

Results Market Consultation

Potential Rule Changes MDAX/SDAX/TecDAX

Deutsche Börse AG has conducted a market consultation regarding potential rule changes to the MDAX/SDAX and TecDAX in the time period from 26 January 2018 to 04 May 2018.

1. Background

The current index selection rules are based upon a separation of stocks by (1) size/liquidity as well as by (2) industry. Regardless of their industry classification, the largest stocks are included in DAX. For non-DAX stocks, industry classification matters: Only companies classified as “classic” (i.e. “non-tech” industries) are eligible for inclusion into the MDAX or SDAX. Tech industries companies are eligible for TecDAX only.

2. Considered Changes

- (1) Removal of the separation by industry in order to allow otherwise eligible stocks, irrespective of their sector allocation, to enter the MDAX or SDAX,
- (2) Removal of the separation by size and liquidity in order to allow otherwise eligible stocks of technology companies, irrespective of size and liquidity, to enter the TecDAX.
- (3) Adjustment in the number of components for the MDAX, SDAX and TecDAX. In this context, the following alternative scenarios are considered:

MDAX/SDAX:

- a. Increase in the number of MDAX and SDAX components from currently 50 to 60,
- b. Increase in the number of MDAX components from currently 50 to 60, increase in the number of SDAX components from currently 50 to 70,
- c. Increase in the number of MDAX components from currently 50 to 70, increase in the number of SDAX components from currently 50 to 70,

TecDAX:

- a. Maintain the current number of TecDAX components (30),
- b. Increase in the number of TecDAX components from currently 30 to 40.

In order to mitigate potential uncertainty for investors with regard to potential changes in the risk and return characteristics of the affected indices, it is proposed that “shadow indices” simulating the behavior of the MDAX, SDAX and TecDAX under the new rules, would be calculated and disseminated for a period of at least 3 months over the course of which the methodology of the MDAX, SDAX and TecDAX will remain unchanged. At the point in time where the new rules will become effective, the calculation and dissemination of the “shadow indices” will be discontinued.

The transition from the current to the proposed methodology would follow a rules based process as outlined in the market consultation document.

3. Results of market consultation

- (1) Are market participants in favour of the proposed rule change which would allow eligible stocks, irrespective of their sector allocation, to enter the MDAX or SDAX. If not, why so?

Respondents clearly favour of the proposed rule change which would allow eligible stocks, irrespective of their sector allocation, to enter the MDAX or SDAX.

- (2) Are market participants in favour of the proposed rule change which would remove the separation by size and liquidity in order to allow eligible stocks of technology companies, irrespective of size and liquidity, to enter the TecDAX. If not, why so?

Respondents clearly favour of the proposed rule change to remove the separation by size and liquidity in order to allow eligible stocks of technology companies, irrespective of size and liquidity, to enter the TecDAX.

- (3a) Should the number of components for the MDAX and SDAX be extended from currently 50 to 60?

- (3b) Should the number of MDAX and SDAX components be extended from currently 50 to 60 (MDAX) and 70 (SDAX)?

- (3c) Should the number of MDAX and SDAX components be extended from currently 50 to 70 (MDAX) and 70 (SDAX)?

- (3d) Should the number of TecDAX components be extended from currently 30 to 40?

The responses with regard to the optimal number of components in MDAX/SDAX and TecDAX differed by stakeholder group. Participants either voted for small, tradable and well replicable indices or big investment universes to choose from. That's why preferences reached from maintaining the current number of components (MDAX50/SDAX50/TecDAX30) to an increase in the number of components beyond that proposed in the market consultation.

- (4) Is the proposed transition process as outlined on page 13 of the market consultation document (supporting material) reasonable?

Respondents clearly consider the rules for the transition process reasonable.

- (5) Is the considered launch of "shadow indices", simulating the behavior of the MDAX, SDAX and TecDAX under the new set of rules useful for market participants?

Respondents clearly consider the introduction of shadow indices useful.

4. Conclusion

Following feedback from the market consultation and further analyses, Deutsche Börse decides rule changes to the inclusion of companies in the MDAX, SDAX and TecDAX indices.

The tech and classic sectoral separation in the indices will be eliminated. By ending the previous separation into classic and tech segments, tech companies will also be included in the MDAX and SDAX in future.

Further, companies included in the DAX that are in the technology sectors can now also be included in the TecDAX index. The adjustments apply from 24 September 2018.

Furthermore, the MDAX and SDAX indices are being expanded: the number of stocks in the MDAX is rising from 50 to 60 and the number of stocks in the SDAX from 50 to 70. Expanding the MDAX to 60 stocks and the SDAX to 70 stocks both ensures the indices are representative and continues to safeguard the high level of liquidity and tradability. The TecDAX, by contrast, will remain unchanged and continue to consist of 30 companies.

The new methodology will be applied for the first time in the creation of the ranking list published on the third trading day of September and will be reflected in the index calculation of the MDAX, SDAX and TecDAX as of 24 September 2018.

The “shadow indices” will be made available as of 18 June 2018. The launch at the June rebalancing allows a composition based on most recent information, i.e. the May 2018 ranking list.