MARKET CONSULTATION

Market Consultation on the treatment of Greece in the STOXX indices

Zurich, Jul. 15, 2015
STOXX Limited, a leading provider of innovative, tradable and global index concepts, has decided to conduct a market consultation to ensure an objective approach in reflecting the economic realities pursuant to the IOSCO Principles for Financial Benchmarks. The consultation relates to the prolonged market closure of Athens Stock Exchange and the pricing to be used to exclude the affected companies – if such an exclusion becomes necessary. The market consultation may or may not lead to changes in the index methodology. However, the purpose of the consultation is to identify procedures and rules also for potential similar situation in the future.

PROCESS AND TIMELINE

STOXX invites market participants to submit responses to consultation@stoxx.com. STOXX intends to publish the results of the market consultation, as well as an announcement about potential changes to the index methodology, before Aug. 7, 2015. The consultation is open to all market participants until Jul. 22. In addition to responses from clients, input from the STOXX Advisory Board will be considered.

CURRENT PROCESS

Initially the market closure was treated according to rule 8.6 of the STOXX Calculation Guide applying the 10 non-trading days rule with a deletion at the last traded price. However, given the market closure has been prolonged continuously STOXX has reclassified the situation and considers chapter 8.7 (Extreme Market and Company Events) of the STOXX Calculation Guide. The procedure for this situation has been defined for all STOXX indices except the STOXX Total Market Indices.

- STOXX will not remove the Greek stocks following the 10 non-trading day rule.
- If the Athens Stock Exchange remains closed for 30 consecutive trading days, the removal of the stocks within two trading days will be announced on the 30th day (Aug. 7, 2015). The first day of the current market closure in Greece was Jun. 29, 2015.
- If sufficiently liquid futures contracts on the index are available and open for trading, implicit prices for non-traded securities deducted from index futures valuations will be used as exclusion prices. A detailed description of the methodology is provided on the STOXX website. Based on current liquidity this process will be applied only for the components EURO STOXX Banks Index. (https://www.stoxx.com/press-releases-details?articleId=137962101)
- For all other components the last available price will be used to remove the stocks from the indices.

STOXX would like to clarify that the process described above is applied to the current market closures only and does not cover a potential exit of a country from the Eurozone:

In the scenario that a country would exit the Eurozone in an unscheduled disorderly way, and trading would be switched to a newly introduced non-Euro currency STOXX would then evaluate the specific market situation and announce the treatment of these companies as soon as possible following the announcement. Independent of the results of such an evaluation, STOXX would delete those companies from the EURO STOXX Indices as soon as feasible. However, deletions would be done in such a way as to minimize tracking error distortions, as measured by theoretical long portfolio tracking the index exactly.

QUESTIONS

A. After how many days is it appropriate to remove stocks from an index in case the underlying market was closed in an unforeseen manner?

B. Under what conditions is it justified to keep stocks in the index despite no trading was possible due to market suspension?

C. At what price should the Greek stocks be removed in case the Greek securities need to be deleted from the STOXX indices while the suspension continues? Please elaborate how and why?

D. When should Greek securities be removed from the index in case of an announced change to a non-Euro currency?

E. At what price should the Greek stocks be removed from the Eurozone indices in case of an announced change to a non-Euro currency?

F. In case other pricing sources or methods should be considered for the removal of a company (please see also the appendix), what are the advantages?

G. Is the two-days-notice-rule for removing the stocks from an index appropriate for either of these situations?

APPENDIX

In general the following pricing hierarchy is applied to the components of the STOXX indices

Status : Stock Exchange	Price in daily calculations	Price to remove companies
Open	Last traded price	Last traded price
Public holiday	Last traded price (previous business day)	Last traded price
Extraordinary market closure	Last traded price (previous exchange business day)	*Derived from liquid Index Futures if available otherwise last traded price*

Other options to remove a security in case of an extra ordinary market closure

- Last traded price
- Other alternative trading venue (please define criteria that such a venue would need to fulfil in order to be considered)
- OTC pricing
- Price of 0.0000001 (identical to bankruptcy process pursuant to Section 8.6 of STOXX' Calculation Guide)
- Derive from the pricing of an ETF tracking the respective market
- Derive from the pricing of an Index Future tracking the respective market
- Derive from the pricing of another share class (e.g. ADR)

REFERENCES

Client information on the treatment of Greece in the STOXX Indices (9 July)
https://www.stoxx.com/press-releases-details?articleId=137946105

Methodology for valuation of suspended shares using Futures (8 July)
https://www.stoxx.com/press-releases-details?articleId=137962101

Client information on the treatment of Greece in the STOXX indices
https://www.stoxx.com/press-releases-details?articleId=137962149 (8 July)