Bolsa Mexicana

Equity Indices Policies and Practices

November 2016

Table of Contents

➢ CORPORATE ACTIONS

I. CASH DIVIDEND

- ✓ Lowers stock price
- ✓ Affects market value
- ✓ Number of shares remain stable

Cash dividends are paid to stockholders of record on the ex-date. The source of distributed cash depends on the tax treatment and describes the specific type of dividend. There is no price adjustment to the company in a price return index and as a result, there is no divisor change. In a total return index, cash dividends are reinvested in the overall index at the open of trading on the dividend ex-date.

II. SPECIAL CASH DIVIDENDS

Special dividends are dividends that are outside of the normal payment pattern established historically by the corporation. Special dividends are treated as corporate actions, with price and divisor adjustments. The price of the stock making the special dividend payment is reduced by the per share special dividend amount after the close of trading on the day before the ex-date. A divisor adjustment is made to ensure the index level remains the same.

$$P_P = P_a - md$$

md = Dividend
Pa = Price prior to dividend adjustment
Pp = Price post dividend adjustment

III. BUY BACK

- ✓ Stock price remains stable
- ✓ Affects market value
- ✓ Reduces number of shares

A buyback occurs any time a company repurchases its outstanding shares in order to reduce the number of shares on the market. The company repurchases shares at an open market price.

IV. STOCK DIVIDEND

- ✓ Reduces stock price
- ✓ Increases number of shares outstanding
- ✓ No change to market value

Also known as an incentive, a stock dividend is a stock distribution to stockholders of record as of the ex-date, is a corporate event which increases the number of a company's shares, while simultaneously reducing its per share price, such that the market capitalization of the company remains the same before and after the event

The shares of a company are increased (multiplied) by the dividend adjustment factor (greater than one), while the price is decreased (divided) by this same factor.

$$f = \frac{A_p}{A_a}$$

where:

f = Dividend adjustment factor
Aa = Number of shares prior to adjustment
Ap = Number of shares post to adjustment

V. SUBSCRIPTION (RIGHTS ISSUANCE)

- ✓ May affect stock price
- ✓ Affects market value
- ✓ Increases number of shares outstanding

A subscription is an event in which stockholders are given the right to buy a specified number of additional shares from a company, at a specified price, within a specified time. Stockholders are generally issued rights as a ratio to shares held.

When the subscription price is higher or equal to the closing price of the previous day to ex-coupon or ex-rights date, no adjustment is made to the closing stock price.

When the subscription price is lower than the closing price of the previous day to ex-coupon or ex-rights date, price and number of shares outstanding are adjusted on the ex-coupon or ex-rights date, according to the following formula:

where:

$$A_p = A_a + A_s$$

$$P_p = \frac{A_a * P_a + A_s * P_s}{A_p}$$

A_a = Number of shares prior to adjustment
A_s = Number of Subscribed shares
P_a = Price prior to adjustment
P_p = Price post adjustment
P_s = Subscription price

VI. EXCHANGE OF SECURITIES

- ✓ Reduces stock price
- ✓ No change to market value
- ✓ Increases number of shares

An exchange of securities indicates that corporate actions resulting in an increase in the number of outstanding shares of a corporation decrease the par value of its stock. The market value of the total number of shares remains the same.

No adjustment is made when the issuer of the reference values or trusted values declare an exchange of shares in proportion of one to one and in a single series. This exchange is mandatory.
where:

$$A_p = A_a + A_s$$

$$P_p = \frac{A_a * P_a + A_s * P_s}{A_p}$$

A_a = Number of shares prior to adjustment
A_p = Number of shares post adjustment
A_r = Number of re structured shares
P_a = Price prior to adjustment
P_p = Price post adjustment

VII. STOCK SPLIT

- ✓ Reduces stock price
- ✓ Increases number of shares outstanding
- ✓ No change to market value

A stock split is a corporate event which increases the number of a company's shares, while simultaneously reducing its per share price, such that the market capitalization of the company remains the same before and after the event. Stock splits are quoted in terms of shares received to shares held.

The shares of a company are increased (multiplied) by the split adjustment factor (greater than one), while the price is decreased (divided) by this same factor.

$$f = \frac{A_p}{A_a}$$

where:

f = Split adjustment factor
Aa = Number of shares prior to adjustment
Ap = Number of shares post to adjustment

VIII. REVERSE STOCK SPLIT

- ✓ Increases stock price
- ✓ Lowers the total number of shares outstanding
- ✓ No change to market value

A Reverse Stock Split is the exact opposite of a stock split. In a reverse split, the shares of a company are decreased while its per-share-price is increased by the adjustment factor (less than one). Also like a stock split, the overall market capitalization of the company remains unchanged by this event. Reverse splits are quoted in terms of shares received to shares held. The shares of a company are decreased (multiplied) by the adjustment factor, while the price is increased (divided) by this same amount. The split adjustment factor for a reverse split is determined just like in a stock split (shares received/shares held).

$$f = \frac{A_p}{A_a}$$

Where:

f = Split adjustment factor
Aa = Number of shares prior to adjustment
Ap = Number of shares post to adjustment

IX. REIMBURSEMENT (CAPITAL REPAYMENT)

- ✓ Lowers stock price
- ✓ Affects market value
- ✓ No change to number of shares outstanding

A reimbursement is a cash distribution made proportionally to stockholders related to the portion of the diminished capital.

$$f = 1 - \frac{P_a - P_p}{P_a}$$

Where:

f = Adjustment factor
P_a = Price prior to adjustment
P_p = Post adjustment Price

X. SPIN-OFFS

- ✓ Capital reduction

A spin-off occurs when a corporation divests a subsidiary or division to create a new, independent company. The spun-off company takes assets, intellectual property, technology, and/or existing products from the parent organization and forms its own private or publicly listed company. Shares of the new organization are distributed to the equity shareholders of the parent organization, at a ratio established by the parent. The new company formed by this divestiture is called the “spun-off” company, and is added to all indices of which the parent is a constituent until the next change of the index constituent list.

The ex-date is the day that the auction of the parent and the “spun-off” company has ended. Prior to the market’s opening, the prices of both companies are adjusted at the auction price.

XI. MERGERS & ACQUISITIONS

Type of M&A	Announcement	Treatment
All-Cash Takeovers/Cash Offers	3-5 days prior to the expected ex-date	On the opening of the ex-date, the target company is dropped. There is no change made to the acquirer. The tender offer price might be used to remove stocks in certain markets. Clients are notified if anything other than market close prices are used.
All-Stock Takeovers	3-5 days prior to the expected ex-date	Target company is dropped. Acquirer will have a share change and a possible Float change.
Cash & Stock Takeovers	3-5 days prior to the expected ex-date	Target company is dropped. Acquirer will have a share change and a possible Float change.
Merger	3-5 days prior to the expected ex-date	Target company is dropped. A surviving entity is identified. The surviving entity will likely have a name change, identifier changes, and a weight change (share issuance and/or Float change).
Partial Acquisitions	3-5 days prior to the expected ex-date	The Float for the target company is adjusted. Depending on whether this partial acquisition was funded through cash or an issuance of shares, the acquirer will either have no change (all cash acquisition) or a share change and/or an Float change (stock acquisition).

XII. TRADING SUSPENSION OF ONE OR MORE COMPANIES

In the event of an issuer trading suspension, in which at least one of its stock series is included in the indices constituents' list, the below steps will be taken:

a) In the event that a suspended stock is in an index, the price used for calculation is provided by the Price Vendors authorized by the "Comisión Nacional Bancaria y de Valores" in their price vector. If there is no consensus between these Price Vendors, BMV uses the mean value.

b) If the issuer’s suspension reaches 20 consecutive business days, the suspended stock is deleted from the index the same day, after the market’s close, using the price as stated in subsection “a”.

c) If, at the time of an index rebalance, a stock on the constituent list is suspended and the 20 consecutive business days have not been reached, the rebalance includes the suspended stock, using the price as stated in subsection “a”. If the suspension reaches 20 consecutive business days once the rebalance is complete, the price from subsection “b” is applied.

d) If, at the moment of the scheduled constituents list review, the stock is suspended, it is not considered eligible for the indices constituents’ lists.

If a stock meets the selection criteria for the indices constituents’ lists and is suspended before the constituents’ review effective date, the case is analyzed by the Index Committee, who determines the most appropriate treatment.

XIII. REPLACEMENT POLICY

Intra-quarter replacements will no longer enter an index at the time that a current constituent is removed due to mergers, acquisitions, takeovers, delisting, bankruptcy, suspensions or other reasons that warrant ineligibility. Replacement companies will only be added to the index at the next rebalance.

This policy will be effective for all BMV indices with the exception of the <u>BMV IPC</u> and <u>BMV IRT</u>.

XIV. FLOAT-ADJUSTED SHARES OUTSTANDING

Float-adjusted shares outstanding are the total shares outstanding after subtracting listed/registered shares on the stock exchange, shares which are property of the following persons, or shares in which the company owns the following rights:

1. Shares in the Company’s Treasury
2. Chief Executives and First Level Directors/Members of the Board
3. Individuals or legal entities maintaining 30% or more (directly or indirectly) of the listed shares or debentures representing the company
4. Control shareholders
5. Control trusts
6. Individuals or legal entities maintaining patrimonial or kinship bonds, directly or indirectly, with control shareholders and holding at least 1% of the listed shares or debentures representing the company
7. Holding companies
8. Strategic partners

9. National or foreign governments acting as shareholders and not as part of an investment diversified portfolio seeking for a determined investment return
10. Shares which are the property of Institutions acting as a trust's fiduciary constituted for retirement and pension funds or seniority bonuses for the company's personnel, options for employees, as well as any other similar fund, constituted by the company in which the fiduciary asset is in
11. Individuals or legal entities having the right to immobilize the company's shares, by any legal means or by a contract celebrated with the company, whose underlying Asset is referred to the company's shares
12. Individuals or legal entities to which in virtue of any legal means or by a contract celebrated with the company, shares of the company have been delivered as collateral guarantee
13. Individuals or legal entities which acquired directly or indirectly shares of the company, resulting in a holding of more than 10% and up to 30% and that have revealed to have the intention of acquiring a more significant influence[1] over the company

Floating Market Capitalization of the Company's Stock Series. Also known as Floating Shares Adjusted Market Cap, this is the value resulting from multiplying the number of floating shares by the market price of the stock.

$$\mathrm{VCF}_{\mathrm{it}} = (\mathrm{FAF}_{\mathrm{it}} * \mathrm{Q}_{\mathrm{it}}) * \mathrm{P}_{\mathrm{it}}$$

where:

VCF_{it} = Floating Market cap of the stock series *i* at time *t*

$\mathrm{FAF}_{\mathrm{it}}$ = Percentage of floating shares of the stock series *i* at time *t*

Q_{it} = Number of listed shares in the Exchange of the stock series *i* at time *t*

P_{it} = Market price of the stock series *i* at time *t*

Floating shares percentage of the Company's Stock Series. Also known as "float", it's the percentage that the floating shares of a stock series represent of the total listed shares in this Exchange.

$$\mathrm{FAF}_{\mathrm{it}} = \frac{\mathrm{AF}_{\mathrm{it}}}{\mathrm{Q}_{\mathrm{it}}}$$

[1] The term *"significant influence",* according to Article 2, fraction XI of the Securities Market Law, is understood as: *"ownership of rights that allow, direct or indirectly, to exercise vote representing at least 20% of a legal entity share capital"*

where:

$FAFit$ = Percentage of floating shares of the stock series *i* at time *t*

AF_{it} = Number of floating shares of the stock series *i* at time *t*

Q_{it} = Number of listed shares in this Exchange of the stock series *i* at time *t*

The floating shares percentage used to calculate the float-adjusted market capitalization is rounded up according to the following buffer rules:

Buffer	% Reported floating shares	% Rounded floating shares
	< 12%	0*
1	≥ 12 to ≤ 15%	% reported
2	> 15 to ≤ 20%	20%
3	> 20 to ≤ 25%	25%
4	> 25 to ≤ 30%	30%
5	> 30 to ≤ 35%	35%
6	> 35 to ≤ 40%	40%
7	> 40 to ≤ 45%	45%
8	> 45 to ≤ 50%	50%
9	> 50 to ≤ 55%	55%
10	> 55 to ≤ 60%	60%
11	> 60 to ≤ 65%	65%
12	> 65 to ≤ 70%	70%
13	> 70 to ≤ 75%	75%
14	> 75 to ≤ 80%	80%
15	> 80 to ≤ 85%	85%
16	> 85 to ≤ 90%	90%
17	> 90 to ≤ 95%	95%
18	> 95 to ≤ 100%	100%

* Stocks with a reported floating shares below 12% but with a float-adjusted market capitalization of at least 10 billion Mexican pesos will use the stock's actual reported floating shares.

XV. SECTORIAL CLASIFICATION

The new structure makes it easier to compare companies with internationally used standards, so that it is possible to make a more precise comparison with other similar companies in other markets, at the time that more specialized groups and segments are established in order to facilitate studies and comparative analysis.

For more information refer to http://www.bmv.com.mx/en/markets/classification

➢ UNSCHEDULED MARKET CLOSURES

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, the BMV calculates the closing price of the index based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each security before the exchange closed. If an exchange fails to open due to unforeseen circumstances, the BMV treats this closure as a standard market holiday. The index uses the prior day's closing prices and shifts any corporate actions to the following business day. If all exchanges fail to open or in other extreme circumstances, the BMV may determine not to publish the index for that day.

➢ RECALCULATION POLICY

The BMV reserves the right to recalculate an index under certain limited circumstances. The BMV may choose to recalculate and republish an index if it is found to be incorrect or inconsistent within two trading days of the publication of the index level in question for one of the following reasons:

1. Incorrect or revised closing price.
2. Missed corporate event.
3. Late announcement of a corporate event.
4. Incorrect application of corporate action or index methodology.

Any other restatement or recalculation of an index is only done under extraordinary circumstances to reduce or avoid possible market impact or disruption as solely determined by the Index Committee.

➢ QUALITY ASSURANCE

Quality assurance processes and procedures are maintained for the calculation and maintenance of all indices, including a regularly scheduled meeting to review incidents or errors , if any, that occurred during the previous week and identify causes, determine repetitive issues and evaluate whether any long-term changes are necessary (e.g. a change in process). Incidents and errors are tracked through an internal system and significant matters are escalated, requiring, at times, an ad hoc meeting of the same group.

➢ INTERNAL REVIEWS OF METHODOLOGY

Annual Review Process. In addition to its daily governance of indices and maintenance of index methodologies, at least once within any 12 month period, the Index Committee reviews each index methodology to ensure the indices continue to achieve the stated objective, and that the data and methodology remain effective. The annual review process includes the gathering of information on the appropriateness, representativeness, and effectiveness of the index methodology from colleagues responsible for commercializing the indices. In the case that a Methodology is reviewed off cycle from the annual review, the Index Committee reserves the right to cancel the Annual Review if the requested review covers all the relevant issues.

➢ CLIENT COMMUNICATION

1. **Communication with Stakeholders.** Communication and consultation with stakeholders is done through various channels using press releases, index announcements, emails and the distribution of data files. In addition, a designated client service team is available to respond to inquiries. When a material change to an index methodology is considered, a consultation may be published inviting comments from external parties. Occasionally, face-to-face meetings, conference calls, or meetings such as Advisory Panels may be held.

➢ REAL TIME CALCULATIONS

Calculations and Pricing Disruptions

If the relevant exchange suffers a failure or interruption, real-time calculations are halted until the exchange confirms that trading and price dissemination has resumed.

If the interruption is not resolved before the market close and the exchange publishes a list of closing prices, those prices are used to calculate the closing value of the indices. If no list is published, the last trade for each security before the interruption is used to calculate the closing value of the index. If no trades were reported for a security, the previous close adjusted for corporate actions is used for index calculation.

In extreme circumstances, it may be decided to delay index adjustments or not publish an index.

EXPERT JUDGMENT AND DATA HIERARCHY

1. Expert Judgment

Expert Judgment[2] refers to the interpretation of data in calculating and maintaining an index. Examples include, but are not limited to, weighting adjustments and price anomaly resolutions.

2. Data Hierarchy

Data used for the indices governed by this methodology may include:

a. Completed transaction data are used in these indices in the vast majority of cases; and/or
b. For certain corporate actions, theoretical prices may be derived using the existing security price and the specifics of the corporate action.

[2] Expert Judgment specifically and exclusively refers to the exercise of discretion with respect to the use of data in determining an index in the following context: Expert Judgment includes extrapolating data from prior or related transactions, adjusting data for factors that might influence the quality of data such as market events or impairment of a buyer or seller's credit quality, or weighing firm bids or offers greater than a particular concluded transaction. Other areas of discretion, such as methodology changes, are not, for the purposes of this document, considered Expert Judgment.