

FTSE ASFA Australia Index Series



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Section 1 Background

1. Why has FTSE partnered with ASFA?

FTSE and ASFA (The Association of Superannuation Funds of Australia) first began a dialogue when FTSE opened an office in Australia in 2007. ASFA represents all aspects of the Australian superannuation industry and is driven to achieve enhanced retirement outcomes, engaged and informed fund members, industry efficiency gains and effective governance and regulations.

ASFA, as the Voice of Super and Australia's peak superannuation body, is concerned with providing superannuation funds with a means to measure their performance on an after-tax basis. This is because fund members receive after-tax returns in their superannuation accounts. ASFA supports the disclosure of post-tax returns of investment managers' portfolios and seeks to have the practice increasingly adopted throughout the superannuation industry.

FTSE works with some of the largest pension funds globally to build benchmarking solutions that accommodate a wide range of needs. FTSE brought this expertise to ASFA to jointly develop a tailor-made solution that meets the specific requirements of the Australian market.

2. Why have FTSE and ASFA created an Australia index series with tax-adjusted benchmarks?

Investors are usually focused on after-tax returns. However, in Australia, fund managers are measured against their peer group by asset consultants and research houses on a pre-tax basis. This creates an issue for fund managers as some investment decisions can be attractive on an after-tax basis but unattractive on a pre-tax basis.

In April 2008, ASFA published a background paper called "Effect of tax on superannuation fund investment returns", which reviewed some of the key issues involved in determining post-tax returns for equity portfolios.

This paper provided ammunition for the continued discussions by many superannuation funds (plan sponsors) to move from measuring managers on a pre-tax basis, to an after-tax basis. Superannuation funds have not had an acceptable benchmark to use and highlight the differences in performance between pre and after-tax returns. Throughout the latter half of 2007 and in 2008, FTSE consulted with key superannuation funds, asset managers and consultants to determine the best way of entering the Australian market with a product that meets local investor requirements.

3. Has the index taken into account ASFA's key issues regarding tax, and if so, how?

The ASFA background paper highlighted three issues of particular interest to superannuation funds – capital gains tax liability, dividend franking credits, and off-market buy-backs. In the FTSE ASFA franking credits indices, FTSE has incorporated franking credits attached to dividends and off-market buy-backs within its index calculation, whereby franking credits attached to each event are incorporated into the index calculation when they occur. This allows for a more transparent calculation and provides a measure of the impact of franking credits as and when they occur. FTSE has also developed a separate suite of after-tax indices with the addition of capital gains tax in the index calculation, for the superannuation fund tax bracket.

4. Has the index design taken into account the Financial Services Council guidelines on tax, and if so, how?

In June 2008, The Investment and Financial Services Association (IFSA) now known as the Financial Services Council, published a Guidance Note outlining the requirements for the reporting of after-tax returns by its members. The Guidance Note helped FTSE provide a structure to the family of indices that it initially created as well as an example of rates that scheme operators may have elected to use, the majority of which are included in the index series – tax exempt, superannuation fund, mid-tax bracket, and high-tax bracket. The inclusion of franking credits within an after-tax distribution amount was used to add the associated credits from dividends and off-market buy-backs into the index calculation. The Guidance Note also highlights the issues with taking into account a fund's specific after-tax requirements, for example, that each after-tax return should be calculated at a scheme level, and each scheme will have its own unique performance. FTSE was conscious of the complexities that individual schemes would need to apply to provide an accurate after-tax performance and worked closely with the FTSE ASFA Advisory Committee members to agree and develop an additional suite of after-tax indices for the superannuation tax bracket which incorporates the effects of capital gains tax.

5. Are other after-tax benchmarks currently available in Australia?

FTSE Group is the first and remains the only global index provider to develop and provide industry standard after-tax benchmarks for Australian investors.

6. What are the main advantages in adopting the FTSE ASFA Australia Index Series?

The FTSE ASFA Australia Index Series offers all types of investors a clearer picture of performance, both pre and after-tax. The index series uses varying tax rates to calculate after-tax performance benchmarks for four main tax brackets:

- Tax exempt investors
- Superannuation funds
- Investors in the mid-tax bracket
- Investors in the high-tax bracket

Additional features and benefits include:

Unique solution for Australian Investors

The FTSE ASFA partnership focuses on providing Australian superannuation funds, their fund managers and other stakeholders with the necessary benchmarking tools to assist the industry's transition to after-tax performance measurement and reporting. The FTSE ASFA Australia Index Series offers a broad investable coverage of the Australian equity market in addition to tax-adjusted indices for superannuation funds and other types of Australian investors. It combines unique tax features with FTSE's rules-based methodologies and global standards.

The FTSE ASFA Australia Index Series is designed primarily for benchmarking purposes and can also be used as the basis for the creation of index-linked products such as Exchange Traded Funds (ETFs), structured products and other derivatives.

First industry standard after-tax benchmarks

The first industry standard after-tax benchmarks did not exist for Australian investors until the launch of the FTSE ASFA Australia Index Series in 2009, due to the complexities involved in developing the methodology in this area. FTSE's independence and focus on providing tailored benchmarking solutions assures Australian superannuation funds they are using an objective and valid point of reference for measuring after-tax performance. Now superannuation funds can share a common basis with their fund managers and other stakeholders for greater transparency and focus on tax efficient investing.

A clearer picture for all investors

A clearer picture of performance is important to all types of investors. FTSE uses varying tax rates to calculate a franking credit and buy-back adjusted version of the FTSE ASFA Australia Index Series for:

- Tax exempt investors
- Superannuation funds
- Investors in the mid-tax bracket
- Investors in the high-tax bracket

After-tax benchmarks with capital gains tax for superannuation funds

FTSE provides superannuation funds with an additional range of benchmarks which also takes into account the effects of capital gains tax in order to facilitate assessments on a far more granular level. The FTSE ASFA capital gains tax indices are the first standardised benchmarks in the market which calculate the realised and unrealised capital gains tax in a portfolio, in addition to the effects of franking credits. The methodology is based on a 5-year rolling turnover mechanism to maintain a meaningful and relevant cost base and also mimic the average tenure of a portfolio manager. Whether it's optimising value from franking credits, participating in off-market buy-backs, managing capital gains tax efficiently or all three, FTSE offers superannuation funds a range of benchmarking solutions to make tax efficient investing a focus in every portfolio.

Informed opinions

The depth and breadth of data included in the FTSE ASFA Australia Index Series provides a new dimension of granularity for performance attribution at the tax level. This facilitates more informed discussions between superannuation funds, fund managers and other stakeholders, when measuring the performance of a portfolio against an after-tax benchmark. FTSE places great importance on the transparency of its index design. Index ground rules are accessible at all times at www.ftse.com/australia

Best representation of the Australian market

Unlike other Australian equity indices, FTSE excludes CHESSE depository interests (CDIs) and investment trusts from the FTSE ASFA Australia Index Series to minimise duplicate holdings of companies within a diversified portfolio. Additionally, investors will be better positioned to capture investment opportunities associated with Small Cap companies via a dynamic All-Share Index. Constituents in the All-Share Index will not be fixed, allowing the indices to expand and contract with the market.

Tested to be liquid and tradable

Investors require liquidity and tradability. FTSE's free float methodology ensures that constituent weights within the index reflect the shares available to investors. The system reflects the investability of a company, without subjecting investors to unnecessary re-balancing and transaction costs. Additionally, companies must trade a sufficient level of their available shares in issue prior to a review to be eligible for inclusion, but also to remain in the index series.

Independent Committee

Since the launch in 2009 the FTSE ASFA Australia Advisory Committee was instrumental in ensuring that the indices were calculated in accordance with best practice and was relevant to market requirements. In 2014 the oversight of the index series passed over to the FTSE Asia Pacific Regional Advisory Committee to govern the ongoing management of these indices to ensure they continue to meet participants' needs. The committee is made up of senior investment professionals and finance industry experts acting independently to advise on the creation of new indices, enhancements to the methodology and to ensure that the index series evolves with any changes in the market environment.

7. Is there a non tax-adjusted version of each index?

Yes, the FTSE ASFA Australia Index Series also includes non tax-adjusted indices.

8. Why should superannuation funds and fund managers switch to using FTSE ASFA Australia Index Series as benchmarks?

Superannuation funds are focused on delivering after-tax returns; however fund managers have traditionally been measured and assessed on a pre-tax basis using pre-tax indices as benchmarks. This conventional method of benchmarking creates an issue for fund managers as some investment decisions can be attractive on a pre-tax basis but may harm after-tax performance. The FTSE ASFA Australia Index Series offers industry standard tax-adjusted benchmarks to focus superannuation funds and their fund managers on the delivery of after-tax returns as efficiently as possible. Asset owners can now share a common language with their fund managers and other stakeholders for greater transparency around the investment process.

9. What are some examples of investment decisions that look attractive on a pre-tax basis but harm after-tax performance?

For example, if a fund manager's performance is measured on a pre-tax basis, the fund manager has no incentive to wait those few extra days when selling the fund's shares to get a discount on the capital gain that the sale might have generated if the shares had been held for more than 12 months. Thus, capital gains tax may not be managed as efficiently as it could be. Likewise, when a fund manager is benchmarked to an index that does not contain franking credits, the fund manager might sell its holdings in a company before fulfilling the 45-day rule and thus not benefit from the franking credits as part of the dividend distribution. The value of franking credits is overlooked.

10. Who are the main users of tax-adjusted benchmarks?

Superannuation funds have become quite vocal in having tax-adjusted indices to measure the returns of their fund managers, with consultants also involved in the tax-adjusted benchmark debate. Superannuation funds currently have a tax rate of 15 per cent applied to their returns. The tax exempt investment funds have also been seeking a benchmark to take into account the associated franking credits attached to dividends and also the franking credits attached to off-market buy-backs. Many fund managers when measuring their performance in Australia show their returns based on differing tax brackets (highest income tax rate/superannuation fund rate/mid income tax rate) in order to highlight the performance of their portfolios for different investors.

11. Why is FTSE calculating tax-adjusted indices for different tax brackets?

As there are differing users for a FTSE ASFA Australia Index Series, one size does not fit all. A tax exempt investor will not want to use the same benchmark as a superannuation fund which pays an income tax of 15 per cent. Likewise, fund managers who are managing funds for the highest personal marginal income tax rate payer will not want a benchmark that uses less than the 47 per cent income tax rate. FTSE therefore has taken into account these differing requirements. These generic investor types are broadly consistent with industry approaches to after-tax measurement. FTSE is calculating six headline indices across four differing tax brackets, and an additional variation for superannuation funds:

Investor type	Marginal tax rate (%)	Medicare rate* (%)	Overall tax rate (%)
Tax exempt	0.00	0.00	0.00
Superannuation fund	15.00	0.00	15.00
Mid-tax bracket	32.50	2.00	34.50
High-tax bracket	45.00	2.00	47.00

Source: Australia Tax Office

* Medicare levy is the Medicare insurance premium tax, a form of social security tax.

12. Can the FTSE ASFA Australia Index Series be used by investors located outside Australia?

The tax-adjusted versions assume eligibility for franking credits therefore is only suitable for Australian resident investors. However the non tax-adjusted versions can be used by investors outside Australia who are seeking the best representation of the Australian market.

Section 2 Capital gains tax

13. Why has FTSE created a suite of tax-adjusted indices for superannuation funds which includes capital gains tax?

During the initial consultation process, superannuation funds strongly voiced their need for a benchmark that considers a fund manager's performance with respect to the effects of capital gains tax – both realised and unrealised – as well as franking credits attached to dividend distribution and off-market buy-backs, in order to facilitate assessments on a far more granular level. The FTSE ASFA Australia Advisory Committee was established to conduct a careful study of capital gains tax and develop a method for its inclusion in the index series. This Committee worked hard throughout 2010 to develop a methodology for incorporating the effects of capital gains tax, along with franking credits attached to dividends and off-market buy-backs. Superannuation funds can now select the tax-adjusted benchmark which best suits their requirements and measures what they want managed.

14. Why are the FTSE ASFA capital gains tax indices based on a rolling 5-year turnover method?

The FTSE ASFA capital gains tax indices are based on a rolling 5-year turnover method to maintain a relevant and meaningful cost base over time. A cost base is needed for the calculation of capital gains and losses, but a single cost base would become unrepresentative to portfolios benchmarked to the index over time. FTSE in conjunction with the committee at the time, the FTSE ASFA Advisory Committee developed a rolling 5-year turnover method whereby the index begins on 27 February 2004 and one fifth of the constituent shares are sold and re-purchased each financial year end over a five year period. The 5-year period mimics the average tenure of a portfolio manager. The rolling turnover method dictates that FIFO (first in, first out) is the accounting standard applied in the index to determine the order of selling tax lots of companies. This method maintains a meaningful and relevant cost base over time.

15. Why has FTSE chosen 20% forced turnover in the FTSE ASFA capital gains tax indices when passive managers tend to have between 5-10% turnover and active managers 50% + turnover?

It was of utmost importance to FTSE and the FTSE ASFA Advisory Committee that in creating an industry standard after-tax index series which includes the effects of capital gains tax, the indices be constructed in such a way that they are practical, relevant and meaningful for all types of superannuation funds whether they start using them today or in 10 years' time. In order to maintain a relevant cost base over the longer term there needs to be a degree of forced turnover in the index. If the turnover mimics passive managers (e.g. between 5-10%) then the cost base will remain relevant for existing users but will become irrelevant to new users who, for example, start using the indices in two year's time. If the turnover mimics active managers (e.g. 50%+) then the cost base is more relevant for new users, but quickly becomes irrelevant to existing users and the indices would again lose their practicality over the longer term. After testing these scenarios and others, FTSE and the FTSE ASFA Advisory Committee found that a 5-year rolling turnover provided a barometer of performance which is relevant and practical for users irrespective of when they begin benchmarking their performance against the indices.

16. Why has FTSE used FIFO to determine the order of selling constituents, why not HIFO or modified HIFO?

A rolling five-year turnover method of calculating Capital Gains Tax dictates that FIFO is applied in the index to determine the order of selling tax lots. HIFO or modified HIFO would only be applicable if the index had a standard start date and cost base. For example, if modified HIFO was used as a basis to determine the order of selling tax lots in a rolling five-year turnover calculation, the index could end up with the same tax lots for the entirety of its calculation. As outlined earlier, the FTSE ASFA Advisory Committee placed great importance on building a methodology which maintains a meaningful and relevant cost base in order for the indices to be used over the longer term.

17. Does FTSE adjust for capital losses offset by capital gains in the FTSE ASFA capital gains tax indices?

Yes, a quarterly true-up process for the capital gains/losses is included to ensure that any capital gains are offset by any accumulated capital losses, to prevent a misalignment within the index calculation. For example, there may be a realised capital gain event at the start of the month, incurring a tax impact to the index, but later on in the month a capital loss event may be applied. The true-up process is applied at the index review dates, in March, June, September, and December and at the end of the financial year, 30th of June. It is applied on a quarterly basis as the majority of the index changes occur at the index review (including additions, deletions, shares in issue and free float changes).

18. What additional data is provided by FTSE with regards to franking credits and capital gains tax to enhance performance attribution?

FTSE provides clients with daily capital gains tax information including: any realised capital gains/losses incurred on index changes; any unrealised capital gains/losses, but also any deferred tax assets if the index portfolio were sold that day, all expressed in dollar amount and in index points. Additionally, FTSE provides valuable franking credit data. This additional data facilitates more informed discussions between asset owners and their managers when measuring the performance of a portfolio against the after-tax benchmark. FTSE provides on a monthly basis performance attribution reports for its indices so investors can see the impact that tax has on the family of indices included in the FTSE ASFA Australia Index Series.

Section 3 Franking credits, dividends and off-market buy-backs

19. What assumptions has FTSE made with regard to the 45 day rule and franking credits attached to dividends?

The 45 day rule requires that shares must be held “at risk” for a minimum of 45 days to qualify for any associating franking credits. The qualification period starts the day after the investor acquires the shares and ends 45 days after the shares go ex-dividend. FTSE has made the assumption that as the index is passive in nature, if the security is in the index when it goes ex-dividend, it is likely that it will remain a constituent of the index (i.e. FTSE does not take an active approach when it comes to securities paying dividends). Therefore securities that are a member of the FTSE ASFA Australia All Share Index and its sub indices on the ex-dividend day will have their franking credits attached to a dividend (if applicable) included in the total return calculation.

20. Does FTSE compound the franking credits? If not, why?

FTSE has incorporated franking credits attached to dividends and off-market buy-backs within its index calculation, whereby franking credits attached to each event are incorporated into the index calculation when they occur (they add/subtract to the index performance at the time of the event). This allows for a more transparent calculation and provides a measure of the impact of franking credits as and when they occur.

21. Why has FTSE created a Super Dividends index?

Superannuation funds are interested in seeing the effect of franking credits on performance. By creating a Super Dividends index which removes the effect of franking credits (but still applies income tax to dividends), a comparison can be made with the Superannuation index. This provides superannuation funds with another layer for performance attribution.

22. Why has FTSE included off-market buy-backs?

Buy-backs are an example of the misalignment that occurs as a consequence of fund managers being measured on a pre-tax basis. When using the FTSE ASFA franking credits and/or capital gains tax indices, fund managers now potentially participate in a buy-back of the franking credits (boosting after-tax performance) even though it reduces their pre-tax performance.

There are two main forms of buy-backs:

1. On-market share buy-back – where the company buys shares directly from the stock market
2. Off-market share buy-back – where the company writes to shareholders offering to buy their shares

FTSE has not changed its treatment of on-market buy-backs in its index series.

Off-market buy-backs in Australia are a tender process in which a company invites eligible shareholders to offer to sell some or all of their shares to the company. The shares bought back are subsequently cancelled, thereby reducing the total number of shares the company has in issue. Participation in a buy-back is voluntary.

With off-market buy-backs, depending on a shareholders tax status, the after-tax return from participating may be greater than the sales of their shares on-market, due to the franking credits attached to the buy-back and the capital gains adjustment. Therefore, FTSE has changed the way it treats off-market buy-backs for the FTSE ASFA Australia Index Series.

Off-market buy-backs in their simplest form have two main components, a capital component (the difference in the buy-back price and the share price it was originally bought at), and an income component (the income received from the franking credits attached to the buy-back). FTSE adjusts the capital index to take into account the loss in value of the shares due to the discounted buy-back, and adjusts the total return index for the income return.

23. Why are capital gains included in the off-market buy-back calculation?

FTSE has discovered that a large proportion of off-market buy-backs even when taking into account the franking credits attached to them; do not fully reflect the true value of the corporate event. FTSE therefore adds an additional element in the calculation by including the associated capital gains from off-market buy-backs.

By adding a capital gains element into the total return index calculation, FTSE needs to make an assumption on the cost base it uses to determine whether the buy-back is of value when determining investors' capital gains. As FTSE creates capital gains tax indices the shares excluded from the index due to off-market buy-backs are selected using FIFO as basis to determine the order of selling tax lots in a rolling five-year turnover calculation methodology.

24. What is the assumption for the off-market buy-back stock holding period?

In the index calculation FTSE will take into account how long the security has been included in the relevant index. Due to the five-year rolling turnover methodology, shares are selected using FIFO as basis to determine the order of selling tax lots.

25. What assumptions has FTSE made with regard to the 45 day rule and franking credits attached to off-market buy-backs?

For off-market buy-backs the 45 day rule is different and requires an investor to have held the shares for at least 45 days prior to the announcement of the off-market buy-back price to qualify for the franking credits and tax offsets. In our ground rules therefore we incorporate the following rule:-

“Securities that are a constituent of the FTSE ASFA Australia All-Share Index for at least 45 days prior to the announcement of the off-market buy-back price will have their off-market buy-back included in the FTSE ASFA Australia All-Share Index and its sub indices.”

This means we will not apply the off-market buy-back in the index calculation if the security was not in the index 45 days prior to the announcement of the off-market buy-back price.

26. Why has FTSE created additional franking credit indices for superannuation funds and tax exempt investors which exclude off-market buy-backs?

Off-market buy-backs have inspired many heated debates within the investment community with the benefits generally favouring low marginal tax rate entities such as superannuation funds and charities. With regulatory changes seeking to improve the taxation treatment of off-market buybacks, the investment community is facing uncertainties around the impact of these changes on their portfolios. Superannuation funds, in particular, are uncertain of the extent to which off-market buy-backs will feature in their investment strategies. This has prompted significant interest in an after-tax benchmark which excludes off-market buy-backs.

In response to this requirement, FTSE now provides an additional suite of tax-adjusted indices for the superannuation tax bracket and the tax exempt tax bracket which exclude off-market buy-backs from the index calculation. Superannuation funds and tax exempt investors can be comfortable knowing there is an alternative after-tax benchmark which is representative of their opportunity set.

Section 4 Other tax elements

27. How do the tax-adjusted indices deal with Deferred Tax Assets in the portfolio (or index)?

The indices will include deferred tax assets (DTA) in the index calculation as and when they occur. The deferred tax assets will be included in the index on an uncapped basis, but FTSE will provide information on the impact of DTA on the index at different capping rates.

28. Have past changes to the Capital Gains Tax rules been incorporated at the appropriate points in time for off-market buy-backs over the past 10 years in FTSE's history file?

Yes, when building the history, FTSE took into account the changes in both the Capital Gains Tax and corporate tax rate.

29. Tax rates, Medicare rates, Capital Gains Tax discount rates all change over time. Will the index values always reflect the rates applicable at the time of the calculation?

Yes, FTSE includes the differing tax rates as they have changed over time when calculating the back history. Any changes in tax rates will be maintained and reflected in the calculation.

30. How does FTSE handle changes to off-market buy-back rules?

FTSE is aware that legislation in areas such as off-market buy-backs will potentially change in the future. These areas do not usually change overnight, and will provide enough time for any potential changes to be reviewed by the FTSE Asia Pacific Regional Advisory Committee members and applied in the index series in an accurate and timely manner.

31. How will the index series be affected if new exchanges are established in Australia?

FTSE has extensive experience in markets around the world where new exchanges are introduced and multiple exchanges operate. FTSE works very closely with market participants via independent index committees to evolve the index series in alignment with market requirements.

Section 5 Index features

32. Which indices are available in tax-adjusted versions?

- FTSE ASFA Australia Large Cap 50
- FTSE ASFA Australia 100 Index
- FTSE ASFA Australia Mid Cap 150
- FTSE ASFA Australia 200 Index
- FTSE ASFA Australia 300 Index
- FTSE ASFA Australia Small Cap
- FTSE ASFA Australia All Share
- FTSE ASFA Australia All-Share ex 100
- FTSE ASFA Sector indices (comprising 41 sectors in total)

33. Which stocks are eligible in the series?

The FTSE ASFA Australia Index Series draws from ordinary and preferred equity securities listed on the Australian Securities Exchange.

The series is calculated in accordance with the Industry Classification Benchmark (ICB). The ICB Sectors eligible for each index are defined on www.ftse.com

Stocks are free-float weighted to ensure that only the investable opportunity set is included within the indices. Stocks are also liquidity screened to ensure that the index is tradable.

The Large Cap 50, Mid Cap 150 and Large/Mid Cap 200 Indices will be reviewed quarterly in March, June, September and December. The Small Cap Index, All-Share Index, All-Share ex 100 Index, and 100 and 300 indices, will be reviewed semi-annually in March and September.

34. Is the nationality rule consistent with FTSE's global indices? And are the definitions for Large Cap, Mid Cap and Small Cap consistent with FTSE's global indices?

The nationality rule adhered to in FTSE's global indices, applies in a similar manner to this index series, in that a company which is not incorporated in Australia but whose main listing is on the ASX, will be included in the index. However, the FTSE ASFA Australia Large Cap and Mid Cap indices differ to the definitions outlined in FTSE's global indices, in that the constituents are fixed in number and not floating. The market coverage is consistent with FTSE's global indices – to capture 98 per cent of the ASX market and screen for liquidity and free float. Additionally, indices have been cut in a way that meets the specific requirements of Australian investors to also include a 200 Index (for comparison with the existing ASX 200 index), and an All-Share ex 100 index.

35. Why are the constituents in the FTSE ASFA Australia All-Share Index and Small Cap Index dynamic?

To provide investors with the best representation of the market, FTSE has created a dynamic Small Cap index whereby the constituents are not fixed. This broadens the opportunity set for investors providing them with access to new market entrants as the market expands.

36. Are the indices tradable?

The FTSE ASFA Australia Index Series as with other FTSE indices aims to be used as the basis for passive investment. The index series applies particular investability screens such as liquidity and free float in order to make the indices as tradable as possible. As the index series does not take into account certain costs that are applicable to an investor, such as the cost of buying and selling shares, a certain amount of tracking error is to be expected for any fund benchmarked to the index series.

37. Why are investment trusts and CDIs excluded from the index series?

The FTSE ASFA Australia Index Series, as with all FTSE indices, is designed to be the best representation of the Australian equity market. Following extensive market feedback FTSE removed CDIs and investment trusts from the indices to minimise duplication in investors' portfolios.

38. How does FTSE handle corporate actions?

FTSE provides users of the FTSE ASFA Australia Index Series with sufficient information on corporate actions including technical notices on changes to the index constituents and products that provide notice in advance of corporate events. Information on how different corporate events impact the index series are also provided within the index ground rules.

39. Which currency is the index series calculated in?

AUD

40. Can I customise the FTSE ASFA Australia Index Series?

Yes, we understand that some clients are looking for more tailored benchmarks and require increasingly complex and sophisticated solutions for the basis of fund measurement, derivatives and structured products. FTSE's Custom team is committed to meet your specific index needs.

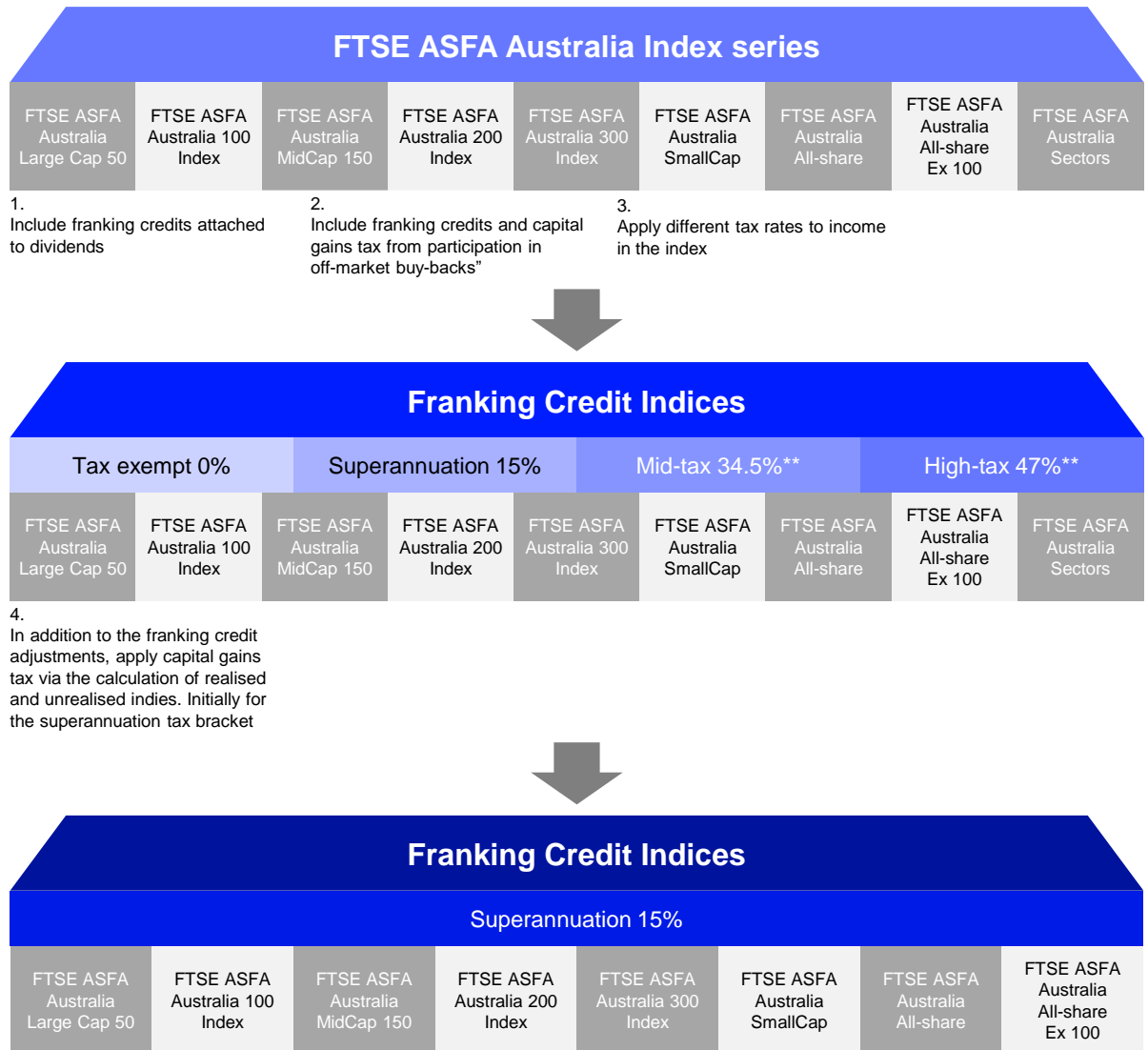
41. How is the index series governed?

The FTSE ASFA Australia Index Series was designed following an extensive two-year consultation with market professionals. An independent committee is in place to govern the ongoing management of these indices to ensure they continue to meet your needs. The committee is made up of senior investment professionals and finance industry experts. The committee advises on the creation of new indices and how to enhance the methodology of existing indices, to ensure that the index series evolves with any changes in the market.

42. Do FTSE and ASFA provide access to the dividend constituents?

Clients have access to the dividend constituents (all dividends paid by securities in the index) as well as all constituent level data and the accumulation indices. The FTSE ASFA Australia Index Series is available as an End of Day product. Capital and total return indices are available within this series. Total Return Indices are published at the end of working day. The Total Return indices are based on ex dividend adjustment. End of Day files are available by 18:00 hours Sydney Australia Local Time via FTP and email.

Section 6 Franking credits, dividends and off-market buy-backs



* To meet the specific needs of several clients FTSE has developed a suite of indices for the Tax Exempt and Superannuation Fund tax bracket which exclude off-market buy-backs.

** Including Medicare.

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