

# CONSULTATION ON AN ALTERNATIVE TREATMENT OF HIGHLY DILUTIVE RIGHTS IN DIVISOR INDICES

March 2023



## INTRODUCTION

This document provides guidance on the proposed changes in treatment for Highly Dilutive Rights in Divisor Indices. Defined terms used in this document shall have the meaning ascribed in the Equity Index Methodology available on Solactive’s website. No changes are proposed for Standard Indices.

## HIGHLY DILUTIVE RIGHTS

Highly Dilutive Rights are those where a company is raising new capital via a rights issuance with a ratio that is considered very high (For example, 10 rights for 1 share held) \*, the subscription price is discounted as compared to the current market price and the market capitalization increases more than 100 percent. Currently Solactive does not differentiate between standard or highly dilutive rights issues and does not take any additional steps.

## CURRENT SOLACTIVE TREATMENT FOR HIGHLY DILUTIVE RIGHTS

For Highly Dilutive Rights, Solactive currently follows the same treatment as a standard Rights Issue and does not take any additional steps for Divisor Indices. (Section 2.1.4 of the Equity Index Methodology)

The implementation of a Rights Issue increases the Market Capitalization, since the number of shares is increased by the terms but not by the PAF.

$$aS_{i,t+1} = S_{i,t} * (1 + T)$$

This change in Market Capitalization requires a Divisor adjustment to keep the index level constant. To calculate the theoretical stock price after a Rights Issue, the PAF (as described in section 2.1.4 of the Equity Index Methodology) is used.

$$D_{t+1} = \frac{D_t * Index_t - \Delta MCAP}{Index_t}$$

$$\Delta MCAP = \sum_{i=1}^n S_{i,t} * p_{i,t} * f_{i,t} * WCF_{i,t} * FFF_{i,t} - \sum_{i=1}^m aS_{i,t+1} * \frac{1}{PAF_{i,t+1}} * p_{i,t} * f_{i,t} * WCF_{i,t+1} * FFF_{i,t+1}$$

\*If the terms are greater than **10 for 1**, Solactive will consider this as “Highly Dilutive Rights” – This suggested ratio will be finalised after the conclusion of the consultation.

## PROPOSED SOLACTIVE TREATMENT FOR HIGHLY DILUTIVE RIGHTS

The aim for the proposed treatment is to improve replicability and minimize performance divergence by attributing the weight to the new shares of the parent company on the pay date rather than on the ex-date. The ex-date is the date on or after which a security is traded without the entitlement to the rights. Solactive proposes an alternative treatment as defined in the steps below:

- a. On T-1 from the ex-date, in case the subscription price is at a discount to the market price and the rights issue has not been cancelled by the parent company, Solactive will implement the alternative treatment for the highly dilutive rights.
- b. On the ex-date Solactive will adjust the price of the share of the parent company in the opening files but there will be no change in the number of shares. Solactive will treat the ex-date as the first trading day of the share of the parent company following any suspension.  
\*\*
- c. On the ex-date Solactive will add the rights line (if listed) with the same number of shares as the number of shares for the parent company and use the market price of the rights for index calculation purpose. Should the rights not have a price in the market on ex-date Solactive will use a theoretical price based on the intrinsic value.
- d. On the ex-date Solactive will add a dummy cash line with a number of shares that is equal to the number of shares for the parent company multiplied by the terms. The dummy cash line represents the cost of the shares available for subscription and will be added with the subscription price fixed until the pay date, normally defined as the first trading date of the newly issued shares. The Divisor will be adjusted accordingly. \*\*\*
- e. During the subscription period, the rights line and the dummy cash line will remain in the Index.
- f. Effective at the open of the pay date, the rights line and the dummy cash line will be deleted, and the additional shares will be added to the number of shares for the parent company. The Divisor will not be adjusted.
- g. In case the rights issue has been cancelled by the parent company; the rights line and the dummy cash line will be deleted and weight of the dummy cash line will be reinvested pro rata to the remaining index constituents. The Divisor will be adjusted accordingly. In case of cancellation, Solactive will make an announcement and will provide 2 days' notice period.
- h. In case the rights issue has been delayed by the parent company and the dates in the indicative timetable are not met; Solactive will make an announcement and will provide 2 days' notice period and postpone implementation pending final information.

\*\*Solactive will not implement the proposed treatment for Highly Dilutive Rights until after the share of the parent company has resumed trading.

\*\*\*Solactive will use a dummy cash line as a non-tradable instrument which is temporarily created and added to the indices in order to implement the proposed alternative treatment for the Highly Dilutive Rights.



## QUESTIONS

Please answer the following questions and provide with the reasoning behind your answers:

1. Do you have any concerns about changing the treatment of the Highly Dilutive Rights in Divisor indices or should Solactive continue treating Highly Dilutive Rights as ordinary Rights Issue?
2. What ratio would you consider dilutive and/ or what percentage of increase in the market capitalization of the parent company after which Solactive should switch from the standard approach to the alternative method of Highly Dilutive Rights, if any.
3. Should Solactive add the rights line on the ex-date?
4. Should Solactive add the dummy cash line on the ex-date?
5. When should Solactive consolidate the additional shares into the number of shares of the parent company? Would you agree this to be effective at the open of the Pay date normally defined as the first trading date of the newly issued shares or another date?

Should the outcome of the consultation indicate there is demand for the proposed alternative treatment, such will then need to be specifically defined and adopted, implemented into the calculation tools and incorporated in the Equity Index Methodology available on Solactive's website.



### Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until April 28<sup>th</sup>, 2023 (cob).

Please send your feedback via email to [marketconsultation@solactive.com](mailto:marketconsultation@solactive.com), specifying “**Market Consultation on an Alternative Treatment of Highly Dilutive Rights in Divisor Indices**” as the subject of the email, or

via postal mail to: **Solactive AG**  
Platz der Einheit 1  
60327 Frankfurt am Main  
Germany

Should you have any additional questions regarding the consultative question in particular, please do not hesitate to contact us via above email address.

# CONTACT

Solactive AG  
German Index Engineering  
Platz der Einheit 1  
60327 Frankfurt am Main  
Germany

Tel.: +49 (0) 69 719 160 00

Fax: +49 (0) 69 719 160 25

Email: [info@solactive.com](mailto:info@solactive.com)

Website: [www.solactive.com](http://www.solactive.com)

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