



# **Consultation Document**

## **Adjustment of SET50 / SET100 Indices Methodology**

Consultation Period: April 11 - 26, 2024

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## Part 1: Introduction

The Stock Exchange of Thailand (SET) has developed the SET50 Index and SET100 Index to accurately reflect the market movements of the Thai stock market, serving as performance benchmarks for various investments vehicles such as derivatives, mutual funds, and Exchange Traded Funds (ETFs).

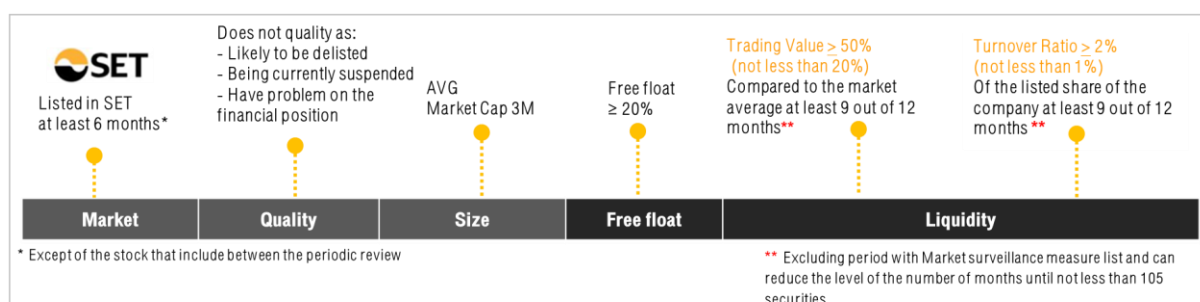
SET has continuously reviewed the methodology and selection criteria behind these indices to better suit changing market conditions, cater to the needs of index users, and align with international standards. With the recent study of market conditions, changes in securities trading conditions have been identified, indicating that the current methodology could be improved to be more suitable with the current market conditions.

In light of these findings, SET is proposing adjustments to the methodology and invites stakeholders to share their perspectives and feedback on these proposed changes of the SET50 Index and SET100 Index. Interested participants can provide comments or suggestions to SET until April 26, 2024. For question, please contact the SET team via either email at [IndexTeam@set.or.th](mailto:IndexTeam@set.or.th) or telephone at 02-009-9568.

## Part 2: Consultation Issues

Currently, the liquidity selection criteria for the SET50 and SET100 Indices are based on two factors: the trading value, which reflects the ability to support the value of investment in that security, and the turnover ratio, which reflects the adequate number of shares circulating on the trading board. To qualify, securities must meet both liquidity selection criteria in at least 9 out of 12 months. SET has established an initial level for liquidity criteria for each factor, with the flexibility to adjust these levels downward to ensure that at least 105 securities meet the criteria in each periodic review. (Figure 1)

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



SET has continuously reviewed the index methodology to suit market conditions. At present, securities trading conditions have changed, for example, securities in the large market cap groups tend to have high trading values but lower turnover ratios compared to smaller market cap securities. This disparity extends even within the SET100 group. Moreover, the current requirement of maintaining a reserve list of 5 securities may result in an unnecessary adjustments in liquidity criteria during selection. Historically, there has not been any event that required up to 5 securities from the reserve list.

For the selection criteria to effectively suit market conditions and align with international standard, SET has comparatively studied the guidelines for the liquidity selection criteria used by international index providers, particularly the liquidity criteria and reserve list criteria, such as MSCI and FTSE. These providers set only minimum requirements and select securities according to the number of constituents in the index, while SET50 and SET100 Indices initially start with a relatively high value and then leveling down to be able to achieve the required number of securities, including index constituents of 100 securities and 5 reserve securities. In addition, the studies also showed that most international index providers will announce a list of reserve securities only when an event occurs that necessitates replacing the securities that have been removed from the index.

Based on the study of foreign index methodology combined with the trading conditions in Thailand in recent years, SET views that the current liquidity criteria, which consider both trading value and turnover ratio, will ensure that the selected securities have sufficient liquidity for every investor

groups. On the other hand, specifying only the minimum requirement level for each factor will align with international guidelines and be suitable for the ever-changing trading conditions. The guidelines for considering the appropriate minimum requirement levels are as follows:

- **Trading Value:** The current criteria specify that the trading value level starts at 50% and may be reduced by 5% at a time, but not below 20%. This level is based on the industry survey stating that securities accessible for investment should have a daily trading value of approximately THB 20 million, which was equivalent to about 50% under the past market conditions. However, with today's increasing trading volumes, the trading value level is approximately 25%.
- **Turnover Ratio:** The current criteria specify that the starting level is 2% and may be reduced by 0.5% at a time, but not less than 1%. However, given market trends where the turnover ratios are on a downward trajectory, selecting at the minimum level specified in the current criteria will correspond with the changing market conditions and be in line with the level set by index providers globally.

In order to improve the criteria of the SET50 and SET100 Indices, corresponding with the current market conditions and international standards, and to better achieve the objectives of the index, SET would like to propose the adjustment guidelines based on the following principles:

**1. Adjust the liquidity criteria for the SET50 and SET100 Indices**

Adjust the methodology for considering the liquidity of securities included in the index constituents, making it more precise and in line with international guidelines, while still using the two key factors: the trading value and the turnover ratio.

**Adjustment proposal**

Current criteria	Proposed criteria
<p>Specifying the initial parameters and adjust downward until achieving the required number of constituents, starting from:</p> <ul style="list-style-type: none"> <li>● Trading value: Starting at 50% and can be reduced by 5% at a time, but not less than 20%.</li> <li>● Turnover ratio: Starting at 2% and can be reduced by 0.5% at a time, but not less than 1%.</li> </ul>	<p>Use the same key factors for liquidity criteria, but adjust the process to align with international guideline by specifying the minimum requirements for securities as follows:</p> <ul style="list-style-type: none"> <li>● Trading value: not less than 25%</li> <li>● Turnover ratio: not less than 1%</li> <li>● In the case where the number of qualified securities does not reach the required number of constituents, the number of months achieving the</li> </ul>



	<p>liquidity criteria may be reduced according to the specified guidelines</p>
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**2. Change the practice for reserve securities list announcement for SET50 and SET100 Indices**

**Adjustment proposal**

- Cancel the required number of reserve securities and announcement of the list of reserve securities. The reserve securities will be announced only when an event requires securities to be replaced in the index to ensure it is fully constituted according to the current principles. This is in line with most of the index providers globally.
- Specify a list of reserve securities of SET50 Index, based on the securities of SET100 at rank 51 to 100. The reserve securities for the SET100 Index are based on the securities that have passed the index's qualifications in the same selection cycle.

SET expects to adjust the indexing criteria for SET50 and SET100 Indices, as well as the SET50FF and SET100FF Indices, which follow the same selection principles, to be effective from the review period of June 2024 onwards.

## Part 3: Consultation Form

Please complete the questionnaire by filling out this form or go to [Link](#) by **April 26, 2024**

### 1. General Information

Name – Last Name: .....

Company: ..... Symbol: .....

Position: .....

Contact Number: .....

Email address: .....

Respondent Status (Can answer more than 1 question)

- |                                                   |                                                    |
|---------------------------------------------------|----------------------------------------------------|
| <input type="checkbox"/> Securities Company       | <input type="checkbox"/> Listed Company            |
| <input type="checkbox"/> Asset Management Company | <input type="checkbox"/> Institution Investors     |
| <input type="checkbox"/> Individual Investors     | <input type="checkbox"/> Others (Please specify :) |

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*The Stock Exchange of Thailand will process your personal information for the purpose of public hearing. Your personal information will be protected under the privacy notice of the Stock Exchange Group. Learn more details from <https://www.set.or.th/en/privacy-notice>.*

### 2. Opinion

#### Questions 1

Do you agree with the guidelines for improving the SET50 / SET100 index selection criteria?

<input type="checkbox"/> Agree	
<input type="checkbox"/> Agree, with comments.	(Details, and please specify)
<input type="checkbox"/> Disagree	(Details, and please specify)

**Questions 2**

Do you agree with the guidelines for improving the announcing reserve securities for the SET50 and SET100 Indices?

<input type="checkbox"/> Agree	
<input type="checkbox"/> Agree, with comments.	(Details, and please specify)
<input type="checkbox"/> Disagree	(Details, and please specify)
Other suggestions:	

Other suggestions:

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

