

GROUND RULES FOR THE MANAGEMENT OF THE

FTSE ASEA PAN AFRICA INDEX SERIES



AFRICAN SECURITIES EXCHANGES ASSOCIATION

FTSE

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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE ASEA Pan Africa Index Series. Copies of the Ground Rules are available from FTSE (see Appendix A).
- 1.2 The FTSE ASEA Pan Africa Index Series is designed as a regional index representing the Stock Exchanges that make up the African Securities Exchanges Association (ASEA). The index will follow FTSE standard rules.
- 1.3 The FTSE ASEA Pan Africa Index Series is made up of following indices:

1.3.1 **FTSE ASEA Pan Africa Index ex South Africa**

The FTSE ASEA Pan Africa Index ex South Africa will consist of companies in an ASEA country excluding South Africa that pass the eligibility criteria and will have a maximum country weight of 20%. The maximum number of constituents eligible for inclusion per country in the index is 30.

- 1.4 The FTSE ASEA Pan Africa Index Series is calculated in US dollars.
- 1.5 Price Return and Total Return Indices are published at the end of each working day. The Total Return Indices are based on ex dividend adjustments.

SECTION 2

2.0 MANAGEMENT RESPONSIBILITIES

2.1 FTSE

- 2.1.1 FTSE is responsible for undertaking the review of the FTSE ASEA Pan Africa Index Series and for approving changes of constituents.
- 2.1.2 FTSE is responsible for the operation of the FTSE ASEA Pan Africa Index Series. FTSE will maintain records of the market capitalisation of all constituents and will make changes to the constituents and their weightings in accordance with the Ground Rules. FTSE will carry out the semi-annual review of the FTSE ASEA Pan Africa Index Series and implement the resulting constituent changes as required by the Ground Rules.
- 2.1.3 Changes to constituent weightings are made by FTSE in accordance with the Ground Rules. FTSE is responsible for publicising changes to constituent weightings.

SECTION 3

3.0 ELIGIBLE SECURITIES

3.1 Companies are eligible for inclusion in the FTSE ASEA Pan Africa Index Series if they are incorporated and listed in an ASEA country as defined in Rule 3.2. Multiple lines are aggregated and the full market capitalisation of the company is used for the purpose of defining the eligible universe.

3.2 The FTSE ASEA Pan Africa Index Series covers the following markets:

Botswana	Libya	Tanzania
Cameroon	Mauritius	Tunisia
Cape Verde	Morocco	Uganda
Egypt	Mozambique	Zambia
Ghana	Nigeria	Zimbabwe
Ivory Coast	Rwanda	
Kenya	Sudan	

FTSE and ASEA may agree to add or remove countries to the FTSE ASEA Pan Africa Index Series where a country is a member of ASEA.

3.3 The shares, free float weightings and treatment of secondary lines of stock of constituents will be provided by FTSE. Where two or more lines of a company are maintained separately within these indices, they will be treated as individual securities for the purpose of these rules.

3.4 Where a company's shares are issued partly, or nil, paid and the call dates are already determined and known, the market price will, for the purposes of calculating its market capitalisation, be adjusted so as to include all such calls (i.e. the fully paid price).

3.5 Convertible preference shares and loan stocks are excluded until converted.

3.6 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) which are assumed by the Industry Classification Benchmark as Subsector equity investment instruments (8985) and Non-equity investment instruments which are assumed by the Industry Classification Benchmark as Subsector non-equity investment instruments (8995) will not be eligible for inclusion. For further details on the Industry Classification Benchmark (ICB), please visit the FTSE website.

SECTION 4

4.0 INDEX QUALIFICATION CRITERIA

4.1 The entire quoted equity capital of a constituent company is included in the calculation of its market capitalisation, subject to the following free float restrictions:

4.1.1 Free float restrictions include:

- Shares directly owned by State, Regional, Municipal and Local governments (excluding shares held by independently managed pension schemes for governments).
- Shares held by Sovereign Wealth Funds where each holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%.
- Shares held by directors, senior executives and managers of the company, and by their family and direct relations, and by companies with which they are affiliated.
- Shares held within employee share plans.
- Shares held by public companies or by non-listed subsidiaries of public companies.
- Shares held by founders, promoters, former directors, founding venture capital and private equity firms, private companies and individuals (including employees) where the holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%.
- All shares where the holder is subject to a lock-in clause (for the duration of that clause).
- Shares held for publicly announced strategic reasons, including shares held by several holders acting in concert.
- Shares that are subject to on-going contractual agreements (such as swaps) where they would ordinarily be treated as restricted.

4.1.2 For clarity, holdings not considered as restricted free float include:

- Portfolio holdings (such as pension and insurance funds) *
- Nominee holdings (unless they represent restricted free float as defined by Rule 4.1.1)
- Holdings by investment companies *
- ETFs

* Where any single portfolio holding is 30% or greater it will be regarded as strategic and therefore restricted. The shares will remain restricted until the holding falls below 27%.

If in addition to the above restricted holdings, the company's shareholders are subject to legal restrictions, including foreign ownership restrictions, that are more restrictive, the legal restriction will be applied.

4.1.3 Free float restrictions are calculated using available published information. The initial weighting of a constituent in the index will be applied in the following bands.

a) free float less than or equal to 15%	=	ineligible
b) free float greater than 15% but less than or equal to 20%	=	20%
c) free float greater than 20% but less than or equal to 30%	=	30%
d) free float greater than 30% but less than or equal to 40%	=	40%
e) free float greater than 40% but less than or equal to 50%	=	50%
f) free float greater than 50% but less than or equal to 75%	=	75%
g) free float greater than 75%	=	100%

Please note: where public information is unavailable, a company's free float will initially be assigned to 100%. Once free float information becomes available, any resulting change will be updated at the next quarter as stated in Rule 7.1.

SECTION 4

- 4.1.4 A constituent's free float will also be reviewed and adjusted if necessary upon identification of information which necessitates a change in free float weighting (refer to FTSE Global Guide to Calculation Methods for further information) or following a corporate event. If the corporate event includes a corporate action which affects each index, any change in free float will be implemented at the same time as the corporate action. If there is no corporate action, the change in free float will be applied as soon as practicable after the corporate event, subject to Rule 4.1.5.
- 4.1.5 Following the application of an initial free float restriction, a constituent's free float will only be changed if its actual free float moves to more than 5 percentage points above the minimum or 5 percentage points below the maximum of an adjacent band. This 5 percentage points threshold does not apply if the change is greater than one band; therefore a movement of 10 percentage points for the bands between 20% and 50% and 25 percentage points for the bands between 50% and 100% will not be subject to the 5 percentage point threshold. The 15% limit in Rule 4.1.3 will also not be subject to the 5 percentage point threshold.
- 4.1.6 Foreign ownership limits, if any, will be applied after calculating the actual free float restriction, but before applying the bands detailed in Rule 4.1.3. If the foreign ownership limit is more restrictive than the free float restriction, the precise foreign ownership limit is applied. If the foreign ownership limit is less restrictive or equal to the free float restriction, the free float restriction is applied, subject to the bands in Rule 4.1.3.

4.2 Multiple Lines

- 4.2.1 Where there are multiple lines of equity capital in a company, all are included and priced separately, provided that:
- The secondary line's full market capitalisation (i.e. before the application of any investability weightings) is greater than 25% of the full market capitalisation of the company's principal line and the secondary line is eligible in its own right in all respects under Section 5. Should the full market capitalisation of a secondary line that is already a constituent of the FTSE ASEA Pan Africa Index Series fall below 20% of the full market capitalisation of the company's principal line at the semi-annual review, the secondary line will be deleted from the FTSE ASEA Pan Africa Index Series.
 - All partly-paid classes of equity are priced on a fully-paid basis if the calls are fixed and are payable at known future dates. Those where future calls are uncertain in either respect are priced on a partly-paid basis.
- 4.3 Securities must be sufficiently liquid to be traded. The following criteria are used to ensure that illiquid securities are excluded:
- a) Price - FTSE must be satisfied that an accurate and reliable price exists for the purposes of determining the market value of a company. FTSE may exclude a security from the FTSE ASEA Pan Africa Index Series if it considers that an 'accurate and reliable' price is not available. The FTSE ASEA Pan Africa Index Series uses the last trade prices from the relevant stock exchanges, when available.
 - b) Size - A non-constituent or an existing constituent will need to have a full market capitalisation greater than or equal to the median full market capitalisation of all the eligible companies in the country exchange to be eligible for inclusion in the FTSE ASEA Pan Africa Index Series. FTSE and ASEA are not obliged to include securities in the FTSE ASEA Pan Africa Index Series where a reliable and consistent pricing source is not available.

SECTION 4

- c) Liquidity - Securities must be sufficiently liquid to be traded. A non-constituent or an existing constituent will need to have a 6 month daily average value traded greater than or equal to the median 6 month daily average value traded of all the eligible companies in the country exchange to be eligible for inclusion in the FTSE ASEA Pan Africa Index Series. Securities that have no trading volume over the 6 months will not be included in the liquidity screening and therefore not eligible for the FTSE ASEA Pan Africa Index Series. FTSE and ASEA are not obliged to include securities in the FTSE ASEA Pan Africa Index Series where a reliable and consistent pricing source is not available.
- d) New issues which do not have a 6 month trading record must have a minimum three month trading record when reviewed. They must have a daily average value traded greater than the median daily average value traded of all the eligible companies in the country exchange to be eligible for inclusion in the FTSE ASEA Pan Africa Index Series.

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS

5.1 Review Dates

- 5.1.1 The FTSE ASEA Pan Africa Index Series will be reviewed on a semi-annual basis in June and December using market data at the close of the last trading day in April and October respectively.
- 5.1.2 Changes to the index will be implemented after close of business on the third Friday in June and December respectively.

5.2 Rules for Insertion and Deletion at the Semi-Annual Review

- 5.2.1 The underlying universe for the FTSE ASEA Pan Africa Index Series is the stocks that are incorporated in and have a listing in an ASEA country.
- 5.2.2 Screen all the stocks for free float, multiple line and liquidity criteria. Please see Rules 4.1 to 4.3.
- 5.2.3 The number of companies that can be eligible for inclusion in each country is 30 companies. Companies will be ranked by full market capitalisation (before the application of any investability weighting) for countries that breach the 30 company limit. The largest 30 eligible companies will be included in the FTSE ASEA Pan Africa Index Series. If there are less than 30 companies in a country, then all eligible constituents will be included in the FTSE ASEA Pan Africa Index Series.
- 5.2.4 Whilst selecting a stock within a country that already has 30 constituents, buffers will be in place. For entry, constituents need to be ranked 27th and above within a country to be included in the FTSE ASEA Pan Africa Index Series. For exit, constituents need to be ranked below 33rd within a country to be removed from the FTSE ASEA Pan Africa Index Series.

5.3 Responsibilities and Reporting

- 5.3.1 FTSE is responsible for conducting the semi-annual review of constituents and will publish any constituents to be inserted or deleted as part of the review as soon as possible after the review is held. All eligible securities will be ranked by their current full market capitalisations (i.e. before the application of any investability weightings).

5.4 Capping

- 5.4.1 The FTSE ASEA Pan Africa Index Series will be capped. FTSE will be responsible for capping the countries to 20% at the time of the semi-annual review using prices at the close of the second Friday of June and December. The capping will be implemented at the time of the semi-annual review on the next trading day following the third Friday of June and December. Each constituent in the capped country will be treated equally therefore they will receive the same capping factor.

SECTION 6

6.0 CHANGES TO CONSTITUENT COMPANIES

6.1 New Issues

- 6.1.1 New issues will not be eligible for inclusion intra-review. Any new issues will only be considered for inclusion in the FTSE ASEA Pan Africa Index Series at the time of the next semi-annual review.

6.2 Removals

- 6.2.1 If a constituent is delisted, or ceases to have a firm quotation, or is subject to a takeover or has, in the opinion of FTSE, ceased to be a viable constituent as defined by the Ground Rules, it will be removed from the list of constituents.
- 6.2.2 The removals are effected simultaneously, before the start of the index calculation on the day following the day on which the event justifying removal was announced. Announcements after the close of the index calculation are normally deemed to be made on the following business day. In the case of a takeover, constituents will be deleted from the index when confirmation is received that acceptance levels have reached a minimum of 85% and that any new shares of the bidding company (if applicable) are listed.
- 6.2.3 Constituents removed but which continue to trade thereafter will be considered for re-inclusion in the index at the next review, subject to Section 4 and that at least 6 months has passed between deletion and the implementation date of the changes arising from the review.

6.3 Mergers, Restructuring and Complex Takeovers

- 6.3.1 If the effect of a merger or takeover is that one constituent is absorbed by another constituent in the FTSE ASEA Pan Africa Index Series, the resulting company will remain a constituent of the relevant Index.
- 6.3.2 If a constituent company is taken over by a non-constituent company, the original constituent will be removed from the relevant Index. Any eligible company resulting from the takeover will be considered for eligibility in the next semi-annual review.
- 6.3.3 If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents in the FTSE ASEA Pan Africa Index Series based on their respective full market capitalisation(s) i.e., before the application of any investability weighting and if they qualify in all other respects.

6.4 Suspension of Dealing

- 6.4.1 If a constituent is suspended it may remain in the Index, at the price at which it is suspended, for up to 20 business days. During this time FTSE may delete the constituent immediately at zero value in cases where it is expected that the constituent will not recommence trading.
- 6.4.2 Where a suspension of a constituent lasts beyond the twentieth business day (and the option to remove the constituent has not been exercised), the constituent will normally be deleted from the Index on the twenty-first trading day at zero value. Where suspension is for a reason not to the detriment of the constituent and its suspension is expected to be short-term, it may be retained at its suspension price.

SECTION 6

6.5 **Relisting of Suspended Constituents**

- 6.5.1 Securities which on relisting after a period of suspension of less than 3 months are larger than the smallest constituent of the index will be reinstated at the price at which they were removed. The reinstatement will happen after the stock is relisted following a notice period.
- 6.5.4 If a company relists after a continuous period of suspension lasting more than 3 months, the company will be treated as a new issue for the purposes of index eligibility.

SECTION 7

7.0 CHANGES TO CONSTITUENT WEIGHTINGS

- 7.1 For the purposes of computing the FTSE ASEA Pan Africa Index Series, the number of shares in issue for each constituent security is expressed to the nearest share and, to prevent a large number of insignificant weighting changes, the number of shares in issue for each constituent security is amended only when the total shares in issue held within the index system changes by more than 1% on a cumulative basis. Changes will be made quarterly after the close of business on the third Friday of March, June, September and December (subject to Rules 7.2 and 7.3).
- 7.2 If a corporate action is applied to an index constituent which involves a change in the number of shares in issue, the change in shares will be applied simultaneously with the corporate action.
- 7.3 If accumulated changes in the number of shares in issue add up to 10% or more, or when an accumulated share change represents USD 2bn of a company's total market capitalisation, they are implemented between quarters. A minimum of 4 days notice will be given to users of the index. WM/Reuters Spot Rates will be used to convert the market capitalisation into USD. The USD 2bn threshold may be adjusted annually in December by FTSE. If an adjustment is made, it will be applied for the first time at the next review in March of the following year.
- 7.4 All adjustments are made before the start of the index calculation on the day concerned, unless market conditions prevent this.

SECTION 8

8.0 INDUSTRY CLASSIFICATION BENCHMARK (ICB) SYSTEM

8.1 Classification of Constituents

- 8.1.1 The classification of a constituent may change from time to time. The reassessment of the classification to which a constituent belongs will be made by the Industry Classification Benchmark (ICB) Committee and reported to FTSE for implementation.

8.2 Changes to Industry Classification of Constituents

- 8.2.1 Where a constituent is the subject of a merger, restructuring, or complex takeover which results in a constituent, or part of a constituent, being absorbed by another, the industry sector classification of the resulting constituent(s) will be determined by the Industry Classification Benchmark (ICB) Committee.
- 8.2.2 Any adjustment resulting from a change in a company's classification will be implemented at the same time that any relevant constituent changes are implemented in the Indices.
- 8.2.3 Periodic changes to the industry classification of a company will be agreed by the Industry Classification Benchmark (ICB) Committee. Such changes will be implemented after the close of the Indices calculation on the third Friday each quarter.

SECTION 9

9.0 INDICES ALGORITHM AND CALCULATION METHOD

9.1 Prices

- 9.1.1 The FTSE ASEA Pan Africa Index Series uses actual trade prices for securities with local stock exchange quotations. WM/Reuters Spot Rates are used in the Indices calculation.
- 9.1.2 The FTSE ASEA Pan Africa Index Series receives share prices and currency spot rates at the end of day.

9.2 Calculation Frequency

- 9.2.1 The FTSE ASEA Pan Africa Index Series is published at the end of day using last trade prices.

9.3 Algorithm

- 9.3.1 The FTSE ASEA Pan Africa Index Series is calculated using the algorithm described below.

$$\sum_{i=1}^N \frac{(p_i \times e_i \times s_i \times f_i \times c_i)}{d}$$

Where,

- $i = 1, 2, \dots, N$
- N is the number of securities in the Index.
- p_i is the latest trade price of the component security (or the price at the close of the Index on the previous day).
- e_i is the exchange rate required to convert the security's currency into the Index's base currency.
- s_i is the number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
- f_i is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE for each security in the underlying index.
- c_i is the Capping Factor to be applied to a security to correctly weight that security in the index. This factor maps the investable market capitalisation of each stock to a notional market capitalisation for inclusion in the Index. This factor is published by FTSE for each security in the Index.
- d is the divisor, a figure that represents the total issued share Capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share Capital of individual securities to be made without distorting the Index.

APPENDIX A

FURTHER INFORMATION

Further information on the FTSE ASEA Pan Africa Index Series are available from the FTSE website, who also welcomes comments on these Ground Rules and on the Indices.

FTSE website: www.ftse.com

For further information on African Securities Exchanges Association, please refer to the website www.africansea.org.

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