

Industry Comments on the Proposed Changes to the PSE's Index Policy

SUMMARY OF INDUSTRY PRACTITIONERS' SURVEY RESULTS

Factors	Questions	Yes	No
SMEs	Should SMEs be considered for index inclusion?	71%	29%
Market Capitalization	Should preliminary MCAP screening be implemented for index inclusion?	93%	7%
	If Yes, do you agree that covering 98% of the cumulative total market capitalization of eligible securities is an appropriate threshold for this screening?	78%	22%
Free-float	Should the PSE index policy be amended to lower the free float requirement to 15% for companies whose market capitalization meets a certain threshold?	56%	44%
	Is PHP 120bn an appropriate threshold to allow 15% free float?	44%	56%
Liquidity	Should the liquidity requirement be revised to adopt a liquidity ratio that incorporates a company's free float?	88%	12%
	Should the liquidity requirement be revised to include a baseline requirement for ADVT?	93%	7%
	If Yes, do you agree that using twenty-five percent (25%) of the average ADVT for all eligible securities during the index recomposition period is an appropriate threshold in this context?	83%	17%

SUMMARY OF INDUSTRY PRACTITIONERS' SURVEY RESULTS

Question	Strongly Agree	Agree	Neutral	Disagree
Do you agree that the proposed amendments will improve the investability and representativeness of the PSE Index Series?	20%	49%	12%	20%

INDUSTRY COMMENTS PER FACTOR CITED

Factor	Question	Yes	No
SMEs	Should SMEs be considered for index inclusion?	71%	29%

Comments from No respondents

SMEs

- The PSEi should be representative of the largest market-capitalization companies in the Philippines.
- SMEs may be too small/illiquid to be investable by the public, or be subject to jockeying and whipsaw and we need protect the index from these unnecessary volatilities.
- This can threaten the stability and replicability of the index for tracker funds.
- Perhaps a separate SME/Small-cap index would be more desirable, similar to the Russell 3000 or Russell 5000.
- SMEs are unique and have their own complexities unique to their business segment and therefore should be appreciated differently

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Comments from No respondents

Market cap

- An index should capture the “investable universe” of companies that drive overall market performance. MSCI or FTSE indices use free float-adjusted market capitalization measures to exclude small, less liquid stocks.
- Further, may we know what is the basis for using 98%? We believe the current free-float market cap criteria works just fine in identifying the top 30 contenders for index membership.
- Perhaps stricter verification of the real free float of an index member would serve as a good filter already
- An MCAP threshold may not be consistent with the inclusion of SMEs in consideration for index inclusion. And in an extreme case, there may not be 30 companies in the index if we follow the percentile rule.

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Comments from No respondents

Free-float	➤ Instead of lowering the free-float, the PSE may consider incentivizing companies to increase and further boost its market capitalization by allowing more investors like passive funds to increase its allocation of PH shares in the MSCI AP and PH indices via the foreign-inclusion factor as with MSCI and FTSE indices. ➤ A lower free-float can further reduce liquidity in the market, increase the risk of price manipulation, and erode corporate governance. ➤ This should be harmonized with foreign ownership limits as well. ➤ To change the rules of the game that recently listed companies have abided may deemed biased for the potential issuers and may be deemed inappropriate by others ➤ Rules should apply uniformly for all corporations looking to raise capital from the public market ➤ Suggested thresholds are P150B to P200B or average of top 25% listed companies
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Comments from No respondents

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| Liquidity | <ul style="list-style-type: none"> ➤ MTAR unjustly punishes corporations with a desirable high-level of free float but may not be actively traded due to market conditions. This disincentives corporations from increasing their free-float if their goal is to remain in the index. Perhaps using the standard float requirement for index inclusion - whether 25% or not - will be more balanced and appropriate. ➤ Removing price from the equation and just using volume traded could be better to remove the impact of sharp price movements typically observable at the end of the month (due to index rebalancing and other flow-related factors). ➤ There should be a uniform threshold whether a company is an incumbent or potential index member ➤ Average Daily Value Turnover, which requires a company to maintain an average daily trading value of no less than 25% of the average ADTV of all traded common stocks, already serves as a sufficient measure of liquidity. ➤ Further, the threshold of 25% will need to be reviewed periodically to assess if it still represents the baseline for an actively traded stock in current market conditions. ➤ Further, median daily value turnover can also insulate against potential instances of uneven liquidity changes being concentrated on the large-capitalization companies and less of the small-mid cap companies. |
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OTHER INDUSTRY SUGGESTIONS FOR PSE'S CONSIDERATION

- Exercise transparency, stricter implementation of rules (real float, profitability criterion, violations of disclosure rules, strict financial sanctions, etc) and exclusion criteria, and greater scrutiny of corporations tapping public markets
- Simulate, back-test, and conduct a more robust gap analysis with sufficient diligence to ensure that changes in the methodologies do not inadvertently distort the market representation and timely communication to stakeholders is needed.
- All liquidity criterion should remove crosses , special blocks etc from the consideration of shares traded
- Explore applying index weight capping
- Assess the inclusion of and treatment with holding firms and their listed subsidiaries for effective representation of the Philippine equity market
- Policy changes should be fully appreciated by the investing public i.e. 6 months to 1 year notice before actual implementation
- Industry would appreciate if consultative efforts are regularly done to adhere to global standards and at the same time strengthen industry relationships

THANK YOU