

Consultation Document

Turnover ratio adjustment for SET50 / SET100 Indices

Methodology

Consultation Period: September 7 - 27, 2022

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Part 1: Introduction

The Stock Exchange of Thailand (SET)'s indices have been formulated to reflect market movement of the Thai stock market as well as to serve as a performance benchmark for investment and underlying of financial products such as derivatives, mutual funds, and Exchange Traded Fund (ETF).

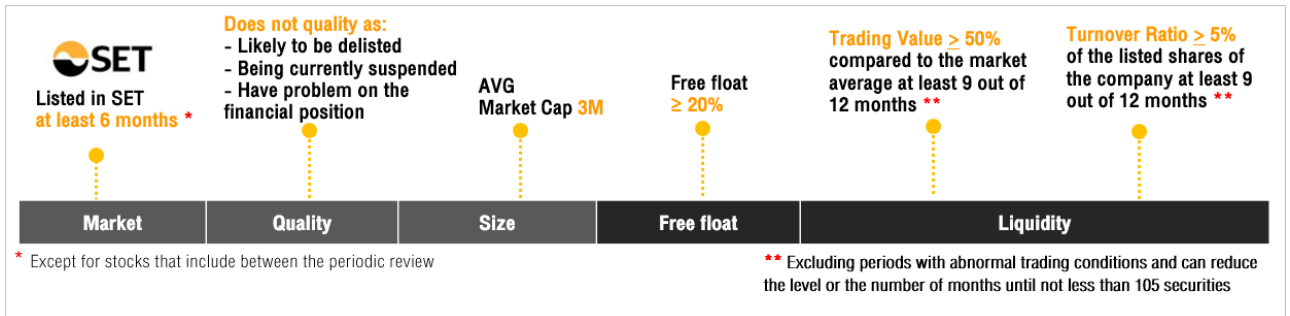
SET has continuously reviewed the methodology and selection criteria for these indices to better suit changing market condition, the index users' needs, and in line with international standards. With the recent review of market condition, there has been changed in investor trading behavior which indicates that the current methodology could be improved to be more suitable with the current market condition.

The SET, therefore, would like to propose for the change in methodology and to seek for participants' opinions and feedback on such changes of the SET50 Index and SET100 Index. Participants can provide comments or suggestions to SET from now until September 27, 2022. For questions, please contact the SET team via either email at IndexTeam@set.or.th. or telephone at 02-009-9568.

Part 2: Consultation Issues

At present, the SET50 Index and SET100 Index screening criteria consist of both qualitative and quantitative criteria. The qualitative criteria are such as whether these constituents are likely to be delisted, being suspended or having financial statements issues. The quantitative criteria include market capitalization, free float, trading value and turnover ratio.

Figure 1 shows the screening criteria for the SET50 / SET100 Indices.



However, the recent review of the market trading conditions shown that there have been changes in terms of investors' trading behavior from previously focusing on stocks in the SET50 Index to a more diversified trading toward the smaller non-SET100 stocks (Figure 2). This results in the lower-than-expected turnover ratio of the Top 10 large stocks in the SET50 Index compared to other groups of stocks. The Top 10 large stocks in the SET50 Index, which are the significant representative of Thai stock market's, have their turnover ratio drop to 2 - 4% from 4 - 5%. (Figure 3)

Figure 2 shows the proportion of investors' investments from 2019 - 2022 (H1)

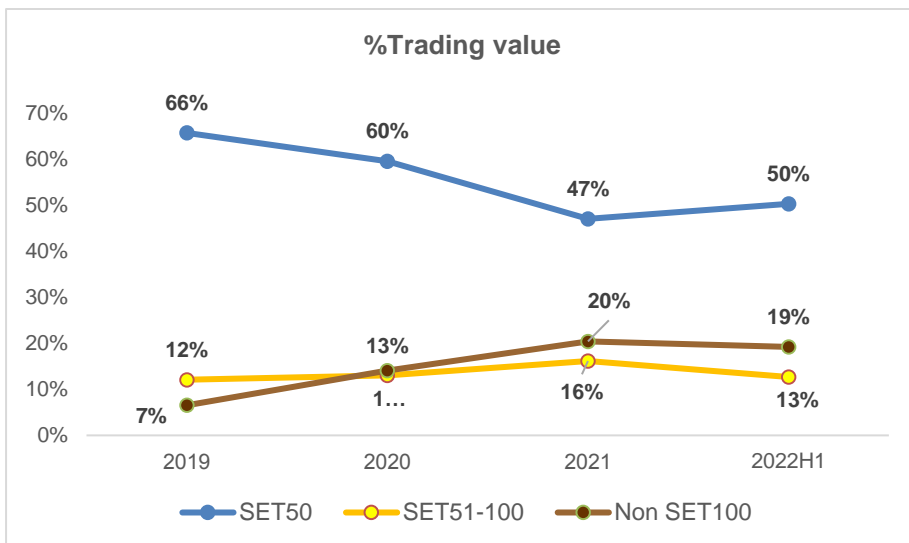
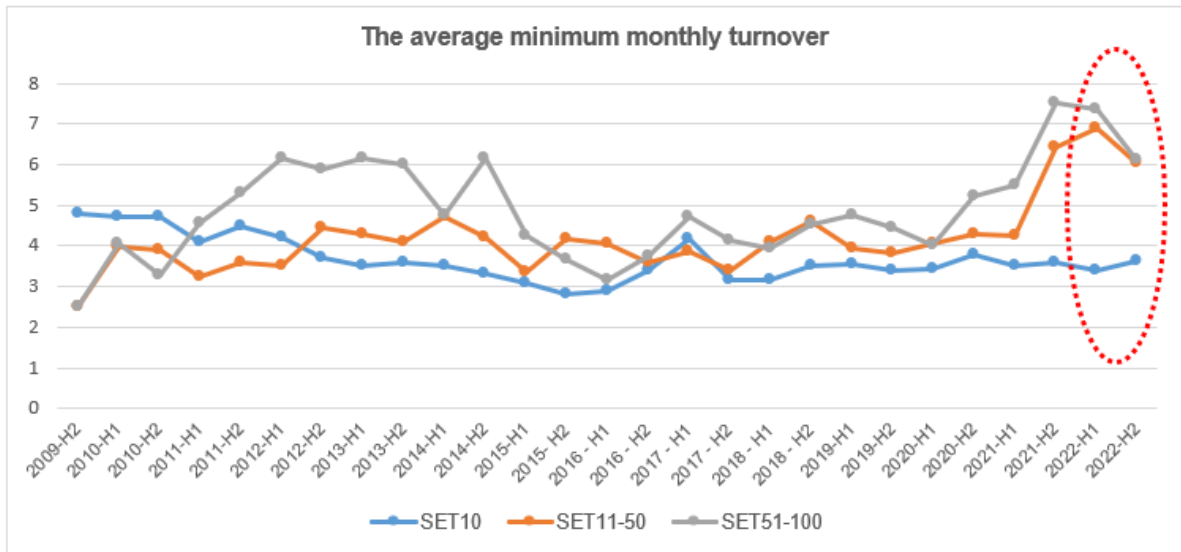


Figure 3 shows the average minimum monthly turnover ratio in each review period.



In addition, SET has also conducted comparative studies of the Liquidity criteria of the SET50 / SET100 Indices against foreign indices and found that most foreign indices set the Liquidity criteria by using the turnover ratio similar to the SET50 / SET100 Indices methodology, but at lower level of approximately 1 - 2% compared to 5% set by SET. (Table 1)

Table 1 shows the comparison of SET's liquidity criteria with foreign indices' liquidity criteria.

Index	Liquidity Screening Criteria		Monthly Turnover
	Trading Value	Turnover	
FTSE SET30	-	Yes	≥ 1%
VN30	-	Yes	≥ 1%
FTSE TWSE 50	-	Yes	≥ 1%
HSI	-	Yes	≥ 2%
TPEX50	-	Yes	≥ 4%
MSCI	Yes	-	n/a
S&P US stock	Yes	-	n/a
SET50	Yes	Yes	≥ 5%*

- Set a higher turnover level than in foreign Indices
- to start with and then level off to ensure that the list of stocks meets the target.

Therefore, in order to cope with the changing market trading conditions, SET propose to adjust the turnover ratio for the SET50 and SET100 Indices screening criteria, based on the following key points:

Adjustment proposal

Adjust the level of the turnover ratio for the SET50 Index and SET100 Index screening criteria to reflect the current market situation as well as to be in line with international standards.

Principles and rationale

- Current liquidity criteria for the SET50 / SET100 Indices consider both the trading value and the turnover ratio is still appropriate. The combination of two liquidity criteria helps screen large stocks with low trading volume, in which institutional investors find non-investable, not to be included as Index constituents.
- However, at present, the turnover ratio level specified in the liquidity criteria may not be consistent with the stock trading circumstances as trading behavior changes. SET views that the turnover ratio level for the SET50 / SET 100 Indices screening criteria should be adjusted to suit the current market trading conditions, so as the blue chip stocks with consistent liquidity (both in terms of trading value and trading volume) can be included in the constituents of the SET50 / SET100 Indices.
- SET proposes guidelines to improve liquidity criteria for the SET50 / SET100 Indices as follow:
 - ✓ Use the current criteria and guidelines, but adjusting the turnover ratio level to 2% from 5%
 - ✓ The adjusted Index Methodology criteria will be applied in the review period of December 2022

Part 3: Consultation Form

Please submit your comments using the online form by **September 27, 2022** via [Link](#)

Please be informed that the personal data that you have provided will be processed and protected according to the privacy notification of The Stock Exchange of Thailand group, with details that you can study via <https://www.set.or.th/th/privacy-notice> .

SET would like to thank you in advance for your comments and suggestions.