

Consultation Conclusion

Turnover ratio adjustment for SET50 / SET100 Indices Methodology



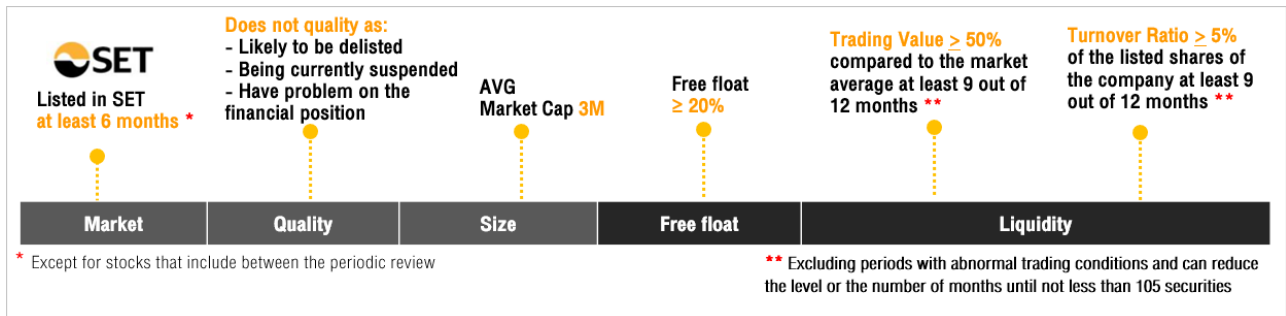
The Stock Exchange of Thailand (SET) would like to thank those who shared your thoughts and views regarding the proposal to adjust the turnover ratio of the SET50 Index and SET100 Index.

This document contains the summary of responses to the consultation recently received from 32 respondents, consisting of 12 asset management companies, 16 securities companies, 3 investors and 1 listed company with details of valuable opinions and recommendations.

Consultation issues

At present, the SET50 Index and SET100 Index screening criteria consist of both qualitative and quantitative criteria. The qualitative criteria are such as whether these constituents are likely to be delisted, being suspended or having financial statements issues. The quantitative criteria include market capitalization, free float, trading value and turnover ratio.

Figure 1 shows the screening criteria for the SET50 / SET100 Indices.



However, the recent review of the market trading conditions shown that there have been changes in terms of investors' trading behavior from previously focusing on stocks in the SET50 Index to a more diversified trading toward the smaller non-SET100 stocks (Figure 2). This results in the lower-than-expected turnover ratio of the Top 10 large stocks in the SET50 Index compared to other groups of stocks. The Top 10 large stocks in the SET50 Index, which are the significant representative of Thai stock market's, have their turnover ratio drop to 2 - 4% from 4 - 5%. (Figure 3)

Figure 2 shows the proportion of investors' investments from 2019 - 2022 (H1)

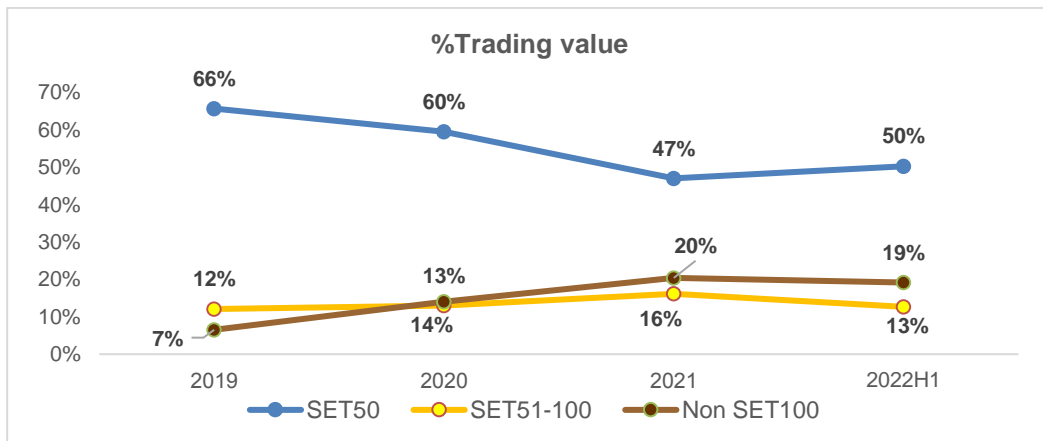
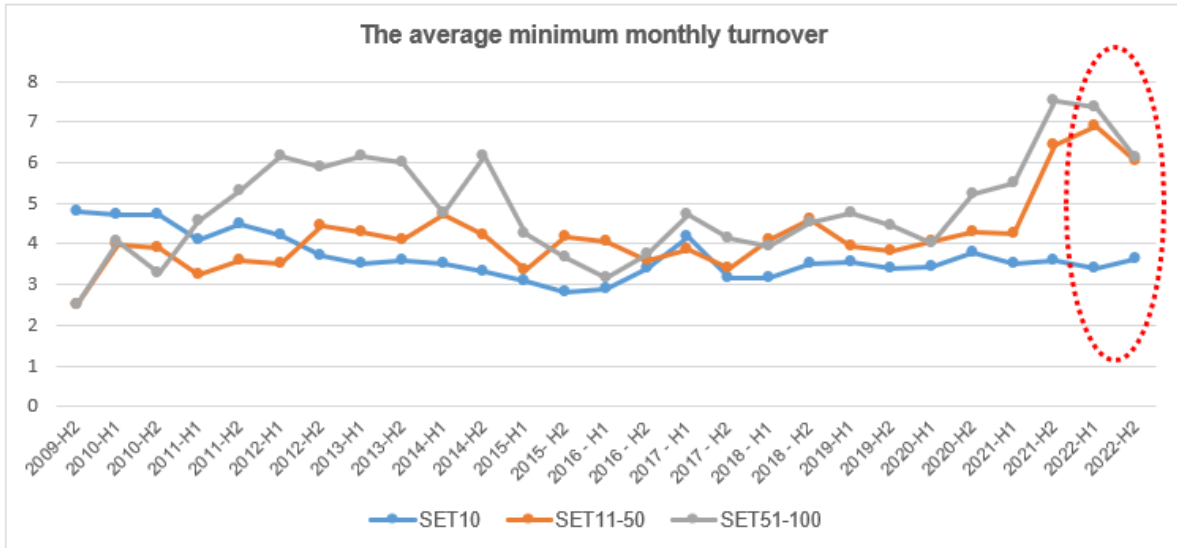


Figure 3 shows the average minimum monthly turnover ratio in each review period.



In addition, SET has also conducted comparative studies of the Liquidity criteria of the SET50 / SET100 Indices against foreign indices and found that most foreign indices set the Liquidity criteria by using the turnover ratio similar to the SET50 / SET100 Indices methodology, but at lower level of approximately 1 - 2% compared to 5% set by SET.

Therefore, in order to cope with the changing market trading conditions, SET propose to adjust the turnover ratio for the SET50 and SET100 Indices screening criteria as follows.

Adjustment proposal

SET proposes guidelines to improve liquidity criteria for the SET50 / SET100 Indices as follow:

- Use the current criteria and guidelines, but adjusting the turnover ratio level to 2% from 5%
- The adjusted Index Methodology criteria will be applied in the review period of December 2022

Feedback summary

Most of the respondents agreed with the principles proposed by SET. The respondents provided additional viewpoints and suggestions, as follows:

- Lower turnover ratio is in line with changing market conditions and international foreign index providers' approach
- Lower turnover ratio will help increase possibilities that large stocks (which significantly represents Thai stock market) will be included in the index, while other screening criteria are still appropriate.
- Lower turnover ratio will contribute to the long-term stability of the index. As a result, the movement of the index is more stable and in accordance with international standards.
- The adjustment can help mitigate some of the market volatility from actively traded small cap stocks.

However, **few respondents disagree** with the principles proposed by SET given reasons, which can be summarized as follows:

- Lower turnover ratio may make the index more vulnerable to manipulation from funds and high net worth investors. Some stocks may benefit while some may not from being included in SET50 or SET100 index.
- A low turnover can be caused by many factors, for example, some high priced large stocks are unattractive to retail investors, investors tend to invest long-term in high dividend yield large stocks, and increasing demand to invest in new IPO small-medium stocks, etc.
- Some stocks with low turnover but high volatile prices may be included in the SET50 index, making the index volatility higher.

The respondents provided additional comments and suggestions as follows:

- Should reduce a turnover ratio to 1% in line with foreign index providers' approach.
- Should consider using adjusted free float to calculate weight of stocks in the index. The free float used for index calculation should reflect real investor's holdings in order for the index to reflect the movement of stocks in the market that investors can actually invest.
- Should include foreign shareholding into the selection criteria and index weight calculation by giving less weight for high foreign-owned stocks to reflect the ability of Thai institutional investors to invest.

Summary of the consultation and SET's implementation

Consultation conclusion

Based on the result of the consultation, it is concluded that the majority agreed with SET's proposal to adjust the turnover ratio for the SET50 / SET100 Indices.

SET's implementation

SET will revise the turnover ratio level to 2% for the SET50 / SET100 Indices. It will be used for security screening of the Index at the end-of 2022, which will be announced in December 2022, and will be used in the index calculation from January 2023 onwards.

For valuable additional comments and suggestions, SET will study and assess the suitability for index selection criteria improvement. SET will then also consult with relevant parties before any adjustments.