



# **Consultation Document**

## **SET Index Series Methodology Revision**

Consultation Period: September 20 - October 8, 2021

## Contents

Part 1: Introduction .....	3
Part 2: Consultation Issues .....	4
Part 3: Consultation Form .....	6

## Part 1: Introduction

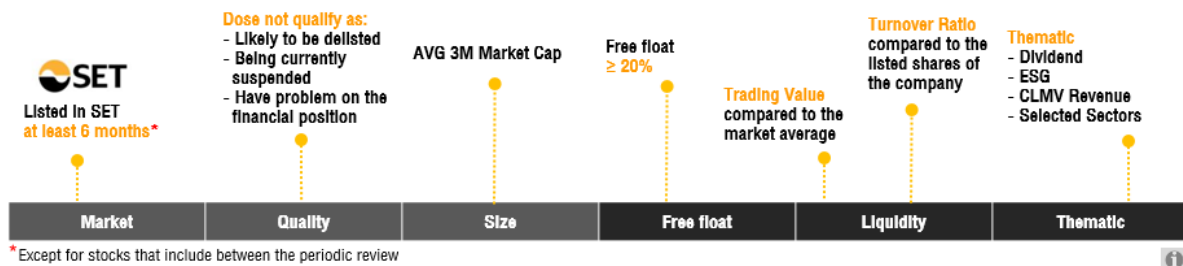
The Stock Exchange of Thailand (SET)'s indices have been formulated to reflect market movement of the Thai stock market as well as to serve as a performance benchmark for investment and underlying of financial products such as derivatives, mutual funds, and Exchange Traded Fund (ETF).

SET has continuously reviewed the methodology and selection criteria for these indices to better suit current market condition, the index users' needs, and in line with international standards. Thus far, the SET Index Series have reflected the price movement of the index constituents, but there are industry feedback that the methodology could be improved to reflect more investability concept and reduce the impact of volatility due to low free float stocks.

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 SET Index Series. Participants can provide comments or suggestions to SET from October 8, 2021 via <https://forms.office.com/r/qvagPc1wYE> . For questions, please contact the SET team via either email at [IndexTeam@set.or.th](mailto:IndexTeam@set.or.th). or telephone at 02-009-9574.

## Part 2: Consultation Issues

At present, the index constituents screening criteria for SET's tradable and thematic indices include both quantitative criteria such as market capitalization, trading value, turnover ratio, and free float and also qualitative criteria such as whether these constituents are likely to be delisted, being suspended, or having financial statement issues.



Nonetheless, to ensure that SET's tradable and thematic indices reflect the investability of index constituents, in line with international practices, as well as lessen volatility of the indices, SET proposes for changes in the ground rules of the index series including both quantitative and qualitative criteria as follows:

### 1. Revise the liquidity criteria in the ground rules of the index constituents screening.

#### Key concept

To ensure index investability, liquidity screening should reflect trading value that are consistent during normal trading environment.

#### Implementation Guidelines

To improve the index constituents screening criteria, it is proposed that the liquidity criteria be adjusted as follows:

- Adjusted the trading volume and trading value of the stock under screening by excluding the trading value / volume of a stock during the month that it is on the Market Surveillance Measure List<sup>1</sup> which is published on SET website. This is to adjust the abnormal data in the period that has been unusual movement, while considering the normal liquidity of such stock in other months or period in the liquidity screening process<sup>2</sup>.

<sup>1</sup> List of securities that SET discloses and requires members to allow customers to buy shares of using the cash balance via the SET website in accordance with the regulations regarding measures for abnormal trading as detailed in

- Circular Letter Kor Khor (Wor) 3 / 2014 dated 19 December 2014 on modifying measures to track and monitor securities trading
- Circular Letter Kor Khor (Wor) 1/2015 dated 10 July 2015 on modifying SET regulations

<sup>2</sup> The eligible stocks in SET's tradeable and thematic indices must pass liquidity criteria (the trading volume and trading value of a stock) for at least 9 out of the 12 months or at least three-fourths of the securities being traded for less than 12 months but more than 6 months.

Example: turnover screening will consider trading volume for the past one year. Supposed that stock A was in the Market Supervision watch list in a period of 1 month, the trading value of that particular month will be excluded. The rest of the data (11 months) will be used for the turnover screening process.

- The adjustment process will occur at the index revision period. (every 6 months).
- The proposed adjustment is for SET's tradable and thematic indices.

#### Implementation Plan

The amended the ground rules is proposed to take effect in the next review period slated for the month of December 2021.

## **2. Revise the method of calculating the weight of the index constituents to be free float adjusted market capitalization weighted.**

#### Key Concept

Weighting constituent stocks in an index should reflect each stock's investability and be in line with leading global indices.

#### Implementation Guidelines

- Revise the method of calculating the weight of the index constituents from previously using full market capitalization to using free float adjusted market capitalization.
- In implement this approach, it is necessary that the following issues should be further analyzed and considered:
  - ✓ the definition of strategic partner to ensure the constituent's free float reflect investability,
  - ✓ the methodology to incorporate free float in index calculation, and
  - ✓ implementation guidelines to reduce the probable impact from high index turnover resulting from trading in the index constituent for rebalancing purposes.

#### Implementation plan

As above mentioned , the free float adjusted revision to the calculation method requires further action and determination of additional details to ensure that the stock's free float can appropriately reflect the characteristics of the Thai capital market, in line with international standards, and reflect the investability of index constituents. As such, SET will conduct further analysis and further consult with market participants and announce the details afterward.

## Part 3: Consultation Form

Please submit your comments using the online form by Friday, October 8, 2021 via [Link](#) or the QR Code down below.



For additional information, please contact the Cash Product Department, Market Division by telephone at 02-009-9574 or Email: [IndexTeam@set.or.th](mailto:IndexTeam@set.or.th)

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