SSMA response to Nasdaq Follow up Index Consultation

Swedish Securities Markets Associations (SSMA) welcomes the opportunity to respond to this follow up consultation on proposed changes to the index calculation methodology. SSMA is a trade association, and we represent 24 Swedish sell-side investment firms i.e. all large banks and brokers.

General comments to this follow up consultation

SSMA still think it is strange that such large changes to the index methodology can be done without providing clear examples of what the impact will be and what the index would look like applying the new methodology. We would also have liked to see some historical backtracking to fully be able to evaluate the effect of the changes.

SSMA also want to stress that there must be enough time to prepare for the first rebalancing using the new methodology. As we see it the first possible date is November/December 2025 depending on what dates for rebalancing is decided after this consultation.

SSMA members has previously experienced problems with very late communication and information of how to handle different corporate events. For our members it is very important to get such information as early as practically possible to limit the impact. We have noticed that in the appendix it states that Corporate Actions: "Unless otherwise noted and where possible, corporate actions are announced approximately two (2) days in advance". SSMA members thinks this is too late and too vague and would like to change this to something like: Information of how to handle corporate actions will be announced as soon as possible, but at least 5 business days in advance. If this is for some reason not possible by the event itself, it should in all cases be announced as soon as practically possible.

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 still think that a 10 mio hurdle on turnover is too low for inclusion in the index. Our members think a relative mechanism is best over time i.e. all shares must for example be among the 50 most liquid to be eligible for inclusion. Otherwise, there must be some sort of review clause in the methodology.

Multiple classes of securities

SSMA believes it is reasonable that only one class of shares of a listed company is included in the index, but there must be some sort of review clause in the methodology on which of the classes that are included. We do not think that it is good that the most liquid class at the inclusion stays without any evaluation of the respective share classes liquidity. There could for example be changes to the free float that could have a large shift in liquidity between the different share classes.

Constituent capping

SSMA think it is good to introduce a 15% cap on a single company in the index and we also agree to the practical description how to handle this in the methodology

Rebalance and Reconstitution Dates

SSMA disagrees to the proposed rebalance and reconstitution dates since they coincide with derivatives expiration, which could create problems. SSMA think it would be best to rebalance on the last day of May and last day of November, which takes effect on the first day of June/December. This will harmonise with other benchmark rebalancing. The 6-month evaluation period should be adjusted to align with the new rebalancing dates.

VWAP Pricing

SSMA understands it as VWAP is discontinued and that index rebalancing will be done in the closing auction. SSMA thinks this is good, but it should be more explicit in the methodology.

Fast entry

SSMA do not think that fast entry should be introduced. It will only create unnecessary rebalancing for especially fund managers and end clients. SSMA is of the opinion that it is enough with the semi-annual reconstitution and that new listed companies can wait for introduction until the regular index update.