

CONSULTATION SUMMARY

Consultation subject: rule changes related to highly dilutive rights issues
Consultation started: January 2024
Summary published: 14 March 2024

Summary:

A consultation took place in January and February 2024 on the treatment of highly dilutive of rights issues for Free Float Market Cap Weighted Indices.

For some parts Euronext has decided to make small changes to the proposed rule changes as result of comments received and further follow-up. As a consequence Euronext has decided to implement the following highly dilutive rights issue rules:

- Euronext will include a temporary subscription cash line at the ex-date alongside the temporary line to track the market value of the rights. Underlying assumption would be that the cash needed to buy the new shares will take place during the subscription period instead of at the end of the subscription period.
- Euronext will change the timing of rights line removal and addition of new shares. Instead of making this adjustment at the end of the subscription period, Euronext is will make this adjustment after the end of the first day these new shares are trading (end of pay date). This would effectively mean that the new shares will be part of the Index on the second trading day (T+1 pay date).

To recap, this would mean the following (changes in red)

Type Index	Ratio rights issue	Treatment	Comment
Free Float Market Cap Weighted	Less than 2 (dilutive)	<u>On Ex-date:</u> Adjusted close price + New shares are added to existing line	<u>On Ex-date:</u> Divisor adjusted
	2 or more than 2 (highly dilutive)	<u>On Ex-date:</u> Adjusted close price + add temporary line to track market value of the right + add temporary cash line. <u>After close of the day the new shares are listed:</u> Removal temporary rights and cash line + new shares added to Index	<u>On Ex-date:</u> Divisor change at ex-date <u>After close of the day the new shares are listed:</u> no Divisor change

Non-Market Cap Weighted	All	<u>On Ex-date:</u> Adjusted close price + number of shares increase of Company	<u>On Ex-date:</u> Weight Company will stay the same, no Divisor change
Full Market Cap Weighted	All	<u>On Ex-date:</u> Adjusted close price	<u>On Ex-date:</u> Divisor adjusted
All Oslo Investable	All	<u>On Ex-date:</u> Adjusted close price + New shares are added to existing line	<u>On Ex-date:</u> Divisor adjusted

All details of the new rules can be found below.

Number of Responses:

10 Responses were received to the consultation.

Feedback received in the consultation

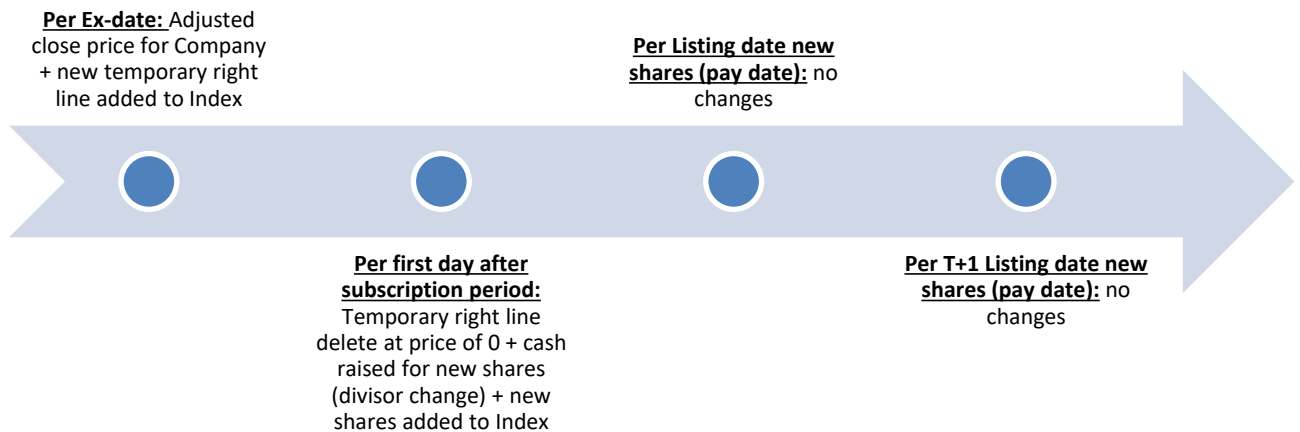
Most respondents welcomed the changes, with some additional adjustment to the proposal. See below for a summary of all received comments.

Follow up

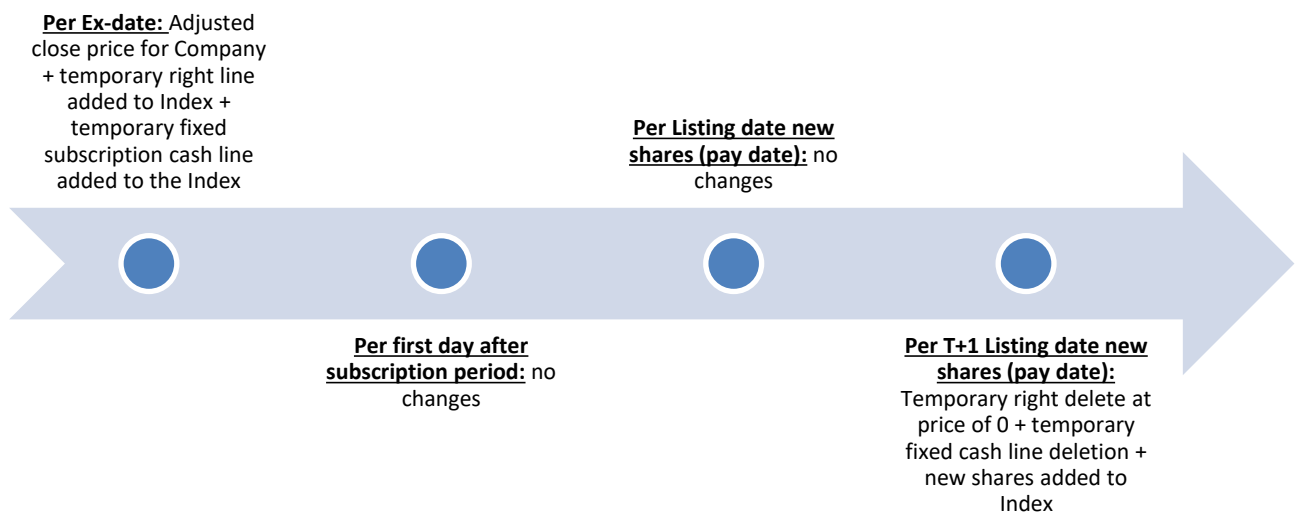
For some parts Euronext has decided to make small changes to the proposed rule changes as result of comments received and further follow-up. The new rules will be effective as from 14 May 2024, meaning the new rules will be applicable for highly dilutive rights issues that have an ex-date of 14 May 2024 or later.

Current and new rule

Current rule for highly dilutive rights issue for FF Market Weighted Indices



New rule for highly dilutive rights issue for FF Market Weighted Indices



Details new rules (changes in red)

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 and **a temporary subscription cash line will be included in the index on the ex-date. Underlying assumption for the addition of the temporary subscription cash line would be that the cash needed to buy the new shares will take place during the subscription period. The divisor will change at the ex-date as a result of the addition of the temporary subscription cash line.**

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. **After the subscription price has ended Euronext will use the last traded price for the valuation of the temporarily rights line.**

The temporary lines are included within the index calculation **and are deleted from the index after the close of the day the new shares are listed. The new shares are also consolidated into the existing share line after the close of the day the new shares are listed. This would effectively mean that the new shares will be part of the index on the second trading day of the new shares.** The temporary rights line will be deleted at a price of zero.

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.

Oslo Free Float Market Cap Weighted Indices (formerly known as Oslo Investable Indices)

For Free Float Market Capitalisation Weighted Indices with Oslo Børs as Administrator, 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. A full list of Oslo Free Float Market Capitalisation Weighted Indices is available [here](#).

Feedback received in the consultation

See below for a summary of received comments:

Do you agree with the proposal to change the timing of the temporary line deletion and addition of the new shares for highly dilutive rights issues?

- Yes, the proposed method is acceptable and replicable for me
- We agree with the treatment proposed, however, on ex-date we would want to see a separate temporary line tracking the market value of rights and another temporary line to reflect the subscription cash.
- No the current timing should be unchanged

Is there any other element of the rights issues that you would like to change?

- No, there are no other elements that I would like to change
- Currently, Euronext is only adding the rights line to the index on ex-date. From a portfolio management perspective, adding a temporary subscription cash line in addition to the temporary rights line helps us replicate and manage the event operationally.
- What about past transactions? Are you considering modifying old operations, in particular LATECOERE in the EURONEXT TECH CROSISANCE index, the operation of which gives a performance difference of around 3%?

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)