

**GROUND RULES FOR THE  
MANAGEMENT OF THE  
FTSE CSAG TERROR-FREE  
INDEX SERIES**



**FTSE**

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## SECTION 1

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### 1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE CSAG Terror-Free Index Series calculated in association with Conflict Securities Advisory Group Inc (CSAG). Copies of the Ground Rules are available from FTSE on [www.ftse.com](http://www.ftse.com).
- 1.2 The FTSE CSAG Terror-Free Index Series is designed to provide a family of "Terror-Free" investing indices suitable for the creation of financial products, such as index funds, warrants, certificates and Exchange Traded Funds.
- 1.2.1 "Terror-Free" investing describes an investment philosophy and investment policy that excludes from portfolio holdings companies that maintain certain business ties to the countries specified in Appendix A. Many investors regard these companies as exposed to global security risk that exposes their share values and corporate reputations to negative pressures that, in some cases, are asymmetric to the underlying financials of the business transactions in or with these countries. Other investors regard the business ties of companies in or with the countries specified in Appendix A as counter to their personal or institutional values and seek to align these values with their investments by excluding such companies from portfolio.
- 1.2.2 The CSAG screening process for the FTSE CSAG Terror-Free Index Series is specifically designed to exclude those companies that have been determined by CSAG to have active or current, non-humanitarian business ties to the countries specified in Appendix A. This screening definition covers many exclusion policies being adopted by institutional investors, including those focused only on companies with equity ties to these countries as well as those focused only on subsets of companies with specific ties only to one or multiple of the countries listed specified in Appendix A.
- 1.3 This methodology should be read in conjunction with the FTSE Global Equity Index Series Ground Rules. These rules are available on [www.ftse.com](http://www.ftse.com).
- 1.4 The FTSE CSAG Terror-Free Index Series is designed to represent the performance of the largest and most liquid Large and Mid Capitalisation companies on the FTSE Global Equity Index Series after implementing the CSAG Terror-Free screening process.
- 1.5 The FTSE CSAG Terror-Free Index Series will weight its constituents by its adjusted market capitalisation, i.e. after the implementation of the investability weight.
- 1.6 The FTSE CSAG Terror-Free Index Series values are calculated in real-time in US Dollars. End of day index values are available in US Dollars, Euros, UK Pounds Sterling and Japanese Yen.
- 1.7 The FTSE CSAG Terror-Free Index Series will comprise of the following indices:
- 1.7.1 **FTSE CSAG Terror-Free All-World ex-US Index**
- The FTSE CSAG Terror-Free All-World ex-US Index will consist of all the non-US Large and Mid Capitalisation companies on the FTSE Global Equity Index Series after implementing the Terror-Free screening provided by CSAG.
- 1.7.2 **FTSE CSAG Terror-Free Developed ex-US Index**
- The FTSE CSAG Terror-Free Developed ex-US Index will consist of all the non-US Large and Mid Capitalisation companies from Developed countries on the FTSE Global Equity Index Series after implementing the Terror-Free screening provided by CSAG.

## SECTION 1

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### 1.7.3 FTSE CSAG Terror-Free Emerging Index

The FTSE CSAG Terror-Free Emerging Index will consist of all the Large and Mid Capitalisation companies from Emerging countries on the FTSE Global Equity Index Series after implementing the Terror-Free screening provided by CSAG.

For the list of all the countries covered in the FTSE Global Equity Index Series Developed and Emerging Indices, please refer to the FTSE Global Equity Index Series Ground Rules on [www.ftse.com](http://www.ftse.com).

- 1.8 Capital and Total Return Indices are available. Total Return Indices are published at the end of each working day.

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## SECTION 2

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### 2.0 STATUS OF INDICES

2.1 The FTSE CSAG Terror-Free Index Series are calculated in real-time and may exist in the following states:

a) Firm

The index is being calculated using trade prices from the relevant local stock exchanges for all constituents during the hours of the Official Index Period.

The Official Closing Index for the real time indices is the last index value calculated at the end of the firm period.

b) Closed

When the index has ceased all calculations for the day, the message 'CLOSED' is displayed against the index value.

c) Held

During the firm period, the index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message 'HELD' is displayed against the last index value calculated.

d) Indicative

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the index is being calculated, the index will be declared indicative. The message 'IND' will be displayed against the index value.

e) Part

If the index is being calculated during the normal Official Index Period hours, but there are less than 75% of the constituents by capitalisation available with firm prices, then the index will be displayed with the message 'PART' to indicate that only a proportion of the securities prices are included. With the exception of the message 'PART', the index will continue to be calculated and displayed as if it were firm.

2.2 The official opening and closing hours of the FTSE CSAG Terror-Free Index Series are set out in Appendix B. Variations to the official hours of the indices will be published by FTSE.

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## SECTION 3

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### 3.0 INDEX MANAGEMENT

#### 3.1 FTSE International Limited (FTSE)

- 3.1.1 FTSE is responsible for undertaking the review of the FTSE CSAG Terror-Free Index Series and for approving changes of constituents.
- 3.1.2 FTSE is responsible for the operation of the FTSE CSAG Terror-Free Index Series. FTSE will maintain records of the market capitalisation of all constituents and reserve companies, and will make changes to the constituents and their weightings in accordance with the Ground Rules. FTSE will carry out the reviews of the FTSE CSAG Terror-Free Index Series and implement the resulting constituent changes as required by the Ground Rules.
- 3.1.3 Changes to constituent weightings are made by FTSE in accordance with the Ground Rules. FTSE is responsible for publicising changes to constituent weightings.
- 3.1.4 FTSE is also responsible for monitoring the performance of the FTSE CSAG Terror-Free Index Series throughout the day and will determine whether the status of the index should be 'firm', 'indicative', 'held' or 'part'.

#### 3.2 Re-calculations

- 3.2.1 The FTSE CSAG Terror-Free Index Series is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE CSAG Terror-Free Index Series are notified through appropriate media.

#### 3.3 Status of these Ground Rules

- 3.3.1 These Ground Rules are a guide to the policies and procedures applying at the date of publication to the operation and maintenance to the FTSE CSAG Terror-Free Index Series. They have been prepared and approved by FTSE and CSAG. However, these policies and procedures, and their precise application, are subject to variation and periodic review.
- 3.3.2 The purpose of publishing this guide is to provide information about the general basis on which decisions relating to the calculation and publication of the FTSE CSAG Terror-Free Index Series are currently made.
- 3.3.3 In light of the intended purpose of this guide, and the likely variation and periodic review of the policies and procedures it contains, no liability whether as a result of negligence or otherwise is accepted by FTSE and CSAG (or any person concerned with the preparation or publication of this guide) for any losses, damages, claims and expenses suffered by any person as a result of:
  - a) any reliance on this guide, and/or
  - b) any errors or inaccuracies in this guide, and/or
  - c) any non-application or misapplication of the policies or procedures described in this guide, and/or
  - d) any errors or inaccuracies in the compilation or any constituent data.

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## SECTION 3

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### 3.4 Conflict Securities Advisory Group (CSAG)

- 3.4.1 CSAG is responsible for determining the compliance of the constituents of the FTSE CSAG Terror-Free Index Series based on interpretation of the exclusion criteria described in the Ground Rules. These determinations are based on CSAG's proprietary research data and internal tracking and categorisation methodologies to identify and sort all corporate activity by publicly traded companies in the countries specified in Appendix A.
- 3.4.2 The criteria for eligibility described in the Ground Rules serve as the final arbiter for exclusion from the FTSE CSAG Terror-Free Index Series and are applied by CSAG staff in an independent and impartial manner.
- 3.4.3 CSAG data underpinning the compliance determinations of its staff is collected in an independent and impartial manner and is subject to a rigorous research process, including the solicitation of direct input on this research from companies identified by CSAG as having ties to the countries specified in Appendix A.
- 3.4.4 Companies may ask for clarification in the application of the Ground Rules regarding their exclusion from the index. Companies are also invited to provide additional information that would change the interpretation of screening criteria. As part of this process, a constituent or prospective constituent company (or advisor acting on behalf of the company) may appeal against the compliance determinations of CSAG on two grounds:
- a) that CSAG acted outside of the Ground Rules for the Management of the FTSE CSAG Terror-Free Index Series, or
  - b) that CSAG, when reaching its decision, failed to take into consideration a substantial and material fact. A substantial and material fact is defined as a fact, which if known, would have influenced the decision of CSAG if it had been considered.
- 3.4.5 Should a company wish to appeal their exclusion from the index, they should communicate directly with CSAG at the contact information provided in Appendix C. If not already available, CSAG will share with the company the underlying data that underpins their current exclusion. In making its appeal on the grounds described in Rules 3.4.4(a) or 3.4.4(b), the company should either provide evidence to support their appeal or provide a written statement establishing that the company does not meet the criteria for exclusion as defined in Section 4. Companies that successfully appeal their exclusion status will be removed from the CSAG screen and considered for inclusion in the index at the implementation of the next quarterly update scheduled to take place after the third Friday of March, June, September and December.

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## SECTION 4

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### 4.0 ELIGIBLE SECURITIES

- 4.1 Large and Mid Capitalisation companies included in the FTSE Global Equity Index Series are eligible for the FTSE CSAG Terror-Free Index Series.
- 4.2 CSAG will ensure that all constituents and potential constituents are screened quarterly to ensure that they do not have corporate ties to the countries specified in Appendix A that would require their exclusion per the below criteria:
- 4.2.1 Any company that maintains active or current ties to the countries specified in Appendix A that are non-humanitarian in nature are considered to be ineligible for the FTSE CSAG Terror-Free Index Series.
- 4.2.2 For a company to be considered to have an active or current tie to a country, it must meet the following criteria:
- a) at any point over the previous three years, the company must have controlled property or assets located in, have had employees, an office or facilities located in, provided goods or services to, obtained goods or services from, provided credits or loans to, invested in or had equity ties to one or more of the countries specified in Appendix A or any company or person in these countries or for the benefit of specific corporate activity in these countries; or
  - b) at any point over the previous three years, the company owned more than a 25 percent stake in another company that meets the criteria described in Rule 4.2.2(a).
- 4.2.3 Notwithstanding Rule 4.2.2, a company is not considered to have an active or current tie if it meets the following criteria:
- a) the company has publicized a policy of not seeking new business in the countries specified in Appendix A and has had no active or current tie to a country at any point over the previous one year.
  - b) the company does not meet the criteria in Rules 4.2.2(a) or 4.2.2(b), but is a subsidiary or affiliate of a company that does.
- 4.2.4 For a company tie to be considered solely humanitarian, it must meet the following criteria:
- a) the company's activities in the country are exclusively pro bono and exclusively involving medical, food-related or strictly relief-oriented products or services; or
  - b) the company's activities in the country must be exclusively in support of diplomatic, humanitarian relief or peace keeping efforts that are administered by an internationally recognized governmental or inter-governmental body for implementing such action; or
  - c) the company's activities are solely with the Government of Southern Sudan; or
  - d) the company's activities are solely journalistic.
- 4.3 The CSAG research that underpins its screening determinations includes thorough coverage of publicly available sources, including a variety of target company materials as well as third party research sources such as industry digests and regional reporting.

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## SECTION 4

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- 4.4 Prior to any company being added to any CSAG screen resulting from identified ties to one or more of the countries specified in Appendix A, CSAG research is provided to such company for transparency and research quality control and to ensure accuracy and completeness of data.
- 4.5 CSAG determinations are based on existing CSAG coverage of corporate activity in or with the countries specified in Appendix A as well as custom research of each constituent of the FTSE Global Equity Index Series to ensure quality of research.
- 4.6 The shares, investability weightings and treatment of secondary lines of stock of constituents are the same as in the FTSE Global Equity Index Series.
- 4.7 Ground Rules for the FTSE Global Equity Index Series are available from FTSE. For an explanation of the eligibility criteria for the FTSE Global Equity Index Series, see [www.ftse.com](http://www.ftse.com).
- 4.8 Companies will be included in the appropriate indices if they are:
  - a) current Large and Mid cap constituents of the FTSE Global Equity Index Series and,
  - b) they are also considered to be Terror-Free compliant as defined in Rule 4.2.

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## SECTION 5

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### 5.0 PERIODIC REVIEW OF CONSTITUENTS

- 5.1 The FTSE CSAG Terror-Free Index Series will be reviewed in accordance with the Global Equity Index Series Ground Rules.
- 5.2 The FTSE Global Equity Index Series annual reviews are distributed quarterly by regions. Therefore, there is one annual review for each region:
- March - Asia Pacific ex Japan
  - June - Latin America, Emerging Europe, Middle East and Africa
  - September - Japan and Developed Europe
  - December - North Americas
- 5.3 FTSE CSAG Terror-Free Index Series Terror-Free screening will be reassessed quarterly in March, June, September and December in line with the quarterly screening from CSAG. The Terror-Free screening process (please see Section 4) includes the quarterly updating of CSAG screens, taking into account newly available information on companies across all regions, and taking into account new companies entering the FTSE Global Equity Index Series at the periodic review by using data at the last working day of February, May, August and November. The quarterly updated screen is implemented after the close of business after the third Friday of March, June, September and December.
- 5.4 A constant number of constituents will not be maintained for the FTSE CSAG Terror-Free Index Series.

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## SECTION 6

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### 6.0 CHANGES TO CONSTITUENT COMPANIES

#### 6.1 Additions

- 6.1.1 If a Large and Mid Capitalisation constituent is added to the FTSE Global Equity Index Series, it will become eligible for inclusion in the FTSE CSAG Terror-Free Index Series subject to satisfying Rule 4.2.

#### 6.2 Removal

- 6.2.1 If a Large and Mid Capitalisation constituent is removed from the FTSE Global Equity Index Series, it will be removed from the FTSE CSAG Terror-Free Index Series. The removal will be concurrent with its removal from the FTSE Global Equity Index Series.
- 6.2.2 If a constituent of the FTSE CSAG Terror-Free Index Series ceases to meet the eligibility criteria detailed in Rule 4.2, it will be removed from the FTSE CSAG Terror-Free Index Series at the next quarterly Terror-Free screening review.

#### 6.3 Mergers, Restructuring and Complex Takeovers

- 6.3.1 The FTSE CSAG Terror-Free Index Series will treat corporate events such as mergers, restructuring and complex takeovers in line with the FTSE Global Equity Index Series.
- 6.3.2 If a FTSE CSAG Terror-Free constituent has a corporate action which involves a spin-off, the newly spun-off company will be included in the Terror-Free Index Series if it passes the necessary criteria in Rule 4.2.
- 6.3.3 If a FTSE CSAG Terror-Free constituent takes over, or acquires a stake equal to or greater than 25 percent in, a non-constituent that failed to meet the eligibility criteria detailed in Rule 4.2, the takeover company will be removed from the FTSE CSAG Terror-Free Index Series at the next quarterly Terror-Free screening review.

#### 6.4 Suspension of Dealing

- 6.4.1 The FTSE CSAG Terror-Free Index Series will treat suspension of dealing in line with the FTSE Global Equity Index Series.
- 6.4.2 If a constituent is suspended on its home exchange it may remain in the indices, at the price at which it is suspended, for up to 10 business days. During this time FTSE may delete the constituent immediately either at its suspension price, or at zero.
- 6.4.3 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 indices on the eleventh trading day at zero or the suspension price. Where suspension is for a reason not to the detriment of the constituent, it may be retained or removed at its suspension price.

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## SECTION 6

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### 6.5 Relisting of Suspended Constituents

- 6.5.1 The FTSE CSAG Terror-Free Index Series will treat the relisting of suspended constituents in line with the FTSE Global Equity Index Series.
- 6.5.2 Should a deleted constituent that has been suspended at a price other than zero (which would normally be the suspension price) be subsequently delisted and deemed to be of nil value, this stock will be included for one day's calculation in the index from which it was removed to enable the fall in the stock's value to be reflected in the index value. In this situation, the stock will be re-included at the suspension price, and its price will be zero throughout that day's calculation, including the closing price.
- 6.5.3 If a company relists after a continuous period of suspension lasting more than a year, FTSE reserves the right to treat the company as a new issue for the purposes of index eligibility.

### 6.6 Changes to Constituent Weightings

- 6.6.1 For the purposes of computing the FTSE CSAG Terror-Free 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 following the third Friday of March, June, September and December (subject to Rules 6.6.2 and 6.6.3).
- 6.6.2 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.
- 6.6.3 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.
- 6.6.4 All adjustments are made before the start of the index calculation on the day concerned, unless market conditions prevent this.

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## SECTION 7

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### **7.0 CHANGES TO THE CLASSIFICATION OF CONSTITUENT COMPANIES**

#### **7.1 Classification Structure**

7.1.1 The FTSE CSAG Terror-Free Index Series constituents are classified into Industries, Supersectors, Sectors and Subsectors, as defined by the Industry Classification Benchmark (ICB).

7.1.2 Details of the Industry Classification Benchmark are available from FTSE (see Appendix C) and published on the FTSE website ([www.ftse.com](http://www.ftse.com)).

#### **7.2 Classification Changes**

7.2.1 Changes to the ICB classification of a company within the FTSE CSAG Terror-Free Index Series will be advised by ICB and the necessary adjustments will be made to the relevant industry sectors at the same time that the constituent changes are implemented.

7.2.2 Where a constituent is the subject of a merger, restructure or complex takeover which results in a constituent (or part of a constituent) being absorbed by another, the industry classification of the resulting constituent(s) will be reviewed by ICB.

7.2.3 Any adjustment resulting from a change in a company's classification under Rule 7.2.2 will be implemented at the same time that any relevant constituent changes are implemented in the Index.

7.2.4 Periodic changes to the industry classification of a company are agreed and announced by ICB. Such changes will be implemented after the close of the index calculation on the next working day following the third Friday of each month.

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## SECTION 8

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### 8.0 INDICES ALGORITHM AND CALCULATION METHODOLOGY

#### 8.1 Prices

8.1.1 The FTSE CSAG Terror-Free Index Series will use actual last trade prices, where available, for securities.

8.1.2 Reuters real-time exchange rates are used in the real-time index calculations.

#### 8.2 Index Calculation

8.2.1 The FTSE CSAG Terror-Free Index Series calculation formula is as follows:

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

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.
- $d$  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**

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### **COUNTRIES IDENTIFIED FOR TERROR-FREE SCREEN**

The FTSE CSAG Terror Free Index Series excludes companies based on their business ties to the following countries:

1. Iran
2. North Korea
3. Sudan
4. Syria

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## APPENDIX B

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### INDICES OPENING AND CLOSING HOURS

<b>Index</b>	<b>Open</b>	<b>Close</b>
FTSE CSAG Terror-Free Index Series	00:30	21:10

Notes:

Closing values will be disseminated at 21:30.

Timings are UK hours.

## APPENDIX C

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### FURTHER INFORMATION

Further information on the FTSE CSAG Terror-Free Index Series is available from the FTSE website, who will also welcome comments on these Ground Rules and on the Index Series.

**Website: [www.ftse.com](http://www.ftse.com)**

Conflicts Securities Advisory Group should be contacted regarding the screen at:

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