

Consultation Document

Adjustment of SET Indices Calculation

Consultation Period: February 4 - 17, 2025

Contents

Part 1: Introduction	3
Part 2: Consultation Issues	4
Part 3: Consultation Form	7

Part 1: Introduction

SET50 and SET100 indices take part of a crucial role in the Stock Exchange of Thailand (SET) as key indicators reflecting the price movements of large and highly liquid securities in the market. These indices serve as reference benchmarks for investment in mutual funds, derivatives, and other financial products. Additionally, they are closely monitored by both domestic and international investors as essential data for analyzing overall market trends.

Currently, these indices are calculated using the Market Capitalization Weighting methodology, which assigns weightings based primarily on the market capitalization of each security within the index. While this approach effectively reflects the size and significance of each security, it has been observed that, in certain cases, large-cap securities exert a significant influence on index movements. This may result in the index not fully representing the overall market performance and could affect investors' risk diversification.

To address this issue, the SET is exploring potential refinements to the calculation methodology of the SET50 and SET100 indices. The objective is to mitigate the impact of large-cap securities on the indices and ensure a more balanced distribution of security weights. In this regard, the SET is seeking feedback from relevant stakeholders. Interested participants can provide comments or suggestions to SET until February 17, 2025. For question, please contact the SET team via either email at IndexTeam@set.or.th.

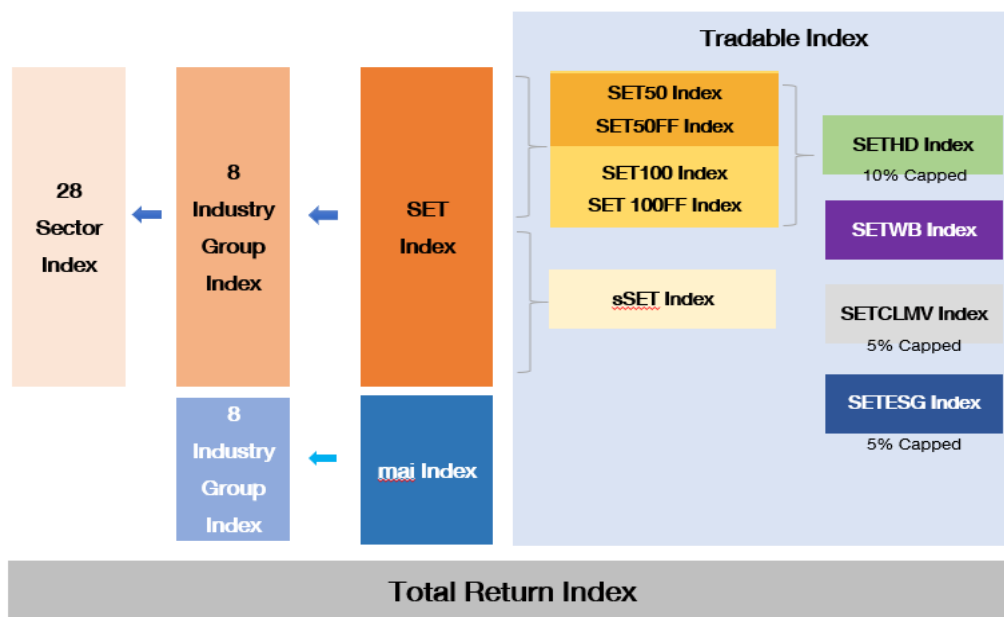
Part 2: Consultation Issues

1. SET Index Series

The Stock Exchange of Thailand (SET) has developed and published the SET Index Series, comprising a diverse range of indices with varying selection criteria and calculation methodologies. This variety provides investors with flexibility in selecting indices that best suit their investment objectives.

SET50 and SET100 indices, classified as Tradable Indices, are calculated using the Market Capitalization Weighting methodology, which assigns index weightings based on the market capitalization of each constituent security. However, it has been observed that some index constituents have significantly larger market capitalizations compared to others, resulting in higher index weightings for these large-cap securities. Consequently, these securities have a substantial influence on index movements, potentially leading to an index that does not fully represent the overall market performance. Introducing a capping mechanism on individual security weightings is one potential approach to achieving a more balanced index structure.

Figure 1 SET Index Series



2. Capped Weighting (Capped Weight) in Global Indices

To mitigate the dominance of large-cap securities in indices, international stock exchanges and index providers commonly apply Capped Weighting methodologies in index calculations. This approach limits the weighting of individual security or security groups to maintain an appropriate balance. The use of capped weighting is a widely adopted guideline in global indices, including EuroStoxx50, HSI, MSCI, CAC40, NASDAQ100, and Nikkei225.

Based on a study of leading global indices, Capped Weighting can be implemented through two main approaches: Capping individual security weightings and capping the weight of large security groups or industry sectors.

2.1 Constituent Stock Weight Capping

This approach is widely used in major international indices such as HSI, MSCI, EuroStoxx50, and NASDAQ100. It involves setting a maximum weighting for each individual security, typically ranging between 8% and 15%, to reduce the influence of large-cap securities.

2.2 Top-Weight / Sector / Industry Weight Capping

Some indices apply additional constraints on the weight of large security groups beyond individual security capping. For example, the NASDAQ100 Index limits the combined weight of its top five largest securities to a maximum of 38.5% to prevent excessive concentration in a few large-cap stocks.

Figure 2 Global Capped weight methodology

	Index				
	HSI	MSCI	Euro Stoxx 50	NASDAQ100	FTSE100
Constituent Stock Weight Capping	Non-Foreign 8% Foreign 4%	Depend on each index Ex. 10%	10%	Annually 15% Quarterly 24%	-
Top-Weight / Sector / Industry Weight Capping	-	both the individual security level and the large security group level, such as 10%/50%	-	Top 5 not exceed 38.5% (Quarterly 48%)	-

3. Proposal for Individual Stock Weight Capping in the SET50 and SET100 Index Series

The Stock Exchange of Thailand (SET) proposes the implementation of Constituent Stock Weight Capping to alleviate the dominance of large-cap securities in the indices. This approach aligns with internationally recognized standards and is consistent with preliminary discussions with index users and findings from international studies. The proposed capped weighting will apply to the SET50, SET100, SET50FF, and SET100FF indices.

Through index simulation testing, the SET has found that capping individual security weightings at 10% in the SET50 and SET100 indices effectively reduces the influence of large-cap securities while maintaining the overall index structure and market representation. Furthermore, the 10% cap aligns with the Securities and Exchange Commission (SEC) regulation that restricts retail mutual funds from investing more than 10% in a single security (Notification No. TorNor. 87/2558).

Proposal

The SET proposes the following adjustments to index calculation methodologies through the implementation of Capped Weighting:

1. Each individual security in the SET50, SET50FF, SET100, and SET100FF indices shall be capped at a maximum weighting of 10%.
2. Quarterly rebalancing shall be conducted for the capped weightings of index constituents. In some case, adjustments may also occur between regular rebalancing periods such as large IPOs or mergers & acquisitions (M&A). The rebalancing procedure will focus on minimizing unnecessary index turnover to ensure continuity and reduce potential impacts on index users.

Part 3: Consultation Form

Please complete the questionnaire by filling out this form or go to [Link](#) by **February 17, 2025**

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

Do you agree with the Stock Exchange of Thailand's proposal to cap the weighting of individual securities in the SET50, SET50FF, SET100, and SET100FF indices at a maximum of 10%, with quarterly rebalance?

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

Other suggestions:

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Please submit your feedback to CashProductDepartment@set.or.th by February 17, 2025.

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

