

Summary of the Consultation

SET Index Series Methodology Revision

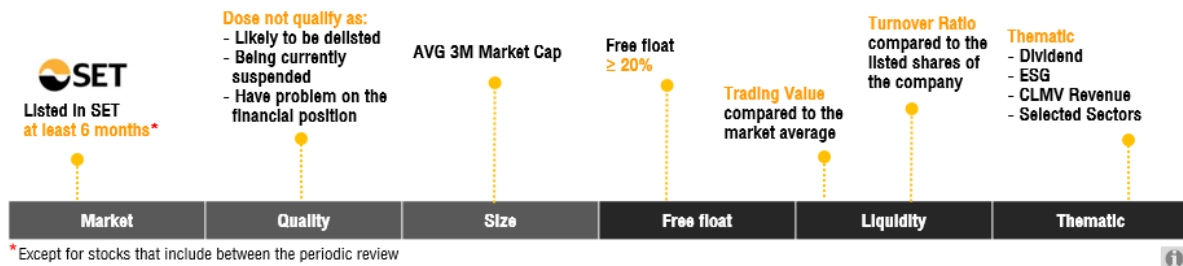


The Stock Exchange of Thailand (SET) would like to thank everyone for your cooperation in sharing your thoughts and views in relation to the proposal for the changes in methodology of the SET Index series.

This document contains the summary of the results of the consultation recently received from 118 questionnaire respondents, consisting of investors, asset management companies, securities companies, listed companies, financial advisors and securities analysts, with details of valuable opinions and recommendations.

Consultation Issues

At present, the index constituents screening criteria for SET's tradable and thematic indices include both quantitative criteria such as market capitalization, trading value, turnover ratio, and free float, etc., as well as qualitative criteria such as whether these constituents are likely to be delisted, being suspended, or having financial statement issues, etc.



Nonetheless, to ensure that SET's tradable and thematic indices reflect the investability of index constituents, in line with international practices, as well as lessening volatility of the indices, SET proposes for changes in the ground rules of the index series including both quantitative and qualitative criteria as follows:

1. Revise the liquidity criteria in the ground rules of the index constituents screening of the Tradable Index.

Increase quality criteria for determining the liquidity used in the index constituents screening by taking into consideration¹ the information of the securities that were included in the Market Surveillance measure list which is usually published on the website of The Stock Exchange of Thailand. This is to ensure that the liquidity criteria can reflect the trading value that is consistent and in accordance with the normal market conditions and is an investable universe in which investors can actually and broadly invest.

2. Revise the method of calculating the weight of the index constituents to be free float adjusted market capitalization weighted.

Revise the method of calculating the weight of the index constituents from previously using full market capitalization to using free float adjusted market capitalization, for all indices.

¹ In the liquidity screening process, the liquidity during which stock is in the Market Surveillance measure list will be excluded from consideration. For example, in the revision period using the past 12-month data, should an ABC stock be on the list for one month, the liquidity screening will only account for the rest of the 11-month data. Should ABC stock pass the screening criteria, it could still be eligible for being included in the index.

There will be a process to consider additional information before the revision, as follows:

- Study and consider the appropriateness of the definition of “strategic partner” to ensure the constituent’s free float reflects investability,
- Study the methodology to incorporate free float in index calculation, and
- Specify the implementation guidelines to reduce the probable impact from high index turnover resulting from trading in the index constituent for rebalancing purposes.

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| Summary of the options received |
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1. The revision of the liquidity criteria in the ground rules of the index constituents screening of the Tradable Index

Most of the respondents agreed with the principles proposed by SET. It is agreed that as a benchmark to measure investment performance, the index should be investable. The addition of quality factors to the liquidity screening criteria, thus, should help enhance the investability of the index and reduce the concern on the non-consistent trading of the constituent stocks.

However, there are some comments that applying such proposed methodology could lead to the results that the SET 50 and SET100 indices not truly representing the top-ranking market cap stocks. In addition, the respondents provided additional viewpoints and suggestions, as follows:

- Should analyze the potential impact to prevent the high index turnover.
- Consider defining the exclusion period of turnover of stocks in more details instead of using monthly basis as proposed.
- Revise the Market Surveillance guideline to ensure that it is appropriate and corresponds with various market situations such as in the event of an economic crisis or in the case of shares of companies with cyclical performance or with turnaround results, etc.
- Consider adding criteria such as buffer role, etc. to reduce the high index turnover.
- The revision of the criteria should be notified in advance before the effective date so that investors are well-informed and well-prepared.

2. Revision of the method of calculating the weight of the Index constituents to be free float adjusted market capitalization weighted

Most of the respondents agreed in principle to apply the method of calculating the weight of index constituents to be free float adjusted market capitalization weighted as proposed by SET. It is believed that such methodology should better reflect the investable universe, reducing the volatility of the Index from unusual stocks liquidity, and also in line with leading international index providers such as MSCI and FTSE, etc.

Few respondents commented that such free float approach could not solve the problem or reduce the volatility of the Index and will have negative impact on the stock values and investors. These respondents viewed that the existing criteria for determining the minimum free float ratio and turnover ratio is appropriate. Therefore, there is no need to adjust the calculation method.

Overall, the respondents provided additional viewpoints and suggestions as follows:

- Consider reviewing the definition of Strategic Partner to ensure the free float ratio is properly calculated. In this regard, additional viewpoints and suggestions are such as:
 - Should update the data of the free float ratio to be current; and should disclose the free float data used in the index calculation.
 - Should review the shareholding information of strategic partner nominees to obtain accurate free float information.
 - Should consider the shareholding proportion of the shareholders with a shareholding of more than 2 percent and without movement for more than 2 years to be a strategic partner.
 - Should define a ceiling (cap) for the increase or decrease of the investment weight from the free float adjusted to reduce the index turnover.
- Should educate investors on the risks of investing in securities with low free float ratio.
- Should only apply the free float adjusted market capitalization weighted with Tradable Index such as the SET50, SET100 Index.
- Should create a new index rather than amending the current index criteria, to be an option for investors.
- Should provide the information on the impact of index's methodology changes for investors to be well-informed and well-prepared. Should also gradually adjust at 2-3 intervals to reduce the probable impact.

Summary of the consultation and SET's implementation

Summary of the consultation

Based on the result of the consultation, it is concluded that the majority agreed with SET's proposal to improve the index methodology, both in terms of adjusting the liquidity screening criteria of the Tradable Index based on the information from SET's Market Surveillance measure list, as well as the adjustment of the SET's Index calculation to Free Float Adjusted Market Capitalization Weighted.

SET's implementation

SET will revise the liquidity criteria for the ground rules of the index constituents screening of the SET's tradable Indices based on the above principles. It will be used in the screening of securities that are constituents of the Index at end-2021, which will be announced in December 2021, and will be used in the index calculation during January - June 2022 onwards.

As for the revision of the SET Index Series calculation to Free Float Adjusted Market Capitalization Weighted, SET will revisit the definition in determining the Free Float and Strategic partner and will formulate the draft guidelines for index calculation. SET will then also consult with relevant parties to specify the transition details to reduce probable impact and make seamless transitions. The schedule of the changes will soon be announced.
