

Market consultation

The FTSE Russell logo consists of a light blue circle containing the text "FTSE" on the top line and "Russell" on the bottom line, both in white, sans-serif font.

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FTSE Russell consultation on minimum free float



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Introduction

The ground rules for the FTSE Global Equity Index Series (GEIS) specify that only securities with free floats of greater than 5% are eligible for index inclusion ([GEIS rule 6.2.A](#)). The rule is intended to ensure that an index represents an investment portfolio that excludes inconsequential stakes in companies. It also helps to ensure that index constituents have adequate liquidity and the 5% threshold is consistent with squeeze-out levels in certain jurisdictions. However, the presence of the rule means that certain very large companies with free floats less than 5% are excluded from GEIS and GEIS is arguably less representative than it might be as a result.

In contrast, and in recognition of the existence of large companies with small floats in China, the FTSE China A Free indexes permit securities with free floats of 5% or below provided they have an investable market capitalization that exceed ten times the China regional inclusion level ([China A Free rule 6.3.2](#)). This rule was adopted from the FTSE Global China A Inclusion Indexes.

Following feedback and enquiries from index users, FTSE Russell would like to invite comment on whether the current eligibility requirement for securities to have a free float of above 5% should be waived for very large constituents in the FTSE Global Equity Index Series. Note: the FTSE UK Index Series is maintained according to separate ground rules and is not affected by this consultation proposal.

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.

Index users and other stakeholders are invited to respond by 25 October 2019. The responses will be reviewed by the FTSE Russell Product Governance Board and an update on FTSE Russell's proposed approach will be communicated by 31 October 2019.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.co.uk/r/F73RR6V>

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 rpawson@ftserussell.com.



Impact of the current rule

As a result of index constituents requiring a free float greater than 5%, the very large companies listed in Table 1 are currently excluded from GEIS.

Table 1

Name	Country	Free Float	Full Market Cap (USD)	Investable Market Cap (USD)
People's Insurance Group of China (A)	China	2.8%	42.765 bn	1.197 bn
PetroChina (A)	China	2.5%	140.409 bn	3.510 bn
Gazprom Neft*	Russia	4.32%	30.965 bn	1.338 bn

Data as of close 30 September 2019

*Gazprom Neft is subject to US and European Union sanctions and hence would not be eligible for FTSE Russell indexes.

The potential forthcoming initial public offering of Saudi Aramco would also be ineligible for GEIS if it were to list with a free float of 5% or less. However, even with a free float of 2%, Saudi Aramco is expected to have an investable market capitalization of \$30bn (assuming a conservative value for the full market capitalization of \$1.5trn). This is comparable to the investable market capitalization of Portugal (USD 29.63bn as of 30 September 2019).

[Note: as previously announced, it is expected that Saudi Aramco will be assigned Saudi nationality and therefore it will not be eligible for inclusion in the FTSE UK Index Series.]

Proposed amendment to inclusion rule for securities with free floats of 5% or below

FTSE Russell proposes to align the inclusion thresholds for GEIS for securities listed with floats of 5% or below with the rule used in the FTSE China A Free indexes and include companies with free floats of 5% or below provided they have an investable market capitalization that exceed ten times the regional investable market capitalization inclusion level.

Table 2 illustrates the regional investable market capitalization levels as of the September 2019 FTSE GEIS semi-annual review and the corresponding 'ten times' values.

Table 2

REGION	Investable Small Cap Inclusion**	Investable Market Cap Inclusion Level (USD m)	Ten times Inclusion Level (USD m)
Developed Europe	0.02%	172.00	1,720.04
Emerging Europe	1.00%	128.52	1,285.22
Middle East & Africa	1.00%	357.61	3,576.07
North America	0.02%	763.94	7,639.39
Latin America	0.50%	255.84	2,558.44
Asia Pacific Ex China Ex Japan	0.05%	297.54	2,975.39
China*	0.1%	338.80	3,387.97*
Japan	0.05%	171.64	1,716.43

*The 'ten times' eligibility rule currently only applies to the FTSE China A Free Indexes

**The percentages are based on the respective regional Small Cap Index.

Securities that are already listed but are not currently included in GEIS because of the minimum float rule, will be assessed against ten times the regional investable market capitalization inclusion levels that are published on a quarterly basis. IPOs will also be required to meet the ten times rule in addition to the standard fast entry thresholds for fast and investable market capitalizations ([GEIS rule 8.1.1](#)); for comparison, the regional fast entry thresholds are shown in Table 3.

Table 3

REGION	Large Cap Inclusion Level (USD m)	Mid Cap Inclusion Level (USD m)	Full Market Cap Threshold Value (USD m)	Investable Market Cap Threshold Value (USD m)
Developed Europe	13,465.78	4,895.99	7,343.98	2,447.99
Emerging Europe	6,310.08	2,505.65	3,758.48	1,252.83
Middle East & Africa	4,820.50	1,448.19	2,172.29	724.10
North America	27,376.44	11,371.95	17,057.92	5,685.97
Latin America	6,209.61	2,388.78	3,583.17	1,194.39
Asia Pacific Ex China Ex Japan	4,405.53	2,721.34	4,082.01	1,360.67
China*	3,964.01	3,166.95	4,750.43	1,583.48
Japan	6,950.86	2,038.44	3,057.66	1,019.22

*There are no fast entry thresholds for China A Share securities in GEIS as current China A Share constituents are limited to those traded on Stock Connect.

Once a security has met the inclusion level and has been added to GEIS, it would be retained in the index until it failed the standard index eligibility screens of size and liquidity.



Impact of the proposal

Based on current valuations, if the above proposal were to be adopted, Saudi Aramco would be eligible for inclusion in the FTSE Global Equity Index Series T+5 from listing and PetroChina (A) would be eligible in conjunction with the March 2020 semi-annual review.

Table 4 illustrates the projected weight in index of PetroChina (A) and Saudi Aramco in GEIS indexes.

Table 4

Name	FTSE Global All Cap	FTSE Emerging All Cap	FTSE All-World	FTSE Emerging
PetroChina (A)	0.0067%	0.0658%	0.0075%	0.0723%
Saudi Aramco*	0.0570%	0.5608%	0.0638%	0.6163%

Table 4: Data as of 30 September 2019 – reflecting the inclusion of Tranche 4 for Saudi Arabia and Tranche 2 for China A Shares

*Based on a hypothetical free float of 2%, which would be equivalent to an investable market cap of USD 30bn if a full market capitalisation of USD 1.5tr is assumed.



Ongoing maintenance of free floats of 5% or below

Future changes to free floats of 5% or below at the quarterly reviews in March, September and December would be updated if the free float changed by +/- 0.25%. In conjunction with the existing rules, changes to free floats of greater than 5% but of 15% or less will continue to be updated if the free float changes by 1%. Changes to free floats greater than 15% will continue to be updated if the free float changes by 3%. Please note that free float and shares in issue buffers are removed at the June review.

Consultation questions

1. Do you agree that Rule 6.2A of the FTSE Global Equity Index Series Ground Rules should be amended to allow the inclusion of securities with free floats of 5% or below provided they pass a higher investable market capitalisation threshold?

Yes

No

2. If you answered “yes” to Question 1, do you agree that the investable market capitalisation threshold for securities with floats of 5% or below should be set to ten times the standard investable market capitalisation inclusion threshold as illustrated in Table 2?

Yes

No, it should be set to some other multiple (please say which)

No, they should continue to be excluded

3. If you answered “yes” to Question 1, do you agree with the proposed buffer of +/- 0.25% for changes in free float for securities with a free float of 5% or below?

Yes

No, it should be set to some other multiple (please say which)

No, it should be set to some change in the USD investable market capitalization value (for example USD 1bn)

No, there should be no buffer

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