

MARKET CONSULTATION – CONVERSION OF ADR TO ORDINARY SHARES

21 November 2023



Content of the Market Consultation

Solactive AG has decided to conduct a Market Consultation regarding its methodology to remove and replace ADRs with their underlying ordinary shares in an index rebalance. The methodology in consultation is applicable to all indices administered by Solactive AG.

Rationale for the Market Consultation

Background on ADR Fungibility - ADRs and their underlying ordinary shares may have a fungibility feature, where a share of the ADR can be converted to a certain quantity of the ordinary shares based on a fixed conversion ratio, and vice versa. For instance, 1 share of BABA-US (Alibaba Group Holding Ltd) can theoretically be converted to 8 shares of 9988-HK. Effectively, the investors would not have to sell the ADR on the US market and then buy the ordinary shares on the HK market. They would only need to have the ADR shares converted directly with their designated brokers or custodian banks.

Current Solactive treatment (Option #1) – The above fungibility feature is currently not considered in the rebalance procedure of Solactive-administered indices. If an index rebalance requires the replacement of an ADR with its ordinary shares, Solactive deletes the ADR at its closing price on the US exchange, and adds the ordinary listing at its closing price on the local exchange. The closing prices here are as of the Rebalance Day of the index.

Proposed Solactive treatment (Option #2) – To incorporate the above fungibility feature in an index rebalance, Solactive considers conducting a market-neutral exchange of the two share lines based on a common price. The common price of the conversion would be the official closing price of the target listing on the Rebalance Day. If an index rebalance requires the replacement of an ADR with its ordinary shares, the ADR would be removed from the index at the closing price of the ordinary shares on the Rebalance Day, adjusted for the exchange rate and conversion ratio. The ordinary listing would be added to the index at this same price, i.e. its closing price on the local exchange. To demonstrate how Solactive would implement this conversion, we have included in the Appendix a hypothetical case and a detailed calculation for your reference.

Solactive would like to gather market feedback on how the proposed treatment (Option #2 above) may benefit our clients' use of Solactive indices. In particular, we appreciate your response to the following questions:

- a. If Solactive adopts Option #2, what potential advantages or disadvantages do you anticipate with your trading strategy or portfolio management process?
- b. Considering the hypothetical case and detailed calculation provided in the Appendix for Option #2, do you find the proposed conversion process clear and straightforward? Are there any areas that may need further clarification or improvement?
- c. If Solactive adopts Option #2, what impacts do you anticipate for your trading strategy or portfolio management process with respect to:



- Liquidity and amount of time required to complete the conversion
 - Tracking error of your portfolio versus the index
 - Cost implications
 - Tax implications
 - Regulatory requirements
- d. In summary, which option, Option #1 (current Solactive treatment) or Option #2 (proposed Solactive treatment reflecting ADR fungibility), would be a better fit for your process?

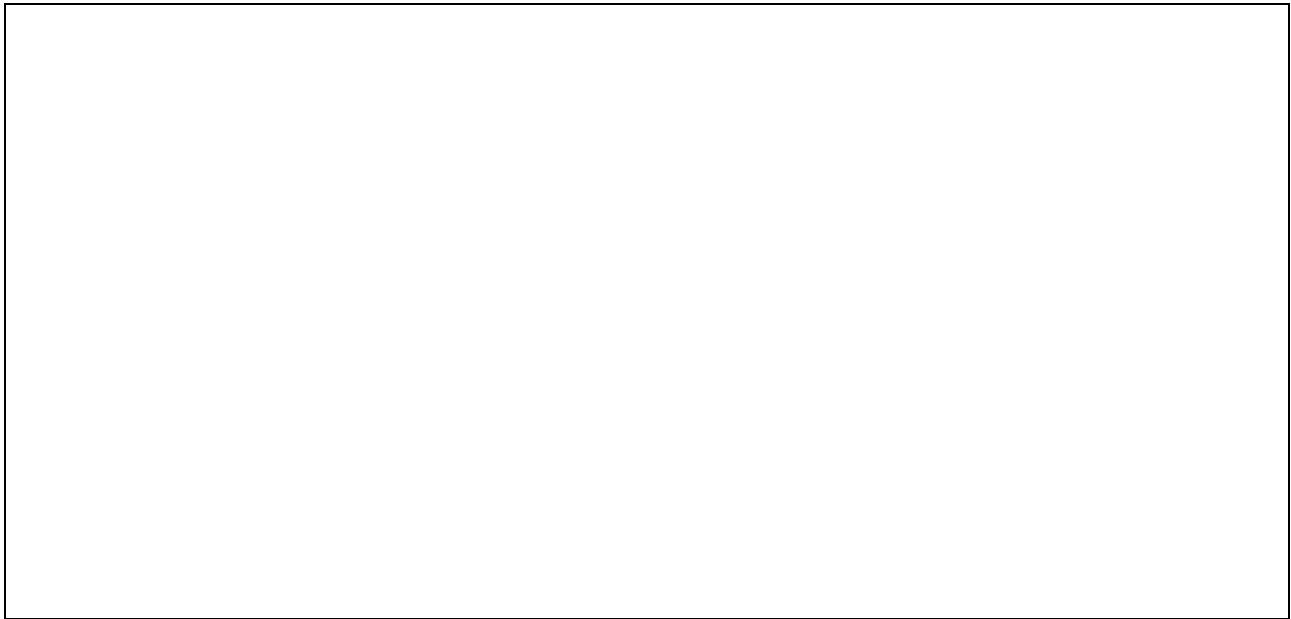
Lastly, if you have any alternative suggestions or modifications to the proposed treatment that you believe could better address the needs and concerns of market participants, please feel free to provide them along with your response.

Feedback on the proposed changes

If you would like to share your thoughts with Solactive and respond to our above questions, please use this consultation form and provide us with your personal details and those of your organization.

Name	
Function	
Organization	
Email	
Phone	
Confidentiality (Y/N)	

Solactive is inviting all stakeholders and interested third parties to evaluate the proposed changes and welcomes any feedback on how this may affect and/or improve their use of Solactive indices.



Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until *January 5th, 2024*.

Subject to feedback received on this Market Consultation, Solactive will follow up and announce any changes to our current process with respect the methodology in consultation.

Please send your feedback via email to marketconsultation@solactive.com, specifying "Market Consultation – Conversion of ADR to Ordinary Shares" 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.



Appendix

Here you can find a hypothetical case and detailed calculation for the proposed Solactive treatment (Option #2) regarding the conversion of ADR to its ordinary shares.

Hypothetical Case

	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
1			9988-HK	BABA-US
2			HKD	USD
3	Price	2021-05-27	208.80	212.74
4	HKD/USD	2021-05-27	0.128883	-
5	NOSH in index	2021-05-27	-	1,857,947,142
6	NOSH in index	2021-05-28	14,863,578,002	-
7	Ratio (ordinary shares to ADR)	2021-05-27	8	-
8	Common Price (USD)	2021-05-27	-	215.2861632
9	Closing MV (USD, in closing file)	2021-05-27	-	399,990,311,629.59
10	Opening MV (HKD, in opening file)	2021-05-28	3,103,515,086,817.60	-

	<i>Cell where value is provided</i>
	<i>Cell where value is calculated (see "Detailed Calculation")</i>

On 2021-05-27, the index holds BABA-US with the number of shares shown in D5.

The index rebalances on close of business 2021-05-27, effective open 2021-05-28.

The rebalance removes BABA-US and adds 9988-HK with target shares shown in cell C6 on effective open 2021-05-28.

The rebalance needs to convert all existing ADR shares (cell D5) to the ordinary shares (9988-HK) according to the fungibility feature of the ADR.

Detailed Calculation

- (1) Official HKD closing prices of 9988-HK is provided in cell C3 for 2021-05-27.
- (2) The 4pm London FX rate for HKD/USD on 2021-05-27 is provided in C4.
- (3) The ADR conversion ratio is provided in cell C7.
- (4) In D8, the common price for conversion is calculated using the HKD closing price of 9988-HK from C3, converted at the FX rate from C4, and adjusted with the ADR conversion ratio from C7.



$$D8 = C3 * C4 * C7$$

(5) Effectively, in the closing file of 2021-05-27, BABA-US is priced at the common price from D8, with its market value (MV) calculated in D9. Effective open 2021-05-28, BABA-US is also removed from the index at this common price.

$$D9 = D5 * D8$$

(6) In the opening file of 2021-05-28, the target shares of 9988-HK are added at its official closing price of 2021-05-27, which is also equivalent to the common conversion price. Its MV in the opening file of 2021-05-28 is calculated in C10.

$$C10 = C3 * C6$$

Note:

In the example above, the target shares of 9988-HK provided in cell C6 are determined as a result of the selection process, and are not necessarily equal to the number of shares converted from BABA-US using the ADR ratio, i.e. $C6 \neq D5 * C7$.

If the rebalance only converted BABA-US to 9988-HK without additional buying or selling of 9988-HK to reach the target shares quantity, i.e. $C6 = D5 * C7$, the conversion methodology above would be market neutral. This means that the opening MV of 9988-HK in the opening file (cell C10), when adjusted for FX, would equal the closing MV of BABA-US in the closing file, i.e. $C10 * C4 = D9$.

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