

# S&P/BMV China SX20 Index Consultation on the Index Universe, Constituent Weightings, and Constituent Replacement

**MEXICO CITY, JANUARY 26, 2021:** S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with members of the investment community on potential changes to the S&P/BMV China SX20 Index.

Due to the impact of the recent Executive Order prohibiting U.S. transactions in certain Chinese companies, S&P DJI is considering expanding the index universe to ensure the target constituent count of 20 is satisfied.<sup>1</sup> In addition, SPDJI is considering changing the index weighting scheme to one of the three Options outlined below. Finally, S&P DJI is considering adding a constituent replacement rule to automatically add a constituent for any constituent removed due to index deletion.

The tables below summarize the proposed changes.

| <b>Index Universe</b>          |  |
|--------------------------------|--|
| <b>Current</b>                 | The Index Universe consists of all stocks of Chinese companies that trade on NYSE and Nasdaq in the form of level II or level III ADRs and ADSs, that are also listed on the BMV’s SIC (International Quotation System). |
| <b>Proposed:<br/>Option I</b>  | The Index Universe consists of all stocks domiciled in China listed on the BMV’s SIC (International Quotation System) and listed in the U.S. on U.S. exchanges (NYSE, Nasdaq, and OTC).                                  |
| <b>Proposed:<br/>Option II</b> | The Index Universe consists of all stocks domiciled in China listed on the BMV’s SIC (International Quotation System), including Chinese companies listed in the U.S., London, Hong Kong, and Singapore.                 |

| <b>Constituent Weightings</b>   |   |
|---------------------------------|---|
| <b>Current</b>                  | The index is weighted based on FMC, subject to a single stock weight cap of 10%.  |
| <b>Proposed:<br/>Option I</b>   | The index is weighted by FMC, subject to the following constraints: <ul style="list-style-type: none"> <li>• No single stock’s weight can exceed 20%, and</li> <li>• The aggregate weight of stocks with weights greater than 15% cannot exceed 60%.</li> </ul> |
| <b>Proposed:<br/>Option II</b>  | The index is weighted based on FMC, subject to the following constraints: <ul style="list-style-type: none"> <li>• No single stock’s weight can exceed 20%, and</li> <li>• The aggregate weight of the five largest stocks cannot exceed 60%.</li> </ul>        |
| <b>Proposed:<br/>Option III</b> | The index is weighted based on FMC, subject to the following constraints: <ul style="list-style-type: none"> <li>• No single stock’s weight can exceed 15%, and</li> <li>• The aggregate weight of the five largest stocks cannot exceed 60%.</li> </ul>        |

<sup>1</sup> Please note that in the event the Index Committee does expand the index universe, the language of the Index Objective will be updated to align with the expanded index universe.

| <b>Constituent Replacement</b> |  |
|--------------------------------|--|
| <b>Current</b>                 | Except for spin-offs, there are no intra-rebalancing additions.  |
| <b>Proposed</b>                | <p>Between semi-annual rebalancings, index additions occur only in response to an index deletion. When an index deletion occurs, an addition is made according to the following process:</p> <p>The eligible non-constituent with the lowest joint Marketability Factor and VWAP FMC ranking over the prior six-month period is selected and added to the index. The effective date of the addition is the same date as the deletion effective date. The Marketability Factor reference date for additions is the same reference date used for the latest semi-annual rebalancing. The VWAP FMC reference date is seven business days prior to the addition effective date.</p> <p>In cases where two or more non-constituents share the same joint ranking, the stock with the highest VWAP FMC is selected.</p> <p>Except for spin-offs (which are added at a zero price), an addition made using the constituent replacement rule is added to the index with the same AWF as the largest AWF currently represented in the index. If using the largest AWF in the index would result in the addition's weight being higher than the maximum stock weight as of the date the addition is announced, the addition is added to the index with index shares commensurate with the index shares of the stock capped at the maximum weight using the closing prices on the date the addition is announced. In such cases, index shares for current constituents remain constant.</p> |

For more information on the S&P/BMV China SX20 Index, please refer to the S&P/BMV Indices Methodology available [here](#).

## IMPACT ANALYSIS

Using data as of December 31, 2020, the table below shows the actual eligible universe count using the current index universe, versus the hypothetical eligible universe count had either of the proposed index universe changes previously detailed been implemented.

| <b>Index</b>                      | <b>Eligible Universe</b> |
|-----------------------------------|--------------------------|
| Current Methodology               | 31 <sup>2</sup>          |
| <b>Option I – Index Universe</b>  | <b>34<sup>2</sup></b>    |
| <b>Option II - Index Universe</b> | <b>39<sup>2</sup></b>    |

## TURNOVER IMPACT

Using data as of December 11, 2020, the table below shows the one-way turnover that would result using the proposed constituent weighting schemes, considering the index composition at the time of the weighting.

| <b>Constituent Weighting Scheme</b> | <b>Turnover</b> |
|-------------------------------------|-----------------|
| Option I                            | 17.94%          |
| Option II                           | 15.16%          |
| Option III                          | 10.20%          |

## IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, on Monday, February 22, 2021, to provide at least one-week advance notification.

<sup>2</sup> China Mobile Ltd. ADR, China Unicom Ltd. ADR, and CNOOC Ltd. ADR are removed as directed by the Executive Order in accordance with the guidelines described in the Sanction Section of S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

## CONSULTATION

## QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. **Do you agree with the proposal to change the index universe?**
  - a. **Yes, change to Option I.**
  - b. **Yes, change to Option II.**
  - c. **No, keep the current methodology.**
2. **Do you agree with the proposal to change the constituent weightings scheme?**
  - a. **Yes, change to Option I.**
  - b. **Yes, change to Option II.**
  - c. **Yes, change to Option III.**
  - d. **No, keep the current methodology.**
3. **Do you agree with the proposal to add a constituent replacement rule?**
  - **Yes.**
  - **No.**
4. **Should the proposed methodology changes be adopted, do you agree with the proposed implementation date?**
  - a. **Yes.**
  - b. **No.**
5. **Do you have any other comments or feedback regarding the proposed changes outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. S&P DJI will make responses to consultations externally available upon request.<sup>3</sup> If you do not want your response to be made available, you must clearly state that in your response. Please respond to this survey by **February 5, 2021**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI will consider the issues and may request clarifications from respondents as part of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

*Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.*

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit [www.spdji.com](http://www.spdji.com).

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<sup>3</sup> Individual and company names as well as contact details will be redacted.

## ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

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