Consultation Summary

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| Consultation subject: | **rule changes related to rights issues treatment** | |
| Consultation started: |  | December 2021 |
| Summary published: |  | 10 March 2022 |

**Summary:**

A consultation took place in December 2021 and January 2022 regarding different aspects of rights issues treatment for all Euronext Indices.

For most elements the there is a consensus among respondents to implement the proposed changes, while for some parts of the proposed changes there is no consensus and therefore for these parts the proposed changes will not be implemented. For some parts Euronext has decided to make small changes to the proposed rule changes as result of comments received. As a consequence Euronext has decided to implement or keep the following rights issue rules:

* Euronext increases the threshold for dilutive rights issues from 0.4 share issued for every share to 2 shares issued for every share for Free Float Market Cap weighted Indices
* In case 2 or more than 2 shares are issued for each share for Free Float Market Cap weighted Indices, Euronext will add a temporary line to track the market value of the rights. If the rights are not tradeable on the ex-date, Euronext will use the intrinsic value of the rights.
* Euronext will not implement a specific treatment for rights issues in which more than twenty shares are issued for every share.
* Additionally, for Free Float Market Cap weighted Indices with 2 or more than 2 shares issued for each share, Euronext will assume that the cash is generated at the moment of the share increase at the end of the right subscription period, and not at the start of the right subscription period. This implies that the cash will not be part of the index at any time and it will trigger a divisor change at the end of the right subscription period.
* For Oslo Investable Indices, Euronext decides to keep one treatment for all rights issues. The new shares will be included in the index on the ex-date of the rights issue and an adjusted closing price will be applied and to include the shares in the index on the ex-date, not depending on the ratio of new shares issued.
* For Non-Market Cap weighted Indices, Euronext has decided to increase the number of shares of the particular company that performs the rights issue in order to maintain the weight of that company in the index.
* For subsequent offerings following private placements, in which only shareholders not participating in the private placement can participate, Euronext will make no adjustment.

To recap, this would mean the following:

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| **Type Index** | **Ratio rights issue** | **Treatment** | **Comment** |
| Free Float Market Cap Weighted | Less than 2 (dilutive) | Adjusted close price + New shares are added to existing line on ex-date | Divisor adjusted at ex-date |
| 2 or more than 2 (highly dilutive) | Adjusted close price + add temporary line to track market value of the right on ex-date. Cash is assumed to be generated at end of rights subscription period | No divisor change at ex-date, divisor change at end of rights subscription period |
| Non-Market Cap Weighted | All | Adjusted close price + number of shares increase of Company on ex-date | Weight Company will stay the same, no Divisor change at ex-date |
| Full Market Cap Weighted | All | Adjusted close price on ex-date | Divisor adjusted at ex-date |
| All Oslo Investable | All | Adjusted close price + New shares are added to existing line on ex-date | Divisor adjusted at ex-date |

All details of the new rules can be found below.

**Number of Responses:**

Between 5 and 10 responses were received to the consultation.

**Follow up:**

Most elements of the consulted rule change will be implemented, while some parts of the proposed changes will not be implemented. In addition, it will make some small amendments to the proposed changes. The new rules will be effective as from 9 May 2022.

**Details new rules**

In the event of a rights issue the treatment depends on how the index is weighted, a distinction is made between Free Float Market Capitalisation weighted indices, Non-Market Capitalisation Weighted indices and Full Market Capitalisation weighted Indices.

For Oslo Investable Indices, the new shares will be included in the index on the ex-date of the rights issue and an adjusted closing price will be applied. The adjustment will be made based on the shares currently in the index. The divisor will be adapted in such a way that the level of the index remains the same.

For rights issues subsequent to private placements, in which only shareholders not participating in the private placement can participate, Euronext will make no adjustment. Rights issues subsequent to private placements are referred to as repair issues in Norway.

The Indices will only be adjusted if the rights represent a positive value on the close before the ex-date.

Free Float Market Capitalisation Weighted Indices

An adjusted closing price will be applied. The adjustment will be made based on the shares currently in the index. The divisor will be adapted in such a way that the level of the index remains the same.

*Dilutive rights issues*

If less than 2 shares are added for every share that is currently held and if the new shares are fungible with the existing line of shares (e.g. no dividend disadvantage), the new shares are added to the index on the ex-date based on the current included number of shares.

*Highly dilutive rights issues*

If two or more than two shares are added for every share that is currently held (highly dilutive), a separate temporary line to track the market value of the rights will be included in the index on the ex-date.

If the rights are tradeable and traded on the ex-date, the traded price will be used for the market value of the rights. In case the rights are tradeable but are not traded on the ex-date, Euronext will use the theoretical value of the rights up till the moment the rights are traded. If the rights are not tradeable on the ex-date, Euronext will use the theoretical value of the rights.

The temporary line is included within the index calculation until the end of the rights subscription period at which point they will be deleted and the new shares consolidated into the existing share line. The temporary rights line will be deleted at its last traded price and to reflect the fact that part of the remaining portfolio should be sold to generate the cash at the end of the rights subscription period the divisor of the index will change. In case the rights hold no value at the end of the rights subscription period, Euronext holds the right to apply a different treatment.

Non-Market Capitalisation Weighted Indices

On the close before the ex-date the close price of the Company issuing the rights will be adjusted for the value of the rights. Subsequently the number of shares of the Company that is included in the index will be increased in order to maintain the weight of the Company in the index. The divisor will not change due to this adjustment.

Full Market Capitalisation Weighted indices

For Full Market Capitalisation weighted indices, the index is adjusted based on the value of the rights only. The divisor will be adapted in such a way that the level of the index remains the same. Any shares coming from the Rights Issue will be added to the index once listed.

**Feedback received in the consultation**

See below for a summary of received comments:

*Are all proposed new treatments for rights issues acceptable and replicable for you?*

* Yes, the proposed method is acceptable and replicable for me
* I agree with the propositions for the Free Float Market Capitalisation Weighted indices but I would expect the same distinctions on ratio (ie the 3 possible cases with Ratio <= 2, 2 < Ratio <= 20 and 20 < Ratio) to also apply to Non Market Capitalisation Weighted indices.  
  Concerning Full Market Capitalisation Weighted indices, I would expect the same rules as Free Float Market Capitalisation Weighted indices and thus either the increase of the share weight if Ratio <=2, adding a cash and right line if 2 < Ratio <= 20 or removing the component beforehand if Ratio > 20  
  The distinction on the Ratio helps indexation traders to avoid replicability issues in case of dilutive, highly dilutive or extremely dilutive right issues and as such should be taken into considerations in all cases.  
  Moreover, even though I don't disagree with increasing the dilutive vs non dilutive limit from 0.4 to 2, I would like to highlight that the ratio in term of new emitted vs share currently held may not properly define the dilutive feature of a right issue. The strike should also be taken into account in this definition.
* It makes the index rules more complicated and we don't think cash should be a component of the index. Preference for the “dilutive rights issue” treatment – keeps consistent and unambiguous treatment across other headline index providers. Introduction of additional lines (cash, market value of rights) starts to no longer resemble an equity index, which should only be a function of equity prices at any given time.
* Want no distinction in treatment of rights issues weather regarded as dilutive or not. The level of dilution is anyway dependent on both subscription price and #new shares, not only increase in #shares.  
  The new number of shares should be included on the ex-date. In this way an investor can maintain the relative exposure to the index by exercising the pro-rata #rights with no market price impact.

For an investor aiming to maintain the relative weight, a partial inclusion would force the investor to either sell shares or sell some of the rights. At the next semi-annual rebalancing, the same shares would have to be purchased causing unnecessary transaction costs and possibly an additional market impact. This would be avoided if all new shares were included at the ex-date.

*Do you support to bring the treatment for Oslo tradeable indices in line with other Euronext indices, implying that if more than 2 new shares are issued for every existing share the traded rights plus cash are included?*

* Yes, I support this new treatment to make it in line with other Euronext Indices
* Want no distinction in treatment of rights issues weather regarded as dilutive or not. The level of dilution is anyway dependent on both subscription price and #new shares, not only increase in #shares.  
  The new number of shares should be included on the ex-date. In this way an investor can maintain the relative exposure to the index by exercising the pro-rata #rights with no market price impact.

For an investor aiming to maintain the relative weight, a partial inclusion would force the investor to either sell shares or sell some of the rights. At the next semi-annual rebalancing, the same shares would have to be purchased causing unnecessary transaction costs and possibly an additional market impact. This would be avoided if all new shares were included at the ex-date.

* We do not manage funds against Oslo tradeable indices.

*Do you support the treatment of subsequent offerings following private placements (referred to as repair issues in Norway) in which only shareholders not participating in the private placement can participate?*

* Yes, I support to make no adjustment for these type of offerings.
* We do not manage against this benchmark that has repair issues treatment. However, we would support a notion of including both offerings, i.e. taking into account the repair issuance.

*Do you support to change the current applied ratio for the threshold between dilutive and highly dilutive of 0.4 share per current share to a ratio of 2 shares per current share?*

* Yes, I support to increase the threshold from 0.4 to 2 per current share
* There should be no threshold based on the level of dilution.
* Yes, I support the increased threshold, but only if the proposed new treatment is for highly dilutive and extremely dilutive rights issues is adopted

*Do you support the creation of two temporary lines for traded rights and cash in case of highly dilutive rights issues (between 2 and 20 shares for every share)?*

* Yes, I support the inclusion of two temporarily lines.
* No, the treatment for highly dilutive rights issues should be the same as for dilutive rights issues
* In the case of highly dilutive rights, we would expect to have the cash held back (cash line) and the rights added to the index on exDate. All three components – Parent, Rights and Subcost (i.e. cash line) – would be aligned on the same exDate to reflect all exposures. On the pay date, the share of the parent would increase.  The rights line and the cash line would drop off.

*Which treatment do you support in case of rights that are not tradeable for highly dilutive rights issues (between 2 and 20 shares for every share)?*

* I prefer to make no adjustment in this situation
* I support the use of a theoretical value for rights that are not tradeable at all
* I support to only apply an adjusted price for rights that are not tradeable at all
* In that case, I would advise to use the extremely dilutive right issue rule and remove the component from index before the right goes ex if it can be notified at least 2 days beforehand. Otherwise, I suggest to add a cash line and a right line to the index (or an artifact line to represent the right line)

*Do you support the proposed change for extremely dilutive rights issues (more than 20 new shares for every share) to remove the current constituent if the removal can be announced two day before the ex-date and if not, to treat this as a highly dilutive rights issue?*

* Yes, I support the removal of the current constituent
* No, the treatment for extremely dilutive rights issues should be the same as for highly dilutive rights issues in every situation
* Yes I support the removal of the constituent in case it can be notified in due time and the application of the highly dilutive rule otherwise but taking into account my previous comments on the highly dilutive rule
* Extreme dilution (significant capital infusion via rights option) may lead to a stock price fall and a sale of the entire position may have a further downward pressure on the stock price. However, if the constituent is removed, a market sensitive trading strategy may be necessary so 2 day notice prior to the exDate is highly valued.

*Do you support the proposed change for reinvesting the value of rights in the share only?*

* Yes, I favor to change the treatment of rights issues to the method of reinvesting in the share itself.
* I support the proposition to reinvest the value of the right in the share in case the Ratio is below 2 by letting the share's weight unchanged. If the ratio exceeds 2, highly dilutive and extremely dilutive rules should apply to ensure (or at least increase the probability) of replicability of the indices. In the case the highly dilutive rule would apply, the weight of the shares before the ex date should equal the weight of the cash line + the share line + the right line.
* If the proposed rule is rather more in line with market standards than your current rule for Non-Market Cap weighted Indices then it should be fine
* No opinion
* We do not manage funds against any Euronext non-market cap weighted indices.

*Do you support the proposed change for extremely dilutive rights issues (more than 20 new shares for every share)?*

* Yes, removal (until next review) is appropriate for extremely dilutive rights issues.
* No, the treatment for extremely dilutive rights issues should be the same as for other rights issues
* No opinion
* We do not manage funds against any Euronext non-market cap weighted indices.

*Other general remarks*

* I like the change from 0.4 to 2. I believe that will help a lot since a lot of right issues are around that level. I don't see the advantage for a different treatment above 20.
* I suggest Full Market Capitalisation Weighted indices to follow the same rule as Free Float Market Capitalisation Weighted indices as far as right issues are concerned (ie share weight increase in case of Ratio < 2 and application of highly dilutive and extremely dilutive rules based on the Ratio otherwise)