# CONSULTATION SUMMARY

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| Consultation subject: | **rule change AEX family eligibility in view of Market of Reference** |
| Consultation started: | October 2021 |
| Summary published: | 14 December 2021 |

**Details:**

A consultation took place in October and November on a proposal to reduce the maximum weight of constituents in the AEX family from 15% to 10%. Based on the responses no convincing support was found for the proposal.

As a consequence Euronext has decided not to propose a change to the Independent Supervisor with regard to the rules of the Index for the capping methodology. As a result the current rules of the AEX family will stay as they are.

**Number of Responses:**

Around 15 responses were received to the consultation.

**Follow up:**

As no convincing support was found for a rule change, the current rules will stay in place.

**Feedback received in the consultation**

Based on the responses no convincing support was found, see below for a summary of received comments:

**Arguments in favour**

- More diversification. More UCITS compliant. Good idea.
- We believe the proposal serves the purpose of maintaining a well-diversified index reflecting the performance of the entire market, rather than just a small handful of large constituents.
- OK. Wordt dan iets volatieler (Ok will become somewhat more volatile)
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**Arguments against**

- We believe the current methodology with 15% capping provides sufficient diversification. With the proposed capping of 10%, the benchmark will become less representative of the underlying market.
- Investors like the alternative offered by the AEX index. People want the exposure that's offered by the top weights in the AEX index at the moment. Investors would have missed out on huge returns in ASML by having a 10% cap. Investors have already missed out on huge returns because of the 15% cap. A reduction would scare investors away
- Having a reduced cap leads to increased index turnover. At the end of each quarter a 10% cap would see the weights of some of the members of the index reduced regularly. The increased turnover through index rebalances reduced shareholder value because of the predictability of the weight reduction. Having a capping factor leads to increased exposure to smaller capitalization stocks. This increased exposure will see smaller capitalization stocks added/removed in increased size which will mean more market impact through rebalances.
- Reducing the weight cap will see stocks such as ASRL NA and LIGHT NA increase in weight. Because of the liquidity and spread of these stocks the transaction costs in trading the AEX index will increase (spread & market impact)

- Changing the index composition makes the index composition look more similar to index alternatives.
- Investors get a natural exposure to the correct size exposure using the current index composition. Changing the index composition would leave investors overexposed to small cap stocks.
- Main concern is moving to less liquid constituents affecting the liquidity of the future as a result
- Reducing the maximum weighting will mechanically reduce liquidity in AEX derivatives because the index will become more exposed to stocks with lower liquidity. The AEX as an index will also become less interesting in general because it will be a performance measure of less interesting stocks.
- I don't see how is this good for investors, nor for [Listed Company]. On the other hand we can and will not stop it, if Euronext decides to cap weighting further.
- Yes I saw that one, the general feel in here was that 15% was sufficient/better. It would still be lower than the SMI index capping for example
- If the proposal to limit the weight of any constituent to 10% is adopted, this would mean that five (5) companies would have an equal weighting with ASML while ASML would have a market capitalisation of between two and four times larger than those companies. The re-weighting of the additional four (4) companies that would have their weighting capped would require substantial work for both issuers of products based on the AEX index as well as market participants trading those products. There is also increased potential for volatility and disruption as a result of the re-weighting process.
- The current maximum weighting of 15% is appropriate for an index containing 25 constituents and is in line with other European benchmarks including
- the existing AEX index has proven to be a reliable and valued benchmark as evidenced by the strong performance in volumes of exchange traded derivatives based on the index. This is in stark contrast to the performance of other listed index derivatives in Europe during 2021.
- A level of 15% is more consistent with international practice
- A level of 10% could give rise to market instability
- The purpose of the AEX index is to reflect the performance of the largest companies on Euronext Amsterdam. Capping the constituents' influence means that the behaviour of the AEX index will be out of sync with that of the largest Amsterdam listed companies. This makes the AEX index less useful as an indicator of stock exchange performance.
- Logically this applies to any cap for any index. Generally, a cap should have as its purpose only to avoid that the entire index relies on the performance of one or two companies, but not to massage volatility to an artificially low level.
- The Proposal may deter investors from investing in outperforming companies listed on Euronext Amsterdam the future, as a cap of 10% will create undue selling pressure in the future when companies outperform.
- The change is likely to impact investors that have taken positions based on a particular index, including the use of the index in long-term option contracts and other derivative instruments. These stakeholders could be impacted by a decision of Euronext to reduce the index cap to 10% given the applicable index cap of 15% at the time they purchased the options or other derivative instruments.
- a 10% cap is punitive on market winners and not a realistic level having regard to the market's actual perception of concentration risk. This may also deter leading companies, in particular technology companies which are underrepresented compared to the United States and Asia, from applying for a listing on Euronext Amsterdam or establishing operations in Europe. In addition, the Proposal clearly disadvantages the broader investing public, who will be synthetically underweight on the best performing companies.
- A 15% cap is a strong indicator of the actual appetite for concentration risk regarding stocks. Moreover, we understand that the ability to outperform is a key consideration for certain index users. We believe the current 15% cap would still leave sufficient room for such users to outperform.



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