STOXX Ltd.

Response
to
Consultation paper

by Consob on

Capital increases with significant dilutive effect

Zurich, September 30, 2014

STOXX Limited

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Switzerland

STOXX is pleased to have the opportunity to submit comments to Consob in response to the consultation paper “Capital increases with significant dilutive effect” (Aug. 7, 2014).

STOXX Limited is an established index specialist with a European heritage. The launch of the first STOXX® indices in 1998, including the EURO STOXX 50® index, marked the beginning of the STOXX business activities. Since that time, STOXX has been continuously expanding its portfolio of indices, and now operates on a global level, across all asset classes. STOXX Limited is committed to delivering its high-quality, reliable and trusted index offerings to its global client base.

Our indices are licensed to the world's largest issuers of financial products, capital owners and asset managers as well as to more than 400 companies around the world, and are used not only as underlyings for financial products such as exchange-traded funds (ETFs), futures and options, and structured products, but also for risk and performance measurement.

We would also welcome the opportunity to discuss the content of our submission with you further. Should you require any additional information in the meantime, please contact: Dr. Christian Bahr; Head of Product Development; STOXX Ltd.; Selnaustrasse 30; 8021 Zurich; Switzerland; Christian.Bahr@stoxx.com.

Answers to the questions:

1. Should the rolling model be adopted for all rights issues or should it be adopted only for highly dilutive rights issues? In the latter case, how should highly dilutive rights issues be defined?

From an index provider perspective the rolling model adds more complexity to the rights issue process. If the index would try to reflect the actual market behavior the number of shares in the index needs to be increased when the new shares are being issues in the rolling model. However, this is not in the interest of the index our clients. It generates too many index changes, turnover and transactions for passive investors. For this reason, index providers have incorporated into their methodologies buffer rules and thresholds to avoid too many changes in an index outside of the periodic index review. Typically index reviews are done on a quarterly basis to adjust the index composition and weights. Index providers might therefore stick to their existing process for the treatment of rights issues and not replicate the rolling approach.

Also, communication and announcements schedules are crucial independently of the model. Especially for highly dilutive events the current practice of companies to communicate the final terms (share ratios and subscription prices) shortly prior to the ex-date are not supporting stock and derivative exchanges, investors and index providers to make to necessary adjustment in their systems and communications to their clients. Market participants would benefit significantly from having at least a mandatory three business days lead time between the final announcement of the terms and the ex-date of the corporate action. Harmonized corporate actions and dividend calendars can avoid surprise with such events.

STOXX has decided to distinguish in its methodology between standard rights issues, highly dilutive and extremely dilutive events. Please see the STOXX calculation guide (http://www.stoxx.com/indices/rulebooks.html) in chapter 8.1 section 4 for details.

For standard rights issue treatments the price is adjusted on the ex-date of the rights issue and the shares are increased immediately. For B being the new shares received, A the existing old shares the following formulas apply.

Adjusted price = (closing price × A + subscription price × B) / (A + B)

New number of shares = old number of shares × (A + B) / A

Further distinctions are made into extremely dilutive rights issue with a share ratio larger or equal to 2000% ($B/A \geq 20$) and Highly dilutive rights issue with a share ratio larger or equal to 200% ($B/A \geq 2$).

Extremely dilutive rights issues are treated as following:

» STOXX will announce the deletion of the company from all indices following the standard rules for index replacements if sufficient notice period can be given

» Sufficient notice period: STOXX is able to make an announcement about index changes two trading days before the ex-date

» The company may enter the indices again at the next periodic index review, but only after the new shares have been listed

Extremely dilutive rights issues without sufficient notice period and all highly dilutive rights issues are treated as following:
» Inclusion of the rights into the indices with a theoretical price on the ex-date

» The rights must be listed on an eligible stock exchange and tradable starting on the ex-date

otherwise only a price adjustment is made

» The rights will have the same parameters as the parent company

» The rights will be removed after their first trading day at the close

» The number of shares and weighting factors will be increased after the new shares have been listed

If the subscription price is not available or equal to or greater than the closing price on the day before the effective date, then no adjustment is made.

2. Are there other advantages or costs stemming from the implementation of the rolling model? Can you provide us with a quantitative evaluation of these additional advantages or costs?

n/a

3. In case the rolling model is implemented, do you think that the arbitrage activity would be an adequate way to solve the price anomalies? Are there other measures which could facilitate the arbitrage activity?

n/a

4. Do you agree on the fact that the litigation risk with customers for late communications should not be significant and, thus, should not prevent the adoption of the rolling model?

n/a

5. Which delivery time could be feasible for the implementation of the rolling model?

n/a