

## Market Consultation on potential index methodology changes of SMI

### Zurich, 30 November 2016

SIX Swiss Exchange (SSX), the provider of the SMI indices has decided to conduct a market consultation for a potential index methodology change of the SMI. The consultation relates to the publication by ESMA on UCITS in which UCITS' can invest into financial indices if for the index components certain diversification and concentration limits apply. The market consultation may or may not lead to changes in the index methodology. However, the purpose of the consultation is to identify procedures and methodology also for potential similar situations in the future.

#### 1. Process and timeline

SIX Swiss Exchange invites market participants to submit responses to:  
[indices@six-swiss-exchange.com](mailto:indices@six-swiss-exchange.com)

With this market consultation, SSX aims to identify market views on the need for as well as the detailed implementation of a potential index methodology change. SSX intends to publish a summary of the results of the market consultation, as well as an announcement about potential changes to the index methodology in 2017-Q1. The potential new methodology would be implemented no earlier than for the index review in September 2017. The consultation is open to all market participants until 31 January 2017. In addition to responses from clients, input from the Index Commissions will be considered. Only responses with complete contact information will be considered.

#### 2. Current Methodology and consequences

According to the Rules Governing the SMI Index Family (version as of 1 October 2016) the components for the SMI are selected based on the average free-float market capitalisation over the last 12 months (compared to the capitalisation of the entire SPI) and the cumulated on order book turnover over the last 12 months (compared to the total turnover of the SPI). The weighting of the selected components is based on the Free Float Market Capitalization without any restrictions. The number of shares and the free-float factors are updated on a quarterly basis during the period index review and for corporate actions.

In recent years the two largest components in the index were both several times exceeding a weight of 20% simultaneously.

#### 3. Potential Methodology changes

The aim of the methodology changes is to enable customers of SSX to use the SMI in financial products under the ESMA-UCITS regime. SSX would keep the methodology for the selection of the components unchanged; however introduce a capping factor on a quarterly basis. The weight of the largest component in the SMI would be restricted to a maximum of 33% and any further components would be restricted to 18%. In case of intra-quarter breaches of greater 35% for the largest and 20% for the second largest components SSX would limit the weight again. On the day following the breach SSX would announce new capping factors for the index components to be effective within two business days.

The communication of the quarterly capping factors would be part the periodic index review process and announcements. Intra-quarter changes would be communicated to all subscribers of the Index Service Equity distribution list and published in the corporate actions forecast.

#### 4. Questions

1. Please specify how you use the SMI index, e.g. for derivative trading, product issuances, active management benchmarking, fund and asset management, research,...
2. Do you have any concerns for implementing a quarterly capping for the components of the SMI? If yes, please elaborate on the reasons.
3. Do you consider a capping of 18% for the second largest component as sufficient? In case of disagreement please elaborate which capping restriction is preferred and why.
4. Do you have any concerns for implementing an ad-hoc intra-quarter capping in case the weights exceed 35% / 20%? In case of disagreement, please elaborate which process should be followed in case of intra-quarter breaches and why.
5. Do you have any comments on the timeline for this index methodology change?
6. SSX intends to change the weighting methodology of the SMI components. Do you foresee a need for a parallel SMI index without the capping restriction? Please elaborate why a parallel index would be required and for how long SSX should provide it.
7. Are there any other changes for the SMI or any other indices that SSX should investigate? Please elaborate whether you see any dependencies that make it necessary to adjust the methodology of another index in case the SMI is changed.

#### 5. Appendix

SMI Composition as of 22 November 2016 and potential capped weights

Instrument Name	Weight Uncapped	Weight Capped (33-18)
NESTLE N	22.2%	22.5%
NOVARTIS N	19.1%	18.0%
ROCHE GS	16.6%	16.9%
UBS GROUP N	6.1%	6.2%
ZURICH INSURANCE N	4.3%	4.3%
ABB LTD N	4.1%	4.2%
SYNGENTA N	3.8%	3.9%
RICHEMONT N	3.5%	3.6%
SWISS RE N	3.2%	3.2%
CS GROUP N	3.1%	3.1%
LAFARGEHOLCIM N	2.8%	2.8%
ACTELION N	1.7%	1.8%
GEBERIT N	1.6%	1.6%
GIVAUDAN N	1.5%	1.5%
SWISSCOM N	1.2%	1.2%
SGS N	1.2%	1.2%
ADECCO N	1.1%	1.1%
JULIUS BAER N	1.1%	1.1%
SWISS LIFE HOLDING AG N	0.9%	1.0%
SWATCH GROUP I	0.9%	0.9%

Weight of top 3 companies in SMI between 03.01.2014- 22.11.2016



## 6. References

SMI rule book:

[http://six-swiss-exchange.com/downloads/indexinfo/online/share\\_indices/smi/smifamily\\_rules\\_en.pdf](http://six-swiss-exchange.com/downloads/indexinfo/online/share_indices/smi/smifamily_rules_en.pdf)

ESMA's guidelines on ETFs and other UCITS issues

[https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2014-0011-01-00\\_en\\_0.pdf](https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2014-0011-01-00_en_0.pdf)

CONSOLIDATED UCITS Q&A

[https://www.esma.europa.eu/sites/default/files/library/2016-181\\_qa\\_ucits\\_directive.pdf](https://www.esma.europa.eu/sites/default/files/library/2016-181_qa_ucits_directive.pdf)