

Consultation Results

for

SET Index Series Calculation Methodology Revision

The Stock Exchange of Thailand (SET) would like to thank the respondents for participating in our consultation process and providing feedback and suggestions on the adjustment of the SET Index series Calculation Methodology Revision. The feedback comes from various participants including 16 securities companies, 8 asset management companies, 5 listed companies, 1 insurance company, 1 retail investor, the Social Security Office, and the Thai Investors Promotion Association. The majority of respondents (approximately 94%) expressed their agreement with the proposed improvements to the index calculation methodology. SET has summarized the feedback and suggestions from all respondents together with further actions as detailed below.

Consultation Topic

The Stock Exchange of Thailand (SET) has developed and published the SET50 and SET100 indices as Tradable Indices, employing a Market Capitalization Weighting methodology. This approach determines the weight of each constituent stock based on its market capitalization. However, it has been observed that some constituent stocks have significantly larger market capitalizations compared to others within the index. This can result in a disproportionately high index weight for larger stocks, potentially exerting excessive influence on index movements and leading to a less representative market reflection.

To address this concern, introducing a constituent stock weight capping mechanism is a potential solution to achieve a more balanced index structure. A review of international stock exchanges and leading index providers indicates that most have implemented Capped Weighting methodologies to mitigate such issues.

In line with this best practice, SET proposes to enhance its index calculation methodology by introducing a Constituent Stock Weight Capping for SET50, SET100, SET50FF, and SET100FF indices. Under this approach, the weight of any single constituent stock will be capped at 10% quarterly., starting from July 2025 onwards.

Feedback Summary

The majority of respondents (approximately 94%) expressed their support for the proposed approach by the Stock Exchange of Thailand (SET), recognizing its benefits in promoting portfolio diversification and mitigating single-stock concentration risk. Additionally, this approach aligns with international best practices, which is a crucial factor in enhancing investor confidence.

However, several respondents provided additional comments and recommendations, which can be summarized as follows:

- The criteria for weight capping should incorporate additional factors such as free float percentage, cash balance restrictions, or other relevant considerations. It was also suggested that state-owned enterprises (SOEs) or companies in which the Ministry of Finance holds a major stake should be exempt from the capping rule.
- Some respondents proposed adjusting the Constituent Stock Weight Capping frequency to a semi-annual basis to minimize the impact on passive funds, while others suggested implementing it on a monthly basis instead.
- It was recommended that Index Weight information be disclosed initially or that a notification system be implemented when a stock reaches the 10% cap. Additionally, back-tested data should be made publicly available.
- Some respondents proposed introducing a new index that would not affect the existing indices and suggested implementing weight capping for SET Index constituents or adopting a Free-Float Adjusted Market Cap methodology. Furthermore, there were recommendations to develop a more comprehensive Tradable Index, such as SET100+, to include a broader range of securities.

On the other hand, approximately 6% of respondents disagreed with the proposal, arguing that SET should not intervene in response to market demands. Instead, they emphasized the importance of educating investors on the natural occurrence of market volatility and developing financial instruments to support investment risk management.

Conclusion & Further Action

As the majority of respondents expressed support for the proposed enhancements to the index calculation methodology, the Stock Exchange of Thailand (SET) has decided to implement Constituent Stock Weight Capping for stocks included in the SET50, SET100, SET50FF, and SET100FF indices. Under this approach, the weight of any single constituent stock will be capped at 10% quarterly. The official implementation timeline and further details will be announced in due course.

Regarding the additional recommendations provided, SET will conduct further studies and assess their feasibility for potential future implementation.
