

GROUND RULES FOR THE MANAGEMENT OF THE FTSE4Good IBEX INDEX



FTSE4Good



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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE4Good IBEX Index. Much of the governance and methodology is drawn from the FTSE4Good Index Series and as such this methodology is to be read in conjunction with the FTSE4Good Index Series Ground Rules which are available at www.ftse.com.
- 1.2 The index has been designed to identify Spanish companies with leading corporate responsibility practices.
- 1.3 The FTSE4Good IBEX Index is calculated in Euro on a real time basis.
- 1.4 Capital and Total Return Indices are available on an end of day basis in Euro.
- 1.5 The base value for the Capital and Total Return indices is 5000 as at 31 December 2002.

SECTION 2

2.0 INDEX MANAGEMENT

- 2.1 Bolsas y Mercados Españoles (BME) is responsible for the calculation and dissemination of the FTSE4Good IBEX Index.
- 2.2 FTSE International Limited (FTSE) carry out an audit function on the FTSE4Good IBEX Index. This includes ensuring the correct calculation of the Index and the correct implementation of corporate events and actions according to the Ground Rules.
- 2.3 Index governance is overseen by the FTSE4Good Policy Committee, made up of leading global responsible investment market practitioners and experts in the principles and criteria used for determining the social responsibility of corporate entities.
- 2.4 The Committee is responsible for the management of the FTSE4Good selection criteria and may also approve changes to the index rules.
- 2.5 The corporate responsibility data used to assess the constituents is provided by the Ethical Investment Research Service (EIRIS) and its network of international partners, which includes Fundacion Ecologia y Desarrollo (Ecodes) in Spain.

SECTION 3

3.0 ELIGIBLE COMPANIES

- 3.1 The FTSE4Good IBEX Index is based on the constituents of the FTSE Spain All Cap Index and the constituents of BME's IBEX 35 Index.
- 3.2 Companies whose business is only that of holding equity and other investments (e.g. investment trusts) will be excluded. Exchange Traded Funds and companies whose share price is a direct derivation of the values of the underlying holdings (e.g. mutual funds) are also excluded.
- 3.2 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:
- 3.3 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 that they control.
 - 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.
- 3.4 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 3.3)
 - Holdings by investment companies
 - ETFs
- 3.5 Free float restrictions will be 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 5% | = | ineligible |
| b) free float greater than 5% but less than or equal to 15% | = | next whole percentage |
| c) free float greater than 15% but less than or equal to 20% | = | 20% |
| d) free float greater than 20% but less than or equal to 30% | = | 30% |
| e) free float greater than 30% but less than or equal to 40% | = | 40% |
| f) free float greater than 40% but less than or equal to 50% | = | 50% |
| g) free float greater than 50% but less than or equal to 75% | = | 75% |
| h) free float greater than 75% | = | 100% |
- 3.6 For more information regarding eligibility please refer to the FTSE4Good Index Series and FTSE Global Equity Index Series Ground Rules.

SECTION 4

4.0 INDEX QUALIFICATION CRITERIA

- 4.1 Constituents of the FTSE Spain All Cap Index or the IBEX 35 Index that pass the corporate responsibility requirements detailed in the FTSE4Good IBEX Index Inclusion Criteria document qualify as constituent members of the index.
- 4.2 Small capitalisation constituents (small caps) will be assessed against an adjusted set of the FTSE4Good Inclusion Criteria. This is because small cap constituents have not been exposed to the FTSE4Good Inclusion Criteria before and corporate responsibility is being developed amongst small capitalisation companies in Spain. Eligible companies that are not large or mid-cap in the FTSE Spain All Cap Index, and are not included in the IBEX 35, will be considered small cap constituents for the application of the FTSE4Good IBEX Index Inclusion Criteria.
- 4.3 Small cap companies need to meet adjusted Environmental criteria for entry, but over time these companies will need to meet the criteria in full. The timetables for implementing the full Environmental criteria with small cap companies may be found in the FTSE4Good IBEX Index Inclusion Criteria document.
- 4.4 As new criteria are introduced to the FTSE4Good Index Series, these will be phased in to the FTSE4Good IBEX Index.

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS

5.1 Review Process

- 5.1.1 The FTSE4Good Index Series is reviewed semi-annually in March and September, using market data as at the close of the last trading day in February and August respectively. A company's performance against the FTSE4Good IBEX selection criteria will be measured using data supplied to the FTSE4Good data supplier up to and including the Friday closest to the 15th in January and July respectively.
- 5.1.2 The semi-annual review and capping will be implemented after the close of business on the third Friday in March and September, in-line with the FTSE4Good Index Series.
- 5.1.3 Details of the outcome of the semi-annual review will be announced as soon as possible after the semi-annual FTSE4Good Policy Committee meeting has concluded.
- 5.1.4 Capping will be implemented semi-annually after the close of business on the third Friday in March and September.

5.2 Capping Dates

- 5.2.1 The constituents of the FTSE4Good IBEX Index are capped using prices adjusted for corporate actions as at the close of business on the second Friday in March, June, September and December. The capping is implemented after close of business on the third Friday in March, June, September and December based on the constituents, shares in issue and free float on the next trading day following the third Friday of the capping month.
- 5.2.2 See Appendix A for more details on the capping methodology.

SECTION 6

6.0 CHANGES TO CONSTITUENT COMPANIES

6.1 Intra-review Additions and Deletions

- 6.1.1 When a constituent is added to the underlying universe (Section 3), it will only be considered for inclusion at the next semi-annual review. For more information regarding new issues intra-review please refer to Rule 6.2 of the FTSE4Good Index Series Ground Rules.
- 6.1.2 If a constituent of the FTSE4Good IBEX Index ceases to be a constituent of the FTSE4Good Index Series it will be removed from the FTSE4Good IBEX Index.
- 6.1.3 If an eligible constituent is removed from the IBEX 35 and does not re-enter for a period of two years, the adjusted FTSE4Good IBEX Inclusion Criteria will be applied, as long as the constituent remains in the FTSE Spain All-Cap Index.

6.2 Mergers and Take-overs

- 6.2.1 If a constituent is acquired by a non-constituent, the company will be removed from the FTSE4Good IBEX Index.
- 6.2.2 Where two index constituents merge, or one index constituent is acquired by another constituent, the resulting new company will be eligible for inclusion in the FTSE4Good IBEX Index.
- 6.2.3 In the case of a constituent taken over by a non-constituent, the resultant entity will not be eligible for inclusion in the FTSE4Good IBEX Index, unless it was a member of the eligible universe at the last period review. The eligibility of the resultant entity will be assessed in full at the next semi-annual review.

6.3 Spin-off

- 6.3.1 If an index constituent has a complex reorganisation or demerger, the newly spun-off company will remain eligible for inclusion into the index as long as it remains a constituent in the FTSE4Good Index Series. The eligibility of the resulting companies will be assessed in full at the next semi-annual review.

6.4 Suspension of Dealing

- 6.4.1 If a constituent is the subject of a suspension, it may remain in the index at the price at which it is halted for up to 10 business days. During this time, FTSE may agree to delete the constituent immediately either at its trading halt price or at zero.
- 6.4.2 Where a suspension of a constituent lasts beyond noon on the tenth business day (and the option to remove the constituent has not been exercised), the constituent will normally be deleted from the index on the eleventh trading day at zero or the trading halt price. Where the trading halt is for a reason not to the detriment of the constituent, FTSE may decide, following advice from the relevant Regional Index Advisory Committee, to retain or remove the stock at its trading halt price.
- 6.4.3 A company whose trading halt is lifted after it has been removed from an index will be reviewed for index eligibility at the next semi-annual review.

SECTION 6

6.5 Changes to Constituent Weights

- 6.5.1 For the purposes of computing the FTSE4Good IBEX Index, 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.
- 6.5.2 Adjustments to reflect a change in the amount or structure of a constituent company's issued capital must be made before the start of the Index calculation on the day on which the change takes effect (e.g. the Ex Date for a rights or capitalisation issue). Announcements after close of the Index calculation are normally deemed to be made on the following business day.
- 6.5.3 All adjustments are made before the start of the index calculation on the day concerned unless market conditions prevent this occurring. If this is the case, the adjustment will be made at the earliest practical opportunity.

APPENDIX A

APPLICATION OF CAPPING AT THE SEMI-ANNUAL REVIEWS

Capping is applied quarterly to the constituents of the FTSE4Good IBEX Index, if required, by the following methodology:-

The constituents in the appropriate sector index are ranked by investible market capitalisation and the weight for each constituent in the Index is determined.

STAGE 1

Any constituents whose weights are greater than 10% are capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.

STAGE 2

Following the application of Stage 1, if the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, the procedure moves onto Stage 3 below. Otherwise no further action is required.

STAGE 3

- a) If more than one stock is capped at 10%, then weights of all subsequent constituents previously capped at 10% are changed in accordance with the rules detailed below. For example, if the second largest stock is capped at 10% its weight will be reduced to 9% as given in 1) below. The process is then continued from the relevant point in the steps below. Thus, if it is necessary to apply the provisions of Stage 3, only one constituent will have a 10% weight in the index.
- b) If the weight of the second largest constituent is greater than 9% the constituent's weight is capped at 9% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- c) If the weight of the third largest constituent is greater than 8% the constituent's weight is capped at 8% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- d) If the weight of the fourth largest constituent is greater than 7% the constituent's weight is capped at 7% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.

APPENDIX A

- e) If the weight of the fifth largest constituent is greater than 6% the constituent's weight is capped at 6% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- f) If the weights of the sixth largest constituent and any lower ranking constituents are greater than 4% those constituents' weights are capped at 4% and the weights of lower ranking constituents are increased correspondingly.

STAGE 4

Following the application of Stage 3, the weights of each constituent are checked. If the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, then further capping is required. Firstly if the largest constituents' weight has risen above 10% the weight is again capped at 10% and the weights of other constituents are adjusted accordingly. Then Stage 3 is repeated.

APPENDIX B

FURTHER INFORMATION

Further information on the FTSE4Good IBEX Index is available from FTSE or on the website www.ftse.com. FTSE will also welcome any comments on the Ground Rules.

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