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16 June 2017

**Re: FTSE Russell Voting Rights Consultation**

We are writing in response to FTSE Russell's May 2017 voting rights consultation. We provide our responses in written form here that match our responses through an online survey tool.

CFA Institute believes that Company rules should ensure that each share has one vote. A structure that permits one group of shareowners disproportionate votes per share creates the potential for a minority shareowner to override the wishes of the majority of owners for personal interest.

CFA Institute[1] appreciates the opportunity to offer comments to FTSE Russell on their voting rights consultation concerning whether or not to include issuers with zero voting shares in their indices. CFA Institute represents the views of those investment professionals who are its members before standard setters, regulatory authorities, and legislative bodies worldwide about issues affecting the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues affecting the efficiency, integrity and accountability of global financial markets.

**Questions**

**1. Do you agree with FTSE Russell's analysis of the issue?**

- [x] Yes, voting rights matter and some minimum threshold with respect to voting rights in the hands of non-restricted shareholders should be set.
- [ ] No, we disagree with FTSE Russell's analysis. Please go to Question 8.

**2. For those index series where you believe a threshold for the minimum percentage of voting rights in non-restricted hands is appropriate (please see Questions 6 and 7), where should this threshold be set?**

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[1] CFA Institute is a global, not-for-profit professional association of more than 149,000 investment analysts, advisers, portfolio managers, and other investment professionals in 163 countries, of whom nearly 143,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 148 member societies in 73 countries and territories.

- [ ] 5% (consistent with the minimum free float requirement in Russell 3000 and FTSE Global Equity Index Series).
- [ ] 10%
- [x] 25% (consistent with the minimum free float in the FTSE UK Index Series for UK incorporated companies).
- [ ] Some other percentage. Please state which in the comments box.

Comments

**3. For constituents that fail to meet the voting rights hurdle, what restrictions on the index eligibility of their securities should be imposed?**

- [ ] All of the company's securities, including all classes of common stock and non-voting securities such as preference shares, savings and investment certificates, should be considered ineligible for index inclusion.
- [ ] All of the company's securities, including all classes of common stock and non-voting securities such as preference shares, savings and investment certificates, should have their investability weight reduced. For example, their investability weights might be multiplied by the ratio of the number of votes conferred by one Index Share to the number of votes conferred by one share of the (possibly non-listed) class with the highest voting rights.
- [ ] Only the company's non-voting shares and other non-voting securities should be ineligible for index inclusion. The investability weight of the company's voting securities should be reduced. For example, the investability weight might be multipled by the ratio of the number of votes conferred by one Index Share to the number of votes conferred by one share of the class (possibly non-listed) with the highest voting rights.
- [x] Only the company's non-voting shares and other non-voting securities should be ineligible for index inclusion. All voting shares should remain at their full investability weight.
- [ ] Some other restriction. Please state which in the comments box.

Comments

**4. For new index constituents, for what period do you believe that the restrictions from Question 3 should be applied?**

- [x] Until such time as the company restructures its securities to meet the voting rights threshold.
- [ ] After a set period, for example two or five years. Please state how long in the comments box, noting that it should be after a set period.
- [ ] After a seasoning period in which the company's management has evidenced its adherence to good governance principles. If so, please state how long the seasoning period should be and how adherence to good governance principles might be evidenced.
- [ ] Some other period. Please state which in the comments box.

Comments

**5. For existing constituents, when do you believe that the restrictions for Question 3 should be applied?**

- ○ Existing constituents should be tested against the new rule at the next index review/reconstitution cut-off/rank date.
- ○ Existing constituents should be tested against the new rule at the next index review/reconstitution cut-off/rank date following a grandfathering period. Please state how long in the comments box, noting that existing constituents should be tested against the new rule at the next index review/reconstitution cut-off/rank date.
- ○ Existing constituents should be grandfathered indefinitely.
- ○ Some other period/condition. Please state which in the comments box.

Comments

We do not believe that existing companies should have their status grandfathered indefinitely, but would be happy with a relatively long transition process.

**6. The desire to impose additional eligibility requirements might differ for different types of indexes. For example, the perceived requirements for FTSE Russell local and domestic indexes might differ from those for global indexes.**

**To which FTSE Russell indexes do you believe the minimum voting rights criterion should be applied? Please tick all that apply.**

- [x] FTSE Russell global indexes including FTSE Global Equity Index Series, Russell Global Index and indexes directly derived from these.
- [x] Russell US indexes.
- [x] FTSE UK Index Series
- [x] Other local index series, for example FTSE exchange partner indexes where FTSE is the administrator. Please state which.
- [x] FTSE EPRA/NAREIT Global Real Estate indexes.
- [x] FTSE Hong Kong Mandatory Provident Fund indexes.
- [ ] Other indexes. Please state which in the comments box.

Comments

**7. There may be some index series where the application of a minimum voting rights hurdle would be inappropriate or redundant. For example, the FTSE UK Index Series includes only those securities with a premium listing from the UK Listing Authority, and the premium listing in turn requires issuing companies to adhere to a one share, one vote**

**principle. Further, the FTSE UK Index Series sets higher free float hurdles for companies incorporated outside the UK; this might be considered as a proxy for the minimum voting rights that should be afforded to UK shareholders.**

**A further example might be afforded by index series for regions where governance standards are accepted to be less developed. Feedback from the recent consultation on the eligibility of N-shares such as Alibaba and Baidu was that these should be included in certain FTSE China indexes from September 2017. Although the US listed securities of these companies place 40.2% and 27.3% respectively of the votes in the hands of index shareholders, the Chinese operating local operating companies to which the listed companies are contractually bound are wholly owned by consortia which include the company founders.**

**Are there any FTSE Russell indexes where you believe a voting rights eligibility rule should explicitly not apply?**

☐ FTSE UK Index Series (where premium listing and minimum free float rules already apply).

☐ FTSE China indices (where N-shares will be eligible from September 2017, some of which such as Alibaba and Baidu are structured as Variable Interest Entities; and where some very large constituents, such as some banks, are included at low floats).

☐ FTSE Russell fundamental indexes including FTSE RAFI.

☐ FTSE Russell factor based (Smart Beta) indexes.

☐ Other indexes. Please state which in the comments box.

Comments

No, the voting rights should be the same in all cases.

**8. If your answer to Question 1 was no, please state why.**

◉ There is no need to consider any exclusion rule based on the proportion of voting rights in the hands of non-restricted shareholders or any other criterion. No changes to the existing index eligibility rules are required.

○ There are ways other than imposing a threshold on the aggregate voting rights in the hands of non-restricted shareholders that would address the problem better. Please see Question 9.

○ The issue is the inclusion of non-voting securities per se in FTSE Russell indexes and all securities without voting rights should be excluded.

Comments

**9. What other ways of dealing with the problem should FTSE Russell consider?**

○ Non-voting securities of companies that fail to meet the threshold for the minimum percentage of voting rights in the hands of non-restricted shareholders should be eligible for index inclusion provided they embed a sunset provision in which they convert to voting shares after some period. If so, how long should this period be?

- [ ] Index securities should be weighted according to the percentage of the company's voting rights that they confer, rather than according to their free floats.
- [x] Some other approach. Please state which.
- [ ] Comments

A sunset provision approved by shareowners may be appropriate.

## Concluding Remarks

CFA Institute welcomes the opportunity to offer comments on the issue of shareowner voting rights. Please do not hesitate to contact us should you have any questions concerning our comments.

Yours faithfully,

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