

GROUND RULES FOR THE MANAGEMENT OF THE FTSE NASDAQ INDEX SERIES



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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the Management of the FTSE NASDAQ Index Series, as adopted by the FTSE NASDAQ Advisory Group. Copies of the Ground Rules are available from FTSE and NASDAQ.
- 1.2 The FTSE NASDAQ Index Series is designed to represent the performance of NASDAQ listed companies. The FTSE NASDAQ Index Series includes the following indexes calculated and disseminated in real time every 15 seconds:

FTSE NASDAQ 500
FTSE NASDAQ Large Cap
FTSE NASDAQ Mid Cap
FTSE NASDAQ Small Cap

SECTION 2

2.0 STATUS OF INDEXES

2.1 The FTSE NASDAQ Index Series is calculated in real time and may exist in the following states. Official Market Hours are defined as that period when the NASDAQ market is open for order execution.

a) Firm

- i. The indexes are being calculated during Official Market Hours on actual trades from NASDAQ.
- ii. The Official Closing Price for the FTSE NASDAQ Index Series will be the NASDAQ Official Closing Price.

b) Closed

The indexes have ceased all calculations for the day. The message 'CLOSE' will be displayed against the index value calculated by FTSE.

c) Held

During Official Market Hours, an index has exceeded pre-set operating parameters and the calculation has been suspended pending resolution of the problem. The message 'HELD' will be displayed against the last index value calculated by FTSE.

d) Indicative

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

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 capitalization 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 was firm.

2.2 The official opening and closing hours of the FTSE NASDAQ Index Series are set out in Appendix A. Variations to the official hours of the indexes will be published by FTSE. The indexes will be calculated during the normal trading hours of the NASDAQ market.

SECTION 3

3.0 MANAGEMENT RESPONSIBILITIES

3.1 FTSE NASDAQ Advisory Group

- 3.1.1 The FTSE NASDAQ Advisory Group, whose membership is representative of users of the FTSE NASDAQ Index Series, is established by FTSE and NASDAQ as an independent committee.
- 3.1.2 The FTSE NASDAQ Advisory Group is responsible for advising FTSE and NASDAQ on the application and future amendments to these Ground Rules for the Management of the FTSE NASDAQ Index Series.
- 3.1.3 The Committee will normally meet once a year in December.

3.2 FTSE and NASDAQ

- 3.2.1 FTSE and NASDAQ are responsible for the operation of the FTSE NASDAQ Index Series. FTSE will maintain records of the market capitalization of all constituents and reserve companies and will make changes to the constituents and their weightings in accordance with the Ground Rules. FTSE working with NASDAQ will carry out reviews and implement the resulting constituent changes as required by the Ground Rules.
- 3.2.2 Changes to constituent weightings will be made by FTSE in accordance with the Ground Rules. FTSE and NASDAQ will jointly publish and keep a record of all changes to constituent weightings.
- 3.2.3 FTSE is also responsible for monitoring the performance of the FTSE NASDAQ Index Series throughout the day and will, on advice from NASDAQ, determine whether the status of each index should be Firm, Indicative, Held or Part.

SECTION 4

4.0 ELIGIBLE SECURITIES

- 4.1 Common Stock, Ordinary Shares, ADR's, REITS, and Tracking stocks (see Rule 4.5) are eligible for inclusion in the FTSE NASDAQ Index Series.
- 4.1.1 Dual Listed companies will not be considered as eligible. A Dual Listed company is defined as a company whose securities does not have an exclusive listing on NASDAQ but are listed on another US exchange (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The listing status of companies will be reviewed annually as part of the December index review, the eligibility of any constituent company that is dual listed at this date will be considered.
- 4.1.2 Convertible preference shares and loan stocks will be excluded until converted. Exchange Traded Funds (ETFs) and funds whose prices are a direct derivation of their underlying holdings (e.g. Unit Trusts, Open Ended and Closed End Investment Companies) will be excluded, along with partnerships and shares of beneficial interest.
- 4.2 Only the eligible quoted equity capital of a constituent company will be included in the calculation of its market capitalization. Where a company has two or more classes of equity, significant and liquid secondary lines will be included in the calculation of the market capitalization of the company, based on the market price of that secondary line. A secondary line will be priced separately if its full market capitalization, i.e. before the application of any investability weightings, is greater than 25% of the full market capitalization of the company's main line, then secondary line is eligible, in its own right. Secondary lines which are less than 25% of the company's main line will be excluded. Should the full market capitalization of a secondary line, which is already a constituent of the Index, fall below 20% of the company's main line at the annual review, the secondary line will be deleted from the index.
- 4.3 The FTSE NASDAQ Index Series is adjusted for free float restrictions.
- 4.3.1 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 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.
- 4.3.2 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 4.2.1)
 - Holdings by investment companies
 - ETFs

SECTION 4

4.3.3 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 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%

4.3.4 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 following a corporate event. If the corporate event includes a corporate action that affects the index, any change in free float will be implemented at the same time as the corporate action. If there is not a corporate action, the change in free float will be applied as soon as practicable after the corporate event.

4.3.5 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 new 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.

4.4 Securities must be sufficiently liquid to be traded. The following criteria will be used to ensure that illiquid securities are excluded:

- a) **Price** - The FTSE NASDAQ Advisory Group must be satisfied that an accurate and reliable price for the purposes of determining the market value of a company exists. The FTSE NASDAQ Advisory Group may exclude a security from the Indexes should it consider that an 'accurate and reliable' price is not available.
- b) **Size** - All eligible listed companies will be included in the FTSE NASDAQ Index Series. The FTSE NASDAQ Advisory Group will determine which stocks are included on an annual basis at its meeting held in December using data as at the close of business on the last business day in November. The largest eligible companies ranked by full market capitalization i.e. before the application of any investability weightings, comprising all eligible stocks will be included in the relevant index. The decision will take effect on the next trading day following the third Friday in December.
- c) **Liquidity** - Securities which do not turnover at least 0.5% of their shares in issue, after the application of any free float restrictions, per month in at least ten of the twelve months prior to the annual review by the FTSE NASDAQ Advisory Group at its meeting held in December, will not be eligible for inclusion in the indexes. An existing constituent failing to trade at least 0.5% of its shares in issue, after the application of any free float restrictions, per month for more than four of the twelve months prior to review will be removed on the next trading day following the third Friday in December. Any period when a share has a trading halt will be excluded from the above calculation.

SECTION 4

4.5 Treatment of Tracking Stocks

- a) A line of stock issued to “track” the fortunes of a particular division, business unit, subsidiary, or group of assets of the issuing company (the “parent”), commonly called a tracking stock, may be included in the Index, if the tracking stock meets all the Ground Rules used to determine individual stock eligibility after considering the points below;
- b) Tracking stocks will not be reviewed as a multiple line of stock of the parent company, but as a separate line of stock of the business unit. The business unit will be treated as a distinct company for the purposes of determining “shares in issue”, free float, and industry classification.
- c) A tracking stock’s “shares in issue”, used by FTSE to determine ranking by market capitalization and other related variables, will be the total number of shares imputed to the business unit by virtue of the economic interest retained by the parent company after the issue of tracking stocks.
- d) Free float of tracking stocks will be determined as for the free float of any stock, using the imputed total number of shares in issue as the base.

SECTION 5

5.0 INDEX DESCRIPTIONS

5.1 FTSE NASDAQ 500

5.1.1 The FTSE NASDAQ 500 consists of the largest 500 companies in the Review Universe (see Rule 6.4) by full market capitalization.

5.2 FTSE NASDAQ Large Cap

5.2.1 The FTSE NASDAQ Large Cap consists of the largest 70% of companies in the FTSE NASDAQ Index Universe of listed companies by full market capitalization.

5.3 FTSE NASDAQ Mid Cap

5.3.1 The FTSE NASDAQ Mid Cap consists of the next 20% of companies in the FTSE NASDAQ Index Universe of listed companies ranked by full market capitalization.

5.4 FTSE NASDAQ Small Cap

5.4.1 The FTSE NASDAQ Small Cap consists of the bottom 10% of companies in the FTSE NASDAQ Index Universe of listed companies ranked by full market capitalization.

SECTION 6

6.0 PERIODIC REVIEW OF CONSTITUENT COMPANIES

6.1 Review Date

6.1.1 The FTSE NASDAQ Advisory Group will meet annually to review the constituents of the FTSE NASDAQ Index Series. The review data is taken at the close of business on the last business day in November each year. The meeting to review the constituents will be held on the Wednesday after the first Friday in December. Any constituent changes will be implemented at the close of business on the third Friday of December.

6.1.2 Details of the outcome of the reviews will be published as soon as possible after the FTSE NASDAQ Advisory Group meeting has concluded.

6.2 Responsibilities and Reporting

6.2.1 FTSE will be responsible for conducting the periodic review of constituents for the FTSE NASDAQ Index Series and will recommend any constituents to be inserted or deleted as part of the annual review. For each index, all eligible securities will be ranked by full market capitalization i.e. before the application of any investability weightings, as at the close of business on the last business day in November.

6.2.2 The FTSE NASDAQ Advisory Group will review and advise NASDAQ and FTSE on the annual review of constituents.

6.2.3 NASDAQ and FTSE will be responsible for publicizing the outcome of the annual review immediately after meeting.

6.3 Rules for Insertion and Deletion at the Annual Review

6.3.1 The rules for inserting and deleting securities at the annual review are designed to provide stability in the selection of constituents of the FTSE NASDAQ Index Series while ensuring that the Indexes continue to be representative of the market by including or excluding those securities which have risen or fallen significantly.

6.4 Review Universe

6.4.1 The FTSE NASDAQ Review Universe is defined as the eligible constituents (see Section 4) of the NASDAQ Composite Index as at the review date.

6.5 Annual Review of the FTSE NASDAQ 500 Index

6.5.1 Following the ranking of the constituents of the Review Universe by full market capitalization those non constituents of the index at review that have risen to 450th position or above will become constituents of the index. Those existing constituents of the index at review that have fallen to 551st position or below will be removed from the index.

6.5.2 A constant number of constituents will be maintained for the FTSE NASDAQ 500. Where a greater number of companies qualify to be inserted in the index than those qualifying to be deleted, the lowest ranking constituents presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted, the securities of the highest ranking companies which are presently not included in the index will be inserted to match the number of companies being deleted at the periodic review.

SECTION 6

6.5.3 NASDAQ and FTSE following advice from the Advisory Committee will be responsible for publishing the twenty highest ranking non-constituents of the FTSE NASDAQ 500 Index at the time of the new issues quarterly reviews in February, May and August, and the annual review in December. The Reserve List will be used in the event that one or more constituents are deleted from the FTSE NASDAQ 500 Index during the period up to the next review.

6.6 **Annual Review of the FTSE NASDAQ Large, Mid and Small Cap Indexes**

6.6.1 The annual review of these indexes uses the Review Universe with all companies ranked by full market capitalization.

6.6.2 All of those companies comprising the bottom 2% of the market capitalization of the Review Universe are removed as ineligible. All of the companies in the remaining 98% comprise the FTSE NASDAQ Index Universe.

6.6.3 **Existing FTSE NASDAQ Large Cap constituents** will remain in the Large Cap Index if they fall within the top 72% of the FTSE NASDAQ Index Universe ranking by full market capitalization. If they are ranked between 72% and 92% of the FTSE NASDAQ Index Universe they will move to the Mid Cap. If they are ranked below 92% of the FTSE NASDAQ Index Universe but within the top 99% of the Review Universe, they will move to the Small Cap. If they are ranked below 99% of the Review Universe they will be excluded from the index.

6.6.4 **Existing Mid Cap** constituents will move to the Large Cap if they fall within the top 68% of the FTSE NASDAQ Index Universe ranking by full market capitalization. If they are ranked between 68% and 92% of the FTSE NASDAQ Index Universe they will remain in the Mid Cap. If they are ranked below 92% of the FTSE NASDAQ Index Universe but within the top 99% of the Review Universe, they will move to the Small Cap. If they are ranked below 99% of the Review Universe they will be excluded from the index.

6.6.5 **Existing Small Cap** constituents will move to the Large Cap if they fall within the top 68% of the FTSE NASDAQ Index Universe ranking by full market capitalization. If they are ranked between 68% and 86% of the FTSE NASDAQ Index Universe they will move to the Mid Cap. If they are ranked below 86% of the FTSE NASDAQ Index Universe but within the top 99% of the Review Universe, they will remain in the Small Cap. If they are ranked below 99% of the Review Universe they will be excluded from the index.

SECTION 7

7.0 CHANGES TO CONSTITUENT COMPANIES

7.1 Removal and Replacement

- 7.1.1 If a constituent is delisted, or ceases to have a firm quotation, or is subject to a takeover offer which has been declared wholly unconditional, it will be removed from the indexes of which it is a constituent. Where the company is a constituent of the FTSE NASDAQ 500, it will be replaced by the highest ranking company eligible in the FTSE NASDAQ 500 Reserve List as at the close of the index calculation two days prior to the deletion.
- 7.1.2 The removal and replacement are effected simultaneously, before the start of the index calculation on the second business day following the day on which the event justifying removal was announced. Announcements made after the close of the index calculation are normally deemed to be made on the following business day. In the case of a takeover, the qualifying event is an announcement that the offer has been completed.
- 7.1.3 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 appropriate Indexes based on their respective full market capitalizations.

7.2 New Issues

- 7.2.1 If, in the view of the FTSE NASDAQ Advisory Group a new issue is so large that the effectiveness of the indexes as market indicators would be significantly and adversely affected by its omission, the FTSE NASDAQ Advisory Group may decide to include the new issue as a constituent after the close of business on the first day of official trading. In all cases, advance notification confirming the timing of the inclusion of the new constituent will be given.
- 7.2.2 New issues which meet the criteria for eligible securities and have been listed for over 20 business trading days, will be eligible for inclusion at the next quarterly revision in February, May or August, changes being effective after the close of business on the third Friday in March, June & September.
- 7.2.3 New Issues will join the FTSE NASDAQ 500 Index at the quarterly revision if the full market capitalization of the company is greater than the company ranked 450th in the index at the close of business on the last day of the month prior to the review. The new issues will replace the lowest ranking constituent(s) by full market capitalization.
- 7.2.4 New Issues will join the FTSE NASDAQ Large Cap index at the quarterly revision if the full market capitalization of the company is greater than the full market capitalization represented by 68% of the aggregate full market capitalization of the FTSE NASDAQ Large Cap, Mid Cap and Small Cap Indexes at the close of business on the last day of the month prior to the review.
- 7.2.5 New Issues will join the FTSE NASDAQ Mid Cap index at the quarterly revision if the full market capitalization of the company is between 68% and 92% of the aggregate full market capitalization of the FTSE NASDAQ Large Cap, Mid Cap and Small Cap Indexes at the close of business on the last day of the month prior to the review.
- 7.2.6 New Issues will join the FTSE NASDAQ Small Cap index at the quarterly revision if the full market capitalization of the company is between 92% and 99% of the aggregate full market capitalization of the FTSE NASDAQ Large Cap, Mid Cap and Small Cap Indexes at the close of business on the last day of the month prior to the review.

SECTION 7

7.3 Trading Halts

- 7.3.1 If a constituent is the subject of a trading halt on NASDAQ it may remain in the indexes at the price at which it is halted, for up to 10 business days. During this time, NASDAQ and FTSE may, following advice from the Advisory Group agree to delete the constituent immediately either at its trading halt price, or at zero.
- 7.3.2 Where a trading halt 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 indexes 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, NASDAQ and FTSE may decide, following advice from the Advisory Group, to retain or remove the stock at its trading halt price.
- 7.3.3 If the constituent subject to trading halt is deleted from the FTSE NASDAQ 500 index, it will be replaced with the highest ranking company on the Reserve List eligible to be included in the indexes as at the close of the index calculation on the day preceding the inclusion of the replacement company. This change will be effected after the close of the index calculation and prior to the start of the index calculation on the following day.
- 7.3.4 A company whose trading halt is lifted after it has been removed from an index, will be reviewed for index eligibility at the next quarterly or annual review of the FTSE NASDAQ indexes.

SECTION 8

8.0 CHANGES TO CONSTITUENT WEIGHTINGS

- 8.1 For the purposes of computing the FTSE NASDAQ 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.
- 8.2 If a corporate action is applied to an index constituent that involves a change in the number of shares in issue, the change in shares will be applied simultaneously with the corporate action.
- 8.3 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 capitalization, they are implemented between quarters. A minimum of 4 days notice will be given to users of the index. The USD 2bn threshold may be adjusted annually in December. If an adjustment is made, it will be applied for the first time at the next review in March of the following year.
- 8.4 All adjustments are made before the start of the index calculation on the day concerned, unless market conditions prevent this.

SECTION 9

9.0 AMENDMENTS TO THE GROUND RULES

- 9.1 Changes and exceptions to these Ground Rules can only be authorized by NASDAQ and FTSE following consultation with the Advisory Group.

SECTION 10

10.0 INDEXES ALGORITHM AND CALCULATION METHOD

10.1 Prices

10.1.1 The FTSE NASDAQ Index Series will use actual trades from the NASDAQ trading system.

10.2 Calculation Frequency

10.2.1 The following indexes will be calculated in real-time and published every 15 seconds during their opening hours using real time prices.

FTSE NASDAQ 500
 FTSE NASDAQ Large Cap
 FTSE NASDAQ Mid Cap
 FTSE NASDAQ Small Cap

10.3 Index Calculation

10.3.1 The FTSE NASDAQ Index Series will be displayed to two decimal points.

10.3.2 The FTSE NASDAQ Index Series is calculated using the following formula:

$$\frac{\sum_{i=1}^n ((p_i \cdot e) \cdot s_i \cdot f_i)}{d}$$

$$i = 1, 2, 3, \dots, n$$

n	=	The number of securities in the Index.
p	= Price	The latest trade price of the component security (or the price at the close of the Index on the previous day)
e	= Exchange Rate	The exchange rate required to convert the security's home currency into the index's base currency.
s	= Shares in Issue	The number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
f	= Investability Weighting	The factor to be applied to each security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% investability weighting. The investability weighting for each security is published by FTSE.
d	= 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

INDEX OPENING AND CLOSING HOURS

INDEX	OPEN	CLOSE
FTSE NASDAQ Index Series		
FTSE NASDAQ 500	09.30	16.10
FTSE NASDAQ Large Cap	09.30	16.10
FTSE NASDAQ Mid Cap	09.30	16.10
FTSE NASDAQ Small Cap	09.30	16.10

Notes:

Closing prices will be the NASDAQ Official Closing Cross Price.

Closing values will be disseminated at 16:30.

The indexes will be calculated during the normal trading hours of the NASDAQ market.

Timings are based on EST.

APPENDIX B

FURTHER INFORMATION

Further information on the FTSE NASDAQ Index Series is available from FTSE, who will also welcome comments on these Ground Rules and on the Index Series.

Website: www.ftse.com

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