

SSMA response to Nasdaq Index Consultation

Swedish Securities Markets Associations (SSMA) think it is good and welcomes that Nasdaq consults the industry before making big changes to the index calculation methodology.

General comments to the consultation

SSMA as a general comment think this consultation lack a lot of detailed information and have several open unanswered questions to fully assess what the impact of the new methodology will be. We think it would have been good to provide an example of what the index would have looked like using the new proposed rules. Some of the uncertainties have been addressed in our meetings with Nasdaq in our relevant working groups. It is for instance details on how capping will be done in practice and that only Swedish listed shares can be eligible. This should be made clear in writing before any changes are done.

SSMA members also think that other aspects/improvements should be considered now when the methodology will change. These are:

- Why only do changes for the OMXS.... Index family? Is there a reason why not the other country indices are included? Would it not be good to harmonize all index rules at the same time?
- Consider changing when rebalancing is done. We propose for market liquidity reasons that it could be better to change the index population in May and November rather than in June/December. One other suggestion could also be to harmonize with Euronext and do it in March/September.
- SSMA believe it should be considered to do exits and entries on rebalancing dates on closing prices instead of VWAP prices. It is almost impossible to replicate VWAP to 100%.
- Will there be any rules to prevent too many changes on rebalancing i.e. something like the current 15/45 rule? As we understand it the new 20/35 rule will lead to more changes in the index constituents than before. Is that correct and is it an intended change?

Because of these concerns we think a new consultation is needed and we think it is too early to change methodology already in June this year.

Comments to the specific proposed changes

Free Float

SSMA members think it is good to move to a weighting based on free float market cap rather than full market cap. It must however be very clear how free float is calculated and on what date the free float is calculated and during what period.

We also think that the 10 mio hurdle on turnover is too low for inclusion in the index. Our assumption is that it should be at least 50 mio. One suggestion from our members is that it should be a relative criterion. For example, a share must be maybe in the top 50 in turnover to be eligible for inclusion. Again, this is something that should be consulted upon in a second consultation.

Only one class of shares in a company

SSMA believes it is reasonable that only one class of a listed company is included in the index. It could be discussed what the weight of this share should be. Should it only be the free float market capitalisation of the most liquid class or the combined market share of the two classes of shares. There could also be unnecessary changes if liquidity changes between the two classes. Since we anyway think a new consultation is needed this could be handled in that second round.

The 15% cap

SSMA think it is good to introduce a 15% cap on a single company in the index. The weightings must be set before the rebalancing date and should only be done on regular re-balancing days. We do not want separate capping days for the index. This was made clear in our member meetings with Nasdaq but is very unclear in the consultation. It should be made formally clear in writing before any change is done to the methodology.