

# Consultation Conclusion

## Adjustment of SET50 / SET100 Indices Methodology



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

This document contains the summary of responses to the consultation recently received from 44 respondents, consisting of Thai Investors Association, asset management companies, securities companies, and listed company, 1 respondent from investor. It was found that the majority (approximately 93%) agreed with the guidelines for adjusting the criteria for selecting securities of the SET50 Index/SET100 Index as presented by SET, with details of valuable opinions and recommendations.

## Consultation issues

SET has continuously reviewed the index methodology to suit market conditions. At present, securities trading conditions have changed substantially from the past. As such, the current selection criteria for the liquidity of the SET50 Index and SET100 Index may not be in correlation with the changing trading conditions. In addition, SET has comparatively studied the guidelines for the liquidity selection criteria used by international index providers, particularly the liquidity criteria and reserve list criteria, it showed that these providers set only minimum requirements and select securities according to the number of constituents in the index, while SET50 and SET100 Indices criteria 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. 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 liquidity criteria may be reduced according to the specified guidelines</li> </ul>

## 2. Changing of the practice for reserve 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.

### Feedback summary

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

The majority of respondents (93%) agreed with the principles proposed by SET regarding the issue of adjusting the liquidity criteria for selecting securities of SET50 Index and SET100 Index, reasoning that such guidelines are appropriate for current market conditions, easy to understand, and align with international guidelines. In addition, the respondents have also made additional suggestions. The main points are summarized as follows:

- The liquidity criteria (trading value and turnover ratio) may set as variable instead of constant value depending on the market condition, such as calculating from the latest averages value and adjusted by standard deviation, etc.
- The criteria for the market capitalization of securities should be Free float Adjusted Market Capitalization according to the guidelines of some international index providers, or there should set a maximum market cap value.
- Free float criteria may be adjusted in accordance with the guidelines of international index providers.
- Consideration of additional securities quality criteria, such as the irregularities in securities trading or the company's operations, the indictment of directors or executives by government entities, CG Rating, etc.

However, those who disagreed (7%) viewed that this approach may result in the constituent of the SET50 and SET100 indices being less liquid, or may impact the distinction of SET50 index from foreign indices.

## **2. Changing of the practice for reserve list announcement for SET50 and SET100 Indices**

The majority of respondents (93%) agreed with the principles proposed by SET regarding the issue of adjusting the guidelines for announcing reserve securities of the SET50 and SET100 indices, reasoning that these are in line with international guidelines, and will not affect the SET50 and SET100 indices. In addition, the respondents have also suggested that SET should have a backup plan in case of unexpected events to ensure that SET50 Index and SET100 Index have complete number of securities as required.

Those who disagreed (7%) viewed that SET should keep the guideline for announcing the reserve securities, but should reduce the number of reserve securities to be less than 5 in order to help ensure transparency.

### **SET's implementation**

SET will adjust the criteria for selecting securities for SET50 Index / SET100 Index, as well as the SET50FF / SET100FF indices according to the principles as proposed above. These principles will be used for security screening of the Index from the second half of 2024 onwards

For valuable additional comments and suggestions, SET will study and assess the suitability for index selection criteria improvement.