1.1 None.

1.2 Minutes

1.2.1 The minutes of the meeting held on Thursday 07 September 2023 were approved as presented.

1.2.2 The public minutes of the meeting held on Thursday 07 September 2023 were approved as presented.

1.3 Governance

1.3.1 None.

1.4 Action points and matters arising

1.4.1 None.

1.5 Key notices and updates

1.5.1 The methodology notices published since the last meeting were included in the meeting materials. There were no requests for clarification.

1.5.1.1 FTSE Russell highlighted that the consultation deadline for the [Russell US Indexes Consultation on Moving to a Semi-Annual Index Reconstitution Frequency](#) was extended to 31 December 2023 and invited committee members to respond to the consultation, if they have not already done so. FTSE Russell said that the results of the market consultation would be shared with the advisory committee at the March 2024 meeting.

2. **Equity methodology and policy**

2.1 Update on the potential impact of the US Juneteenth holiday on the FTSE Russell equity indices June quarterly review (presented for information): Juneteenth is a US Federal holiday that was introduced from 2021 and is observed on the 19 June, with the US stock exchanges closed for trading. Consequently, the Juneteenth holiday could coincide with the FTSE reviews in June that are effective after the close on the third Friday in June, with the US stocks exchanges closed on the third Friday in June. At the September 2023 meetings, FTSE Russell presented three options to the advisory committee for their views.

2.1.1 Having considered the committee feedback received in September 2023, FTSE Russell proposed to retain the current index review schedule for GEIS and associated indices in June when the US equity market is closed on the third Friday in June for the Juneteenth holiday. The rationale being that the respective equity market trade dates for the GEIS and associated indices for the June review would coincide with Triple Witching in those markets, thereby providing additional liquidity around the index review effective date.

2.1.2 A discussion took place, and the committee members provided their comments.

2.1.3 **Summary:** there was support from the advisory committee for retaining the current index review schedule for GEIS i.e., the index reviews being effective from the open on the Monday after the third Friday in June.

- 2.2 Treatment of securities accused of potential price manipulation to gain index eligibility (presented for discussion): following the ‘short squeeze’ events targeting specific stocks during Q1 2021, resulting in the stocks experiencing extreme price movement, FTSE Russell considered introducing measures to manage the index treatment of such stocks. At the March 2021 meetings, FTSE Russell presented a proposal that explored the potential introduction of a metric-based extreme price movement screen for new additions and size segment changes. FTSE Russell did not proceed with the introduction of an extreme price movement screen as there was no consensus from the regional advisory committees on that proposal.
- 2.2.1 On a different, but related note, since March 2021, FTSE Russell has, on occasion, been approached by index users, highlighting examples of potential price manipulation to gain index eligibility.
- 2.2.2 FTSE Russell invited the committee members for their views on proposed language for inclusion in the ground rules. A discussion took place, and the committee members provided their comments. As an index provider, FTSE Russell conveyed the need to have an objective rules-based approach rather than using discretion which could lead to unwanted consequences.
- 2.2.3 **Summary:** there was general support for including the proposed language into the ground rules. There was general consensus from the committee members that the language be broadened for FTSE Russell to use limited discretion.
- 2.3 Proposed changes to the foreign headroom rule (presented for support): a headroom adjustment is applicable to stocks with a foreign ownership restriction (FOR). It is applied as an adjustment to the investability weight i.e., where the FOR was more restrictive than the calculated free float for the company. FTSE Russell defines ‘foreign headroom’ as the percentage of shares available to foreign investors as a proportion of the company’s foreign ownership limit (FOL). For example, if an index constituent has a FOL of 49% (i.e., foreign investors cannot hold more than 49% of the stock) and it was reported that foreign investors have taken up their full allocation of 49%, zero shares are theoretically therefore available for foreign investors. Consequentially, index trackers would not be able to replicate the benchmark treatment if the stock were to have an increase in its index weight.
- 2.3.1 A summary of the methodology changes to the headroom rule since the original rule was introduced in September 2014 was included in the meeting materials.
- 2.3.2 FTSE Russell conducted a historical assessment based on the period from the June 2019 index review to the September 2023 index review; the period where the current methodology applies. The results of the analysis were included in the meeting materials. With this in mind, FTSE Russell invited the committee members for their views on proposed changes to the current headroom rule.
- 2.3.3 **Summary:** there were no objections from the committee members; the advisory committee supported the proposed changes to the headroom rule. *Post-meeting note:* [Foreign Ownership Restrictions and Minimum Foreign Headroom Requirement – Update – Published 01 February 2024](#)

- 2.4 Proposed treatment of China local listings to N Shares in FTSE Russell equity indices (presented for support): following the introduction of the Holding Foreign Companies Accountable Act (HFCAA), FTSE Russell introduced a change to the Guide to Calculation Methods for GEIS Liquidity to expedite the transition of China N shares to the local listing, by only requiring the local listing to pass the liquidity threshold for one testing period (reduced from two testing periods). The presumption being that liquidity would naturally flow to the local listing due to the threat of the China N share line being delisted from the US exchanges by virtue of it failing the HFCAA audit requirements. However, the liquidity rules did not currently contemplate a scenario where the China local listing (index constituent) failed liquidity, while the corresponding China N Share (non-constituent) listing passed liquidity. Consequently, the local listing of the company would be deleted from the indices, but its N share would not simultaneously be considered as a replacement in the index to maintain the continuity of the company.
- 2.4.1 To this end, FTSE Russell proposed to update liquidity rule 2.1(I) to allow the transition from the China local listing to the China N Share listing when its corresponding underlying share failed liquidity. This would ensure that a company continues to be represented in the index via its N Share, and reverse turnover is minimised. A discussion took place, and the committee members provided their comments.
- 2.4.2 **Summary:** there was general support from the advisory committee for the proposed liquidity rule language.
- 3. Equity country classification**
- 3.1 September 2023 Watch List markets (presented for information): FTSE Russell invited the committee members to provide their comments on the following markets:
- 3.1.1 Egypt – added for possible reclassification from Secondary Emerging to Unclassified, due to index users reporting on-going delays in the ability to repatriate capital dating back to April 2023. Consequently, since June 2023, certain index changes for Egyptian index constituents have been suspended within FTSE indices.
- 3.1.2 Pakistan – added for possible reclassification from Secondary Emerging to Frontier, due to failing to meet the minimum investable market capitalisation threshold required for retaining Emerging market status.
- 3.1.2.1 FTSE Russell said that as of November 2023 month-end the market met the required thresholds for retaining Secondary Emerging market status, however, the second tranche of China A Shares would be implemented in March 2024 which would increase the weight of China in the indices and reduce the weight of Pakistan. An FAQ on the China A Shares implementation can be found here: [FTSE Reclassification of China A Shares FAQ \(Iseg.com\)](#).
- 3.1.3 Vietnam – retained for possible reclassification from Frontier to Secondary Emerging. Vietnam has yet to meet the “Settlement Cycle (DvP)” criterion, which is currently rated as “Restricted”. This is due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution. FTSE Russell continues to engage with the Vietnamese market authorities, with the government reiterating its support for the various initiatives required to meeting Secondary Emerging market status.
- 3.1.4 **AOB**
- 3.2 USA, Canada and Mexico equity markets migrating to Trade Date (T) +1 Settlement at the end of May 2024: as a follow up to the September 2023 discussion, FTSE Russell invited the views of the advisory committee on this change and whether there were any measures that should be considered by FTSE Russell to support index users in their ability to replicate US benchmark changes at the June 2024 round of index review. FTSE Russell did not receive any comments and hence planned to proceed with the June 2024 index reviews as normal. There were no comments from the committee members.

4. Meeting dates

4.1 The meeting dates for 2024 were included in the agenda and duly noted.

4.1.1 2024: 07 March / 13 June / 12 September / 12 December

Disclaimer

© 2024 London Stock Exchange Group plc and its applicable group undertakings (“LSEG”). LSEG 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”), (4) FTSE Fixed Income Europe Limited (“FTSE FI Europe”), (5) FTSE Fixed Income LLC (“FTSE FI”), (6) FTSE (Beijing) Consulting Limited (“WOFE”), (7) Refinitiv Benchmark Services (UK) Limited (“RBSL”), (8) Refinitiv Limited (“RL”) and (9) Beyond Ratings S.A.S. (“BR”). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL and BR. “FTSE®”, “Russell®”, “FTSE Russell®”, “FTSE4Good®”, “ICB®”, “WMR™”, “FR™”, “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 LSEG or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL or BR.

FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator. Refinitiv Benchmark Services (UK) Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

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 LSEG nor their respective directors, officers, employees, partners or licensors for any inaccuracies or for any loss from use of this publication or any of the information or data contained herein.

No member of LSEG 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 LSEG nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices and rates cannot be invested in directly. Inclusion of an asset in an index or rate is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index or a rate containing the 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 LSEG. Use and distribution of LSEG index or rate data and the use of their data to create financial products require a licence from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL, BR and/or their respective licensors.

