

STOXX LIMITED

MARKET CONSULTA- TION ON TREATMENT OF RIGHTS ISSUES

JULY 1, 2014

MARKET CONSULTATION ON TREATMENT OF RIGHTS ISSUES

1. BACKGROUND AND CURRENT RULES

1.1. BACKGROUND

STOXX index rules on treatment of rights issues have been in place for many years without any need for adjustment. Recently a number of rights issues with unusually high numbers of new shares have been registered – most notably the rights issued by Banca Monte dei Paschi di Siena with ex-date June 9, 2014 and a ratio of 214 new shares for 5 old shares.

It could be argued after the publication of details that the existing practice of including the full number of new shares in the index as of the ex-date may lead to undesirable effects on the market as the new shares may not be issued until a later date in the progress requiring index investors to hold more shares than are actually available in the market in order to track the index.

With this market consultation, STOXX aims to identify market views on the need for as well as the detailed implementation of a potential index methodology change. The consultation covers the treatment of rights issues as described in chapter eight section four of the STOXX Calculation Guide in general and is not limited to highly dilutive rights issues.

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

1.2. PROCESS AND TIME LINE

STOXX invites market participants to submit responses either via the online survey at <https://www.surveymonkey.com/s/XMZYTCL> or in writing via email to customersupport@stox.com. The consultation remains open for submissions until Aug. 15, 2014.

Only responses with complete contact information will be considered.

STOXX intends to publish the results of the market consultation as well as an announcement about potential changes to the index methodology no later than Sept. 12, 2014. In addition to responses from clients, input from the STOXX Advisory Board will be considered.

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2. TREATMENT OPTIONS

2.1. CURRENT RULEBOOK

Treatment of rights issues is covered in section four of chapter eight of the STOXX Equity Index Calculation Guide (<http://www.stoxx.com/indices/rulebooks.html>):

4. Rights offering Divisor	Divisor
If the subscription price is not available or equal to or greater than the closing price on the day before the effective date, then no adjustment is made.	No change
a) Free float market capitalization weighted indices Adjusted price = $(\text{closing price} \times A + \text{subscription price} \times B) / (A + B)$ New number of shares = $\text{old number of shares} \times (A + B) / A$	Increases
b) Price weighted indices with weighting factors Adjusted price = $(\text{closing price} \times A + \text{subscription price} \times B) / (A + B)$ New weighting factor = $\text{old weighting factor} \times \text{closing price} / \text{adjusted price}$ unchanged	Decreases

This refers to a rights issue of to purchase B new shares for A old shares at the subscription price

2.2. CONSTANT WEIGHT METHOD

On the effective date of the rights issue the price of the company is being adjusted according to the standard procedure. The number of shares is proportionally increased to reflect the price adjustment. This will lead to an unchanged weight of the company in the index. The number of shares will be increased in the index after the new shares have been listed.

The following adjustments apply:

- Adjusted price = $(\text{closing price} \times A + \text{subscription price} \times B) / (A + B)$
- New number of shares = $\text{old number of shares} \times \text{closing price} / \text{adjusted price}$
- No adjustment of the divisor takes place

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2.3. NO SHARE CHANGE METHOD

On the effective date of the rights issue the price of the company is being adjusted according to the standard procedure. The number of shares is not changed. This will lead to a decreased weight of the company in the index. The shares will be increased in the index after being listed; at the end of the right offering period.

The following adjustments apply:

- Adjusted price = (closing price × A + subscription price × B) / (A + B)
- New number of shares = old number of shares
- The index divisor will be adjusted to correct the price adjustment in the share

2.4. INCLUSION OF THE RIGHTS

On the effective date of the rights issue the price of the company is being adjusted according to the standard procedure. The number of shares is not changed. This will lead to an decreased weight of the company in the index.

- Adjusted price (ex-right share) = (closing price × A + subscription price × B) / (A + B)
- New number of shares = old number of shares
- Additionally, on the effective date the rights are added as a separate component to all affected indices as defined by the ratio. The rights have the same characteristics as the parent line towards country, size, sector assignments and Free Float factors.
- Number of rights = old number of shares
- Price of rights = Closing price – adjusted closing price

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2.5. INCLUSION OF THE RIGHTS AND A CASH COMPONENT

On the effective date of the rights issue the price of the company is being adjusted according to the standard procedure. The number of shares is not changed. This will lead to a decreased weight of the ex-right share in the index.

- Adjusted price (ex-right share) = $(\text{closing price} \times A + \text{subscription price} \times B) / (A + B)$
- New number of shares = old number of shares

Additionally, on the effective date the rights and a cash component are added as separate components to all affected indices as defined by the ratio. Both have the same characteristics as the parent line towards country, size, sector assignments and Free Float factors. The price of the cash component is fixed and equals the subscription price. This represents the cash required in order to later execute the rights.

- Number of rights = old number of shares
- Price of rights = Closing price – adjusted closing price
- Cash component = old number of shares $\times B / A$ * subscription price

2.6. DELETION OF THE COMPANY

The company issuing the rights is excluded from the indices prior to the effective date. In indices with a fixed number of constituents a replacement is determined based on the latest selection list. The company may enter the indices again at the next periodic review if it fulfills all criteria for the inclusion into the STOXX indices.

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3. QUESTIONS TO MARKET PARTICIPANTS

3.1. GENERAL QUESTIONS

- » Which scenario would be your preferred scenario?
- » Should the new treatment apply to all rights issues or only highly dilutive ones?
- » Do you consider a share increase of greater than 100% as highly dilutive or would you suggest another threshold?
- » Should alternative criteria be used to define a highly dilutive rights issue? If yes, which and how would the information be available?
- » Should the adjusted price be calculated in a different way? If yes, how?
- » Which measure do you take beforehand in order to be prepared of late company announcements?
- » Do you believe there are other corporate actions than rights issues that should be treated differently? If yes, which ones and how should they be treated?

3.2. QUESTIONS ON SCENARIO 2.1: CURRENT RULEBOOK

- » Please provide your general thoughts on this scenario.
- » Which issues do you see with the immediate inclusion of shares that may not yet be in issue?
- » Which other issues do you see with this scenario?
- » What are the advantages of this scenario?

3.3. QUESTIONS ON SCENARIO 2.2: CONSTANT WEIGHT METHOD

- » Please provide your general thoughts on this scenario?
- » This scenario will also include shares not yet in issue (with reduced magnitude), why is this scenario preferable to the existing rules in your view?

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3.4. QUESTIONS ON SCENARIO 2.3: NO SHARE CHANGE METHOD

- » Please provide your general thoughts on this scenario.
- » In this scenario the weight decreases at the ex-date only to increase again once the shares are issued. Do you see any issues with this?
- » The replication of this requires a sale of the rights, do you see any implementation or liquidity issues with this approach?

3.5. QUESTIONS ON SCENARIO 2.4: INCLUSION OF THE RIGHTS

- » Please provide your general thoughts on this scenario.
- » Do you foresee any challenges from an implementation viewpoint with the inclusion of the rights in the index?
- » How do you view the tradability and liquidity of the rights issue as a member of the index? Could replication problems arise if rights are not sufficiently liquid?
- » Which price should be used for inclusion of the rights issues?
- » How long should the rights remain in the index?
- » In case the rights cease trading prior to the issuance of the new shares, how should the index be adjusted?

3.6. QUESTIONS ON SCENARIO 2.5: INCLUSION OF THE RIGHTS AND A CASH COMPONENT

- » Please provide your general thoughts on this scenario.
- » Do you foresee any challenges from an implementation viewpoint with the inclusion of the rights in the index?
- » Do you foresee any operational challenges by including a significant cash component into the index for a potentially lengthy period?
- » How do you view the tradability and liquidity of the rights issue as a member of the index? could replication problems arise if rights are not sufficiently liquid?
- » Which price should be used for inclusion of the rights issues?
- » How long should the rights remain in the index?
- » In case the rights cease trading prior to the issuance of the new shares, how should the index be adjusted?

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3.7. QUESTIONS ON SCENARIO 2.6: DELETION OF THE COMPANY

- » Please provide your general thoughts on this scenario.
- » Given that the component increases its market capitalization it is highly likely to return to the index at the next review. do you consider this additional turnover as problematic?
- » As of which level of impact is an exclusion justified?