

# **Float Adjustment *Methodology***

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# Introduction

The majority of S&P Dow Jones Indices' market capitalization-weighted indices are float-adjusted. Under float adjustment, the share counts used in calculating the indices reflect only those shares available to investors rather than a company's total outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies, government agencies, or other long-term strategic shareholders.

With a float-adjusted index, the value of the index reflects the value available to investors in the public markets. Reducing the relative investment index investors have in stocks with limited float should enhance the investability of the index.

## Index Family

The float adjustment rules described here apply to the global S&P Dow Jones family of indices, including the S&P U.S. indices (S&P 500, S&P MidCap 400, S&P SmallCap 600 and S&P TMI/CI), the S&P Global 1200 and related indices, as well as many specialty indices.

Float adjustment does not apply to non-market capitalization weighted indices such as equal weighting, factor weighting, price weighting, or other alternative weighting schemes.

*Since there may be regional exceptions to the general rules on float-adjustment, please refer to individual index methodologies for information that may not be contained in this document.*

## Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

Supporting Document	URL
S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology	<a href="#">Equity Indices Policies &amp; Practices</a>

# Float Adjustment Rules

The goal of float adjustment is to adjust each company's total shares outstanding for long-term, strategic shareholders, whose holdings are not considered to be available to the market. Note that each shareholder is not judged individually based on its intentions. Rather, shareholders are grouped into different types and based on that type are either included or excluded from float. Long-term strategic shareholders often have interests such as maintaining control rather than the shorter-term economic fortunes of the company. For example, holdings of stock in one corporation by another corporation are normally for control, and not investment, purposes. Similarly, most government holdings are not typically investments made for only investment purposes.

S&P Dow Jones Indices gathers share ownership data for each company in the coverage universe using publicly available information. In the event that public disclosure is inadequate or information is unavailable, S&P DJI may consult with company officials or additional industry sources to derive estimates of ownership information.

Shares held by the following types of shareholders are excluded regardless of whether the particular shareholder intends to exercise any form of control.

**Long-term strategic shareholders** generally include, but are not limited to:

1. Officers and Directors (O+D) and related individuals whose holdings are publicly disclosed
2. Private Equity, Venture Capital & Special Equity Firms
3. Asset Managers and Insurance Companies with board of director representation
4. Shares held by another Publicly Traded Company
5. Holders of Restricted Shares\*
6. Company-sponsored Employee Share Plans/Trusts, Defined Contribution Plans/Savings, and Investment Plans
7. Foundations or Family Trusts associated with the Company
8. Government Entities at all levels except Government Retirement/Pension Funds
9. Sovereign Wealth Funds
10. Any individual person listed as a 5% or greater stakeholder in a company as reported in regulatory filings (a 5% threshold is used as detailed information on holders and their relationship to the company is generally not available for holders below that threshold).

\* Restricted shares are generally not included in total shares outstanding except for shares held as part of a lock-up agreement.

The following holders' shares are generally considered part of public float:

1. Depository Banks
2. Pension Funds (including Government Pension and Retirement Funds)
3. Mutual Funds, & ETF providers, Investment Funds, and Asset Managers (including Hedge Funds with no board of director representation)

4. Investment Funds of Insurance Companies<sup>1</sup>
5. Independent Foundations not associated with the company

A company's annual report, regulatory filings, proxy or 10-K may include listings of some equity-like securities that are not included in total shares outstanding and need not be considered in calculating available float. These generally include treasury stock, stock options, equity participation units, warrants, preferred stock, convertible stock and rights. Due to local reporting patterns in some markets, S&P Dow Jones Indices may include treasury shares in total shares outstanding but exclude them from float.

When shares are held in a trust to allow investors in countries outside the country of domicile, these shares are normally included in float. Examples include ADRs, CDIs, Canadian exchangeable shares and similar arrangements. If the holdings underlying ADRs, CDIs, etc. form a control block, those shares are excluded from float.

After adding up all O+D (as a group) and all 5% or greater holders deemed to be strategic holders as defined above, S&P Dow Jones Indices calculates an Investable Weight Factor (IWF) for each stock. S&P Dow Jones Indices uses a 5% minimum threshold for strategic blocks. For example, if O+D as a group controls 3% of a company's shares and no other strategic shareholders own a 5% or greater stake, then S&P Dow Jones Indices would assign this company an IWF of 1.00, indicating 100% of shares outstanding are freely tradable and available to the marketplace. If the same company's O+D controlled 7% of the company's share as a group, S&P Dow Jones Indices would assign that company an IWF of 0.93, reflecting the fact that only 93% of the shares outstanding are freely tradable and available to the marketplace. However, if O+D controlled 3% of a company's total shares and other strategic holders together own 20% of a company's total shares, S&P Dow Jones Indices would assign that company an IWF of 0.77, since 23% of the total shares outstanding are considered strategic. Please note that O+D shares are excluded from the float even if, as a group, the total O+D control block is less than 5%, provided that there are other strategic holdings greater than 5%. Entities with less than 5% ownership stakes that have board representation are generally considered strategic only if their shareholder stake is included in an annual proxy or annual filing beneficial ownership summary or summary table.

In most cases, Investable Weight Factors (IWFs) are reported to the nearest one percentage point.

### Regional Variations

**Canada.** Canadian security filings provide data on complete holdings of officers and directors and holdings greater than 10% of other shareholders. However, a substantial number of Canadian companies are also listed on exchanges in the U.S. or other countries and may have shareholders with different reporting threshold requirements. For Canadian companies where holdings data at the 5% threshold are available, the float adjustment is based on 5%. Float adjustment of officers and directors of Canadian companies follows the rules listed above; holdings of less than 5% by officers and directors are removed from the float if there are other reported strategic holders of 5% or more. Since S&P Dow Jones Indices publishes several multi-country indices which include Canadian companies, such as the S&P/TSX Global Gold Index, global consistency is preferable wherever possible.

For Canadian companies listed only on Canadian exchanges, the Annual IWF Review will return to float status any individual shareholding under 10% that has not been disclosed in the previous 12 months. Note that shareholdings of officers and directors, as a group, will still be subject to the 5% ownership threshold since they are disclosed at least annually in the Annual Information Form.

**Bangladesh.** For Bangladesh-domiciled companies whose primary exchange is the Dhaka Stock Exchange, IWFs are provided by the exchange.

**India.** Strategic stakeholders with interests of less than 5% are also considered in the calculation of the IWF for stocks listed on the Bombay Stock Exchange (BSE).

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<sup>1</sup> In certain countries, insurance companies may be considered strategic holders based on regulatory issues and country specific practices.

**Japan.** Individual shareholders and treasury shares with strategic interests of less than 5% are also considered in the calculation of the IWF.

**Pakistan.** Associate companies, Undertakings & Related parties as a group are also considered in the calculation of the IWF.

# Calculation of Investable Weight Factors

For each stock an Investable Weight Factor (IWF) is calculated:

$$IWF = (\text{available float shares}) / (\text{total shares outstanding}) \quad (1)$$

where available float shares are defined as total shares outstanding less shares held by strategic holders.

The float-adjusted index is calculated:

$$\text{Index} = \frac{\sum_j (P_j S_j IWF_j)}{\text{Divisor}} \quad (2)$$

where  $P_j$  is the price of stock  $j$ ,  $S_j$  is the total shares outstanding of stock  $j$  and  $IWF_j$  is the investable weight factor. The divisor is the index divisor.

## Shares Outstanding

The precise definition of shares outstanding or the share count depends on the specific market and the laws and accounting principles that apply.

## Multiple Share Classes of Stock

The treatment of multiple share classes of stock varies across S&P Dow Jones indices depending on local market custom and conditions. In those indices which include multiple share classes of stock – a company may have more than one share class line included in the index – each class is float-adjusted individually.

## Foreign Ownership Limits

Statutory limits on foreign ownership, referred to as foreign ownership limits (FOLs), are recognized and applied where necessary. Case by case research is needed to assess the impact of large foreign holdings within a foreign ownership restriction. The final IWF is one minus the larger of the sum of all strategic holdings or the statutory foreign ownership limit. FOLs are reviewed quarterly on a best effort basis.

Foreign investment limits are not applied to indices where the major users are domestic (e.g., the S&P 500, S&P/TSX 60); they are applied to regional or global indices where a significant portion of the index users are outside of the countries covered by the index (e.g., the S&P Global BMI indices).

The first test of a stock's investability is determining whether the market is open to foreign institutions. S&P Dow Jones Indices considers factors such as a foreign institution's ability to buy and sell shares on local exchanges and its ability to repatriate capital, capital gains, and dividend income without undue constraints.

Once it is determined that a market is open to foreign investors, S&P Dow Jones Indices investigates each security that may be a candidate for inclusion in the S&P Global BMI, the S&P Frontier BMI, the S&P GCC Composite and other related indices. Each share class is reviewed to determine whether there are any corporate by-law, corporate charter, or industry limitations on foreign ownership of the stock.

Foreign investors may face limits on the amount of a company's capital they may hold individually, and separate limits on the amount they may hold collectively. S&P Dow Jones Indices considers the total amount of capital that foreign institutions may own collectively as the basis for determining a stock's FOL.

#### Examples of Restrictions on "Openness"

- Special classes of shares, such as A and B classes in China where foreign investors are restricted to B-class only, or have partial access to A shares trading on specific exchange segments.
- Sector restrictions, most commonly limiting foreign ownership of airlines, defense, energy producers, financial institutions, print and broadcast media and public utilities.
- Single foreign shareholder limits on general classes of shares, such as Brazil's rule of no more than 5% of the voting classes or 20% of aggregate capital, or Colombia's 10% limit per foreign investor. For example, in Colombia foreigners may own up to 100% of most listed companies, although no single foreigner may own more than 10%. In such a case, S&P Dow Jones Indices uses the aggregate amount which foreigners as whole might acquire, and thus considers 100% of the shares as available.
- Company statutes that impose limits which differ from national law. In such cases, S&P Dow Jones Indices uses the most restrictive limit. For example, if the national limit on foreign ownership is 49% but a company's articles of incorporation set a limit of 25%, S&P Dow Jones Indices uses a FOL of 25% for that company's capital.

The basic formula to calculate IWF considering FOL is:

$$IWF = \min \{1 - (\sum \text{strategic holders}), \text{ or the FOL} \}$$

#### Example:

Major shareholders for Security ABC

- Private Investors – Board of Directors/ Founders = 18%
- Corporate Holder – Company ZXC = 10%
- Government - Government Agency = 15%

Major shareholders own collectively = 18% + 10% + 15% = 43%

Amount left in the market (100 - 43%) = 57%

Foreign Investment limit (FOL) = 49%

Note: When comparing the smallest amount available to foreign investors, 49% FOL or 57% available in the market, the IWF is 49%.

**Pan Arab Indices.** S&P Dow Jones Indices' Pan Arab indices have further rules. While the concepts are exactly the same, the GCC markets use two different sets of FOLs:

1. One set of FOLs, the most restrictive, are used for all foreign investors. Foreign investors are defined as all investors who are not nationals of the GCC region. This would include investors from countries outside the region. This set is used for the calculation of the S&P Frontier BMI and the GCC Investable indices.
2. The second set of FOLs, which are less restrictive, are used for investors residing within the GCC region. These FOLs are used for the calculation of the GCC Composite indices.

**Domestic Indices.** In the domestic index versions of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE, there is no FOL considered in the IWF calculation. These indices are designed for domestic investors only, similar to the S&P 500, the S&P/ASX 200, and the S&P TSX 60.

### **Application of FOL in IWF calculation for indices for GCC countries and related regions**

For indices in GCC regions, different FOLs are used in the Composite series (for GCC investors) and Investable series (for non-GCC foreign investors). While GCC and non-GCC foreign investors have separate applicable limits, their investment limits are not mutually exclusive. Therefore when determining the IWF, it is necessary to consider both the major holdings within the same category of investors (GCC and non-GCC foreign) and the combined holdings of the two types of holders. For each company, three initial calculations are necessary:

#### **For cases where GCC FOL is higher or equal to foreign FOL**

1.  $1 - \text{sum of all strategic holders (without using FOL)}$
2.  $\text{FOL (GCC)} - \text{sum of GCC and foreign strategic holders}$
3.  $\text{FOL (foreign)} - \text{sum of foreign strategic holders}$

*The IWF for domestic country would just be #1.*

*The IWF for Composite (GCC) would be the smaller of #1 or #2.*

*The IWF for Investable (foreign) would be the smallest of #1, #2 or #3.*

#### **Likewise, where Foreign FOL is higher than the GCC FOL**

1.  $1 - \text{sum of all strategic holders (without using FOL)}$
2.  $\text{FOL (GCC)} - \text{sum of GCC strategic holders}$
3.  $\text{FOL (foreign)} - \text{sum of foreign and GCC strategic holders}$

*The IWF for domestic country would just be #1.*

*The IWF for Composite (GCC) would be the smallest of #1, #2 or #3.*

*The IWF for Investable (foreign) would be the smaller of #1 or #3.*

#### **Example 1 – A Kuwaiti company**

Shareholder A (Block), from Bahrain has 27%

Shareholder B (Block), from U.S. has 10%

Foreign investment limit is: 20%

GCC investment limit is: 49%

$1 - \text{sum of all strategic holders} \Rightarrow 100 - (27+10) = 63\%$

$\text{FOL (GCC)} - \text{sum of GCC and foreign strategic holders} \Rightarrow 49 - (27 + 10) = 12\%$

$\text{FOL (foreign)} - \text{sum of foreign strategic holders} \Rightarrow 20 - 10 = 10\%$

For the Kuwait domestic index, the IWF = 63%

For the Composite series, the IWF = min (#1 or #2) = 12%

For the Investable series, the IWF = min (#1, #2, #3) = 10%

#### **Example 2 – the same Kuwaiti company with the GCC holder from Bahrain owning 35%**

Shareholder A (Block), from Bahrain has 35%

Shareholder B (Block), from U.S. has 10%

Foreign investment limit is: 20%

GCC investment limit is: 49%

*1 – sum of all strategic holders =>  $100 - (35+10) = 55\%$*

*FOL (GCC) – sum of GCC and foreign strategic holders =>  $49 - (35 + 10) = 4\%$*

*FOL (foreign) – sum of foreign strategic holders =>  $20 - 10 = 10\%$*

For the Kuwait domestic index, the IWF = 55%

For the Composite series, the IWF = min (#1 or #2) = 4%

For the Investable series, the IWF = min (#1, #2, #3) = 4%

# Investable Weight Factor Maintenance

## Rebalancing Frequency

Investable Weight Factors (IWFs) are reviewed annually based on the most recently available data filed with various regulators and exchanges. For the S&P Dow Jones indices, updated IWFs resulting from the annual review are applied either prior to the open of the Monday after the third Friday of September or a date that is more appropriate for a particular index family. For example, the S&P Global BMI constituents' new IWFs are applied at the annual reconstitution at the open of the Monday after the third Friday of September; for the S&P Frontier BMI index constituents, revised IWFs are applied at the annual reconstitution at the open of the Monday after the third Friday of March.

*Please refer to individual index methodologies for specifics on IWF rebalancing schedules.*

## Timing of Changes

- **Annual Review:** IWF changes are implemented based on the latest publicly available share and ownership information. All IWFs of 0.96 or above are rounded to 1.00 at the annual review.
- **Quarterly Review:** IWF changes are implemented if the change is at least 5% of total shares outstanding and is related to a single corporate action, regardless if there is an associated share change. For quarterly reviews that coincide with the annual review, the annual review rules apply.
- **Mandatory Actions:** In order to minimize index turnover, any IWF changes resulting from M&A activity are implemented based on the pre-event IWFs of the securities involved.
- **Non-Mandatory Actions:**
  - For actions qualifying for accelerated implementation, IWF changes are implemented to help mimic the shares made available in the offering.
  - For actions of at least US \$1 billion that qualify for accelerated implementation, IWF changes are implemented to reflect the shares made available in the offering plus the latest share and ownership information publicly available at the time of the announcement.

# Index Data

## **Data Distribution**

IWFs are provided with other index data as part of regular S&P Dow Jones Indices' index data distribution.

# Index Governance

## **Index Committee**

Questions of interpretation or possible exceptions to float adjustment rules are considered by S&P Dow Jones Indices' Global Equity Policies Committee or the Index Committee responsible for the indices in question.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the data, policies, and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

*For information on Quality Assurance and Internal Reviews of Methodology, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.*

# Index Policy

To the maximum extent possible, S&P Dow Jones Indices seeks to float adjust all market capitalization indices and to apply consistent and uniform rules across all its indices.

## **Contact Information**

For questions regarding an index, please contact: [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

# Appendix

## Methodology Changes

Methodology changes since January 1, 2017 are as follows:

Change	Effective Date (After Close)	Methodology	
		Previous	Updated
IWFs:  Timing of Changes	03/27/2020	Updates to IWFs are only made at the annual IWF review unless a change is prompted by a mandatory event such as M&A activity.	<ul style="list-style-type: none"> <li>• <b>Annual Review:</b> IWF changes are implemented based on the latest publicly available share and ownership information. All IWFs of 0.96 or above are rounded to 1.00 at the annual review.</li> <li>• <b>Quarterly Review:</b> IWF changes are implemented if the change is at least 5% of total shares outstanding and is related to a single corporate action, regardless if there is an associated share change. For quarterly reviews that coincide with the annual review, the annual review rules apply.</li> <li>• <b>Mandatory Actions:</b> In order to minimize index turnover, any IWF changes resulting from M&amp;A activity are implemented based on the pre-event IWFs of the securities involved.</li> <li>• <b>Non-Mandatory Actions:</b> <ul style="list-style-type: none"> <li>▪ For actions qualifying for accelerated implementation, IWF changes are implemented to help mimic the shares made available in the offering.</li> <li>▪ For actions of at least US \$1 billion that qualify for accelerated implementation, IWF changes are implemented to reflect the shares made available in the offering plus the latest share and ownership information publicly available at the time of the announcement.</li> </ul> </li> </ul>
Strategic Holders List Updated	03/29/2019	Savings & Investment Plans/401K Plans of the Company are included in the float calculation.	Savings & Investment Plans/Defined Contribution Plans of the Company are excluded from the float calculation.
Merger Related Investable Weight Factor (IWF) Change	01/19/2018	A merger related IWF change resulting in an IWF of 0.96 or greater is rounded up to 1.00 on the merger effective date.	A merger related IWF change that results in an IWF of 0.96 or greater is rounded up to 1.00 at the next annual IWF review.

Change	Effective Date (After Close)	Previous	Methodology Updated
Elimination of Mexico Regional Variation	09/21/2018	The S&P/BMV Indices follow the float adjustment methodology of the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV) as referenced in the S&P/BMV Indices Methodology available at <a href="http://www.spdji.com">www.spdji.com</a> . All other S&P- and Dow Jones-branded indices follow S&P Dow Jones Indices' standard float adjustment methodology as detailed in this document.	--
Frequency of FOL reviews	03/21/2017	--	Language has been added to indicate that all statutory limits on foreign ownership, referred to as foreign ownership limits (FOLs), are reviewed on a quarterly basis.

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