

FTSE EPRA Nareit Global Real Estate Index Series: Ground Rule Update

01 September 2022

FTSE Russell would like to inform clients of the following clarifications to the FTSE EPRA Nareit Global Real Estate Index Series Ground Rules which is effective immediately.

Section 5: Qualification Criteria & Periodic Review of Constituents

New Rule

5.9 U.S. Securities and Exchange Holding Foreign Companies Accountable Act (HFCAA)

5.9.1 Effective from December 2021, the U.S. Securities and Exchange Commission (SEC) adopted the Holding Foreign Companies Accountable Act (HFCAA). The HFCAA requires that the Public Company Accounting Oversight Board (PCAOB) have the ability to conduct an independent audit of companies that are listing on U.S. Stock Exchanges. Failure to comply with the HFCAA for three consecutive years (based on annual filings for the fiscal years 2021, 2022 and 2023) will result in a delisting of the non-compliant security from U.S. Stock Exchanges. Securities that fail to comply with the HFCAA will be listed by the SEC within the "Conclusive list of issuers identified under the HFCAA <<https://www.sec.gov/hfcaa>>" ('Conclusive' list) table.

The following treatment will be applied if a security is listed by the SEC within the 'Conclusive' list for a **second consecutive year**:

5.9.2 Treatment of index constituents with a local listing

- Where the US listed index constituent has a local listing, subject to a minimum of four weeks advanced notification being provided, the security will be switched from the US listing to the local listing in conjunction with the next index review. The local listing will not be required to pass the index eligibility liquidity screen.

A local listing is defined as a listing on the following stock exchanges:

- The Stock Exchange of Hong Kong (HKEX) - designated a China P Chip
- The Singapore Exchange (SGX) - designated as China S Chip
- Shanghai Stock Exchange (SSEC) - designated as China A Shares

Eligible for FTSE EPRA Nareit Global Real Estate Index Series if available via Stock Connect

- Shenzhen Stock Exchange (SZSE) - designated as China A Shares

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5.9.3 Treatment of index constituents without a local listing

- Where a US listed index constituent does not have a local listing but a local stock exchange has publicly announced a confirmed listing date for a local listing, the US listing will be retained until the local listing has commenced trading, after which and subject to a minimum of four weeks' notice being provided, the US listing will switch to the local listing in conjunction with the subsequent quarterly review. The local listing will not be required to pass the index eligibility liquidity screen.

To avoid the US listing being deleted from FTSE Russell indices, the local listing must commence trading at least four weeks before the third year of non-compliance. For the avoidance of doubt, if the SEC is expected to report the third year of non-compliance by 01 March 2024, the local listing must have commenced trading by 01 February 2024, with the US listing switched to the local listing in advance of the SEC expected reporting date with a minimum of T+5 notification.

- Where a US listed index constituent does not have a local listing, the index constituent will be retained in FTSE Russell indices for a period of three months from when the security is added to the HFCAA 'Conclusive' list for two consecutive years to allow a local stock exchange to publicly announce a confirmed listing of a local line. If after three months, no public announcement has been issued by a local stock exchange confirming a listing date for a local line, then subject to a minimum of four weeks advanced notification being provided, the US listed index constituent will be deleted at the next quarterly review.

During the period between when the US listed index constituent without a local listing is identified on the HFCAA 'Conclusive' list for two consecutive years and its deletion after a period of three months, any voluntary corporate actions resulting in an increase of the index shares of the index constituent, plus any size segment changes resulting from an index review will not be reflected in FTSE Russell indices.

If the local listing commences trading after the US listed index constituent has been deleted from FTSE Russell indices, for the purposes of index eligibility the local listing will be treated as a new issue.

- Where a US listed index constituent has been deleted from FTSE Russell indices because of the HFCAA, however it retains its US listing due to compliance with HFCAA at the third testing period it will be re-considered for inclusion after a period of twelve months from when the security has been removed from the SEC 'Conclusive' list. For the purposes of index eligibility, it will be treated as a new issue.
- Any non-constituent US listing that is identified on the SEC 'Conclusive' list will not be eligible for FTSE Russell indices until after a period of 12 months from when the security has been removed from the SEC 'Conclusive' list.
- If the Accelerated Holding Foreign Companies Accountable Act (AHFCAA) which reduces the compliance timeframe from three years to two years is adopted by the SEC, FTSE Russell will implement the above index treatment from year one of when the US listed index constituent is identified on the HFCAA 'Conclusive' list.

Please refer to the Holding Foreign Companies Accountable Act (HFCAA) FAQ <https://research.ftserussell.com/products/downloads/FTSE_FAQ_Document_HFCAA.pdf> for additional information on the implementation of the HFCAA within FTSE Russell indices.

An updated copy of the FTSE EPRA/NAREIT Global Real Estate Index Series Ground Rules (Version 11.2) is now available on the FTSE Russell website: www.ftserussell.com <<http://www.ftserussell.com>>

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