

Zug, October 11th, 2023

Market Consultation on raising the DAX capping limit from 10% to 15% and the introduction of additional DAX capping functionalities

Dear Sir and Madam,

STOXX Ltd. a global provider of innovative and tradable index concepts, has decided to conduct a market consultation on raising the DAX capping limit from 10% to 15% and the introduction of an intra-quarter capping and group entity capping functionality.

The market consultation may or may not lead to changes in the index methodology.

Process and Timeline

STOXX invites relevant stakeholders and interested third parties to submit responses to consultation@stox.com. Responses can be provided in either English or German.

The consultation is open to all market participants until 8th November 2023.

STOXX intends to announce the results of the market consultation, as well as an announcement about potential changes to the index methodology, by 22nd November 2023.

Depending on the outcome of this consultation, STOXX intends to implement the proposed increase of the capping limit with the ordinary March review (18th March 2024), and the proposed introduction of an intra-quarter capping and group entity capping functionality with the ordinary June review (24th June 2024).

Motivation for the Market Consultation

In April 2022, STOXX launched a market consultation which, among others, surveyed the proposal to increase the capping limit for the weight of single components in DAX Selection Indices with a 10% capping limit, from 10% to 15% ([DAX Market Consultation Spring 2022](#)). Most respondents (58%) rejected the proposal. Against the backdrop of this feedback, STOXX announced to keep the 10% capping limit in DAX Selection Indices in June 2022.

Following the announcement of the results of the market consultation and the following rule changes, STOXX noted that the component capping is still being discussed among market participants. In October 2023, STOXX has announced the final timeline for the further modifications to the DAX Equity Index Calculation framework ([Overview of modifications](#)) and set March 2024 as the Go-Live date ([DAX Equity Indices Simulation Phase](#)). Therefore, as of today's date, STOXX is consulting on whether the decision to maintain the 10% capping still meets the needs of market participants or whether an increase of the cap is to be implemented together with the aforementioned modifications in March 2024. The intention of the increase of the capping limit is to enhance the representativeness of DAX indices with regards to the performance of the German stock market.

Further, regarding the capping procedure, STOXX is evaluating if intra-quarter capping and group entity capping for DAX indices are desirable features for market participants to reduce concentration risks due to extraordinary increases of single component weights between reviews and enhance the replicability of the indices.

Proposed Treatments/Amendments

Component Capping Limit

It is proposed to increase the capping limit for DAX Index from 10% to 15%. STOXX further collects feedback on the scope of this change, i.e. other affected indices are proposed.

Intra-quarter capping

Currently, the DAX capping limit is only enforced at the quarterly index review dates in March, June, September and December. The introduction of intra-quarter capping would allow STOXX to enforce the DAX capping limit anytime and thereby extraordinarily reduce an index components weight in between two quarterly index review dates.

STOXX intends to introduce intra-quarter capping only if market participants are in favor of increasing the DAX capping limit to 15%. Should this be the case, STOXX proposes that intra-quarter capping for DAX indices will be triggered once a component's weight exceeds 20% based on closing prices of the respective trading day. Should one component exceed this threshold, the component's weight will be capped extraordinarily to 15%. Any other component exceeding 15% index weight will subsequently be capped to 15%, until no component exceeds 15% index weight.

The timetable for the intra-quarter capping process is as follows:

Date t: Weight exceeds 20% threshold at the close of market

Date t+1: Announcement of the new capping limit after close of market

Date t+3: Implementation of the new capping limit after close of market

Date t+4: Effective date

In case of upcoming corporate actions that would trigger an index component to exceed the 20% threshold, intra-quarter capping will also apply, with changes becoming effective on the ex-date of the corporate action event. In this case, the timetable is as follows:

Date t-4: Close price of index components for new weighting cap factors calculation

Date t-3: Announcement after close of market of the new weighting cap factors based on the prior's day close price

Date t-1: Implementation of the new weighting cap factors after close of market

Date t: Latest Effective Date of the Corporate Action / Effective date of the new weighting cap factors in index

Group Entity Capping

A group entity shall be a group of companies that are related to each other by one company being reported to be the parent of another company by an official filing regardless of holding percentage, or is reported of having majority ownership in an official filing regardless of holding percentage, or is reported as being indirect parent or majority owner regardless of holding percentage, or is holding more than 50% of voting stocks or is reported to hold indirectly more than 50% of the other company.

If a group entity, which consist of 2 or more constituents, is identified within an index and has a combined uncapped weight above 30% as largest constituent or 15%, if not the largest, then the group entity will be capped to 30% / 15% weight at the index review effective date. The resulting weighting cap factor will be applied to securities that form the group entity.

This group entity capping rule shall only apply at quarterly reviews, together with the publication of the weighting cap factors on the second Friday of the quarter, one week prior to quarterly review implementation, and calculated using Thursday's closing prices. An intra-quarter capping of group entities shall not be applied.

Supporting Material

STOXX has analyzed the potential impact of the proposed rule changes to the DAX, MDAX, SDAX, TecDAX and DivDAX index performance by producing back-tested indices applying the proposed rules from September 2013 to September 2023. The analysis has been visualized in the supporting material document ([Link](#)).¹

Affected Indices

DAX

MDAX, SDAX, TecDAX, DivDAX, DAX ex Financials 30 (pending decision)

Question

1. Are you in favour of increasing the capping limit for DAX from 10% to 15%? Please provide a rationale.
2. Are you in favour of increasing the capping limit from 10% to 15% also for other DAX indices? Please specify for which of the following indices you are in favour of increasing the capping limit. Please provide a rationale.
 - a. MDAX
 - b. SDAX
 - c. TecDAX
 - d. DivDAX
 - e. DAX ex Financials 30
3. If you are in favour of increasing the capping limit to 15%: Are you also in favour of introducing intra-quarter capping? Please provide a rationale.
4. If you are in favour of introducing intra-quarter capping: Do you agree with the proposed 20% component weight threshold that shall trigger the intra-quarter capping process? Please provide a rationale.
5. If you are in favour of increasing the capping limit to 15%: Are you in favour of implementing a rule that identifies a group entity, per the above definition, and apply a capping for group entities and impacted securities at the quarterly reviews?

¹ The supporting material document can also be found in the DAX Market Consultation section on the STOXX website ([Link](#)).