# Indices Guidelines
# For Chittagong Stock Exchange

## 1. Introduction

At present CSE is managing several indices which are listed below:

- CSE All Share Price Index (CASPI)
- CSE Selective Categories Index (CSCX)
- CSE – 30 Index and
- Sector Wise Indices:
    - GENERAL INSURANCE
    - TEXTILES & CLOTHING
    - PHARMA & CHEMICALS
    - FOODS & ALLIED
    - CEMENT
    - ENG. & ELECTRICAL
    - LEATHER & FOOTWEAR
    - SERVICES & PROPERTY
    - PAPERS & PRINTING
    - ENERGY
    - MUTUAL FUNDS
    - BANK
    - CERAMIC
    - ICT
    - LEASING & FINANCE
    - LIFE INSURANCE
    - TELECOMMUNICATION
    - MISCELLANEOUS

All the indices of the Chittagong Stock Exchange Ltd (CSE) are calculated and maintained following Laspayers Method which was considered as the most transparent and scientific at the time of its inception. Now it is required to adopt a modern and internationally accepted calculation methodology to provide a more sensitive, investable, tradable and transparently managed Index. The enhanced CSE indices will provide a platform for a wider range of investable and appealing opportunities. The constituents will be free float adjusted with only the investable portion included in the index calculation.

Globally, the free-float Methodology of index construction is considered to be an industry best practice and all major indexes like MSCI, FTSE and S&P have adopted the same. MSCI, a leading global index, shifted all its indices to the Free-float Methodology in 2002.

## 2. Strengths of Free-float based CSE Index that will be calculated on real time basis

i) *International Branding* -- The adoption of free-float market capitalization with liquidity tested is most likely to provide global relevant, recognition and reach.

ii) *Global Methodology* -- CSE indices will be following the rules of free-float, liquidity and transparent methodology.

iii) *Robust Parameter -- T*he index will be made up of market movers while remaining representative of the market.

## 3. **Free-float Methodology**

Free-float Methodology refers to an index construction methodology that takes into consideration only the free-float market capitalization of a company for the purpose of index calculation and assigning weight to stocks in the Index. Free-float market capitalization takes into consideration only those shares issued by the company that are readily available for trading at the Stock Exchange.

It generally excludes promoters' holding, government holding, strategic holding and other locked-in shares that will not come to the market for trading in the normal course.

**Free-Float Calculation Methodology:**

| | | | |
|---|---|---|---|
| Total | Outstanding Shares | | XXX |
| **Less:** | Shares held by Directors/sponsors | XXX | |
| | Government Holdings as promoter/acquirer/ controller | XXX | |
| | Strategic Stakes by Private Corporate Bodies/ Individuals (Any holding more than 5% held by an individual/company, be considered as strategic) | XXX | |
| | Shares held by Associated Companies (Cross holdings) | XXX | |
| | Other shares under lock – in (if any) | XXX | XXX |
| | **Free-Float:** | | **XXX** |

A separate guideline for Free Float Adjustment in Index is attached in Appendix-A.

4. Eligibility Criteria for inclusion to the Free – float Index:

Securities must be sufficiently liquid to be traded. Securities which do not have any trade during review period(6 Months) will not be eligible for inclusion in the indices until the next semi-annual review.

A security that is excluded because it fails the liquidity requirement will be excluded from all indices for the period until the next semi-annual review.

In assessing liquidity, data on trading volume will be obtained from CSE.

In exceptional market conditions, if trading volumes are very low, the CSE Index Committee may relax the selection criteria in terms of liquidity in order to avoid a large number of constituents being removed from the CSE Index. This discretion may not be applied to individual securities.

Security type:

- Only the companies listed with CSE will be eligible to be included in the index.
- Inactive stocks not being traded for consecutive six months will not be considered for selection.
- Suspended Scrips will not be considered for scrip selection.
- Mutual Funds and Debt securities will not be considered for selection in index (there is a separate index for Mutual Fund Sector).
- Convertible preference shares and convertible debt shall be excluded from selection in index until conversion.
- Warrants and stock options will be excluded from selection in index.
- A newly listed scrip will be included in the index after first day trading.
- ‘Z’ category shares will be excluded from CSCX index.
- Only Regular trades (other than Odd lot or bulk etc), should be considered in calculating index.
- No changes either in number of shares or index divisor will be allowed during trading session.
- CSE Index committee will review the index – its criteria, performance, calculation method after every six month.

Index Base

The Base date of CSE indices is 30$^{th}$ December 1999 and the Base Index value is 1000 points.

Size and Floatation

The security must have 5% free – float share and trading volume during 6 months review period.

Selection criteria for CSE – 30 Index

CSE will follow a two layer method for selection of listed companies in the CSE – 30 Index. In the first layer method, basic criteria are considered for primary selection.

Basic criteria (CSE – 30):

1. Must be listed with the Chittagong Stock Exchange Limited.
2. In case of IPO/New Issue, this should be on listing either with DSE or CSE for a minimum period of 2 years or remained in Commercial Production in Bangladesh for the minimum same period prior to its listing.
3. Companies that did not hold their Annual General Meetings regularly will not be considered.
4. Minimum market capitalization must be Tk. 200 million and at least two times of paid-up capital.
5. A Company must have at least 20% free float share capital. Free float share capital shall mean the share capital which will exclude holdings by Government(other than ICB), Promoters/Directors & their Associate's, cross holding by associate companies, strategic holding by institutions & individuals, locked-in shares, ADR's & GDR's held by promoter group, FDI & shares held by employee welfare trusts.
6. Must have positive revenue reserve/ retained earnings.
7. Must be traded for at least 50% trading days of the six monthly review period.
8. Paid dividend in any of the last 2 years.
9. Company having negative Earning Per Share (EPS) for last two consecutive years will not be considered.
10. Company falling under settlement category 'Z' will not be considered.
11. Financial Institution falling under the problem list of Bangladesh Bank will not be considered provided such information is available from an acceptable source.
12. Company failing to pay the listing fees and/or penalty imposed under the Listing Regulations of CSE for a period of 2 years will not be considered.
13. At least one company from each sector having minimum seven companies will be taken in the index if the scrip satisfies the above criteria and achieves the minimum point (**50 points**) as evaluated on the basis of the following Selection Criteria. The sector having less than seven companies will be considered to be a part of Miscellaneous Sector.

*On being qualified on the basis of the Basic Criteria, the companies will be required to meet the following further Selection Criteria to have the final berth in CSE-30 Index.*

**SELECTION CRITERIA**

1. Higher Net Assets Value (NAV) per share
2. Higher rate of Earning Per Share (EPS)
3. Higher rate of Dividend
4. Lower Price Earning (PE) Ratio

5. Higher Dividend Yield (DY)
6. Higher rate of free floating in equity
7. Larger number of shareholders
8. Higher liquidity in terms of trading day
9. Higher liquidity in terms of number of contract
10. Longer duration of continuous remaining in the CSE-30 Index
11. Regular payment of listing fees

## 5. Index Calculation & Maintenance

All CSE indices will be calculated using following formula:

Free-float market capitalization of index constituents/ Base Market capitalization * Base Index Value

### *6.1 Index Closure Algorithm*

The closing index value on any trading day is computed taking the weighted average of all the trades of index constituents in the last 30 minutes of trading session. If an index constituent has not traded in the last 30 minutes, the weighted average price of last 50 trades is taken for computation of the index closure. If an index constituent has not traded at all in a day, then its last day's closing price is taken for computation of index closure. The use of index closure algorithm prevents any intentional manipulation of the closing index value.

### *6.2 Maintenance of Index and CSE Index Committee for Review*

One of the important aspects of maintaining continuity with the past is to update the base market capitalization. The base market capitalization adjustment ensures that replacement of stocks in Index, additional issue of capital and other corporate announcements like 'rights issue' etc. do not destroy the historical value of the index. The beauty of maintenance lies in the fact that adjustments for corporate actions in the Index should not per se affect the index values.

In addition, the free float methodology will require adjustment of Free Float factor (FFF) or Investible Weight factor (IWF) periodically.

CSE indices will require adjustments for events that result in changes in free float market capitalization. These events will include;

(a) Inclusion/Deletion of stock in the Index
(b) Adjustment of Equity Capital
(c) Change in the Free Float factor (IWF)

CSE Index Committee will review the CSE index series including float factors in every six months. The purpose of the Committee is to consider and advise on matters relating to and proposed amendments to the Rules governing the management of the CSE Index Series and to ensure that best practice is used in the construction and ongoing management of the Indices.

- Index Committee is responsible for Broad Index Policy Framework and Guidelines. In particular the Committee will:

  a) Ensure that global standards are applied in the Ground Rules,
  b) Advise on how to reconstruct or replace the existing index methodology,
  c) Oversee the ongoing management of the indices, corporate actions and changes to Ground Rules,
  d) Advise on the construction and methodology of new indices.

- Index Committee provides guidelines to CSE Index Cell who are responsible for the daily maintenance of the index as per the broad index policy framework set by the CSE Index Committee.

- The CSE Index Cell ensures that all CSE Indices maintain benchmark properties by striking the balance between frequent replacements in index and maintaining its historical continuity.

### *6.3 On - Line Computation of the Index*

During trading hours, value of the indices is calculated and disseminated on real time basis. This is done automatically on the basis of prices at which trades in index constituents are executed.

### *6.4 Review Period/Re-composition*

The index will be reviewed and/or re-composed on semi-annual basis as follows:

| **Basis** | | **Revision** | |
|---|---|---|---|
| June | 30 | August | 15 |
| December | 31 | February | 15 |

### *6.5 New Issues*

**6.5.1** If a new issue is large enough, that the effectiveness of the index as a market indicator would be significantly and adversely affected by its omission, the new issue will be included as a constituent of the CSE Indices that it qualifies for after the close of business on the first day of official trading. In all cases, advance notification confirming the timing of the inclusion of the new constituent will be given accordingly.

**6.5.2** For the purpose of this rule, a company which is re-listed following suspension or is reorganized or renamed or which arises from a de-merger or complex re-organization of another company which is not an existing constituent, shall not be considered to be a new issue. However, an Initial Public Offering (IPO) that arises from a de-merger will be considered as a new issue.

**6.5.3** If the CSE Index Committee decides to include a new issue as a constituent security other than as part of the normal periodic review procedure, this decision must be publicly announced at the earliest practicable time.

## *7 Adjustment for Bonus, Rights, Split and Change in Issued Capital*

Index calculation needs to be adjusted for issue of rights issue. If no adjustments were made, a discontinuity would arise between the current value of the index and its previous value despite the non-occurrence of any economic activity of substance. At the CSE Index Cell, the base value is adjusted, which is used to alter market capitalization of the component stocks to arrive at the index value.

In line with the international practices the adjustment for corporate actions will be made as given in a separate document.

The CSE Index Cell keeps a close watch on the events that might affect the index on a regular basis and carries out daily maintenance of all CSE Indices.

# Index Adjustment Guideline

Following guidelines will be followed by CSE to adjust the Indices for corporate actions and events:

**Guideline for Adjustments for Corporate Actions:**

## A. Adjustment for Cash Dividend:

No adjustment is required for CSE All Share Price Index, CSE 30 Index, CXCX and CSE Sector Wise Indices But for Total Return Index (if introduced in future), cash dividend is required to be adjusted.
In case of Special Cash Dividend (Dividend declared is more than 10 % of the existing price of the stock), adjustment needs to be made to the base market capitalization. The dividend per share is subtracted from the current price of the share and new market capitalization is calculated using the theoretical price. No changes will be made to the Total Return Index

## B. Adjustment for Stock Dividend:

The indices have to be adjusted for stock dividend at the close of record date. Adjustments should include the adjusted price of stock and the new number of shares on the ex-dividend day.

**Example:**
Presently Company Alpha has 300,000 free-float shares. Its stock price is Taka 2400 on September 14, 2010. It declared 50% stock dividend with record date of September 15, 2010.

| | |
|---|---|
| CSE Index on 15/9/10: | 5000 |
| Free float market capitalization on 15/9/10 | 3,000,000,000 |
| Divisor | 600,000 |

| Stock | No. of Free Float Shares | Stock Price (Taka) | Free Float Market Cap (Taka) |
|---|---|---|---|
| Alpha | 300,000 | 2,400 | 720,000,000 |
| Beta | 2,500,000 | 450 | 1,125,000,000 |
| Gamma | 3,500,000 | 330 | 1,155,000,000 |
| **Total** | | | **3,000,000,000** |

**Step 1:**
**Estimate the closing adjusted price.**

$$\text{Closing Adjusted Price} = \frac{\text{Closing Stock Price}}{(1 + \text{Rate of Bonus})}$$

$$= \frac{2400}{(1 + 0.50)}$$

$$= 1600$$

**Step 2:**
**Determine the new number of free float shares.**

$$\begin{pmatrix}\text{New Number of}\\ \text{Free Float Shares}\end{pmatrix}=\begin{pmatrix}\text{Existing Number of}\\ \text{Free Float Shares}\end{pmatrix}\times(1+\text{Rate of Bonus})$$
$$=300{,}000\times(1+0.50)$$
$$=450{,}000$$

Alternatively, it can be estimated as:

$$\begin{pmatrix}\text{New Number of}\\ \text{Free Float Shares}\end{pmatrix}=\begin{pmatrix}\text{Outstanding}\\ \text{Shares}\end{pmatrix}\times(1+\text{Rate of Bonus})\times\text{FF}$$
$$=600{,}000\times(1+0.5)\times0.50$$
$$=450{,}000$$

**Step 3:**
**On the close of September 15, 2010 (record date), change the composition as follows:**

**New Index Composition:**

| **Stock** | **No. of Free Float Shares** | **Stock Price (Taka)** | **Free Float Market Cap (Taka)** |
|---|---|---|---|
| **Alpha** | **450,000** | **1600** | **720,000,000** |
| Beta | 2,500,000 | 450 | 1,125,000,000 |
| Gamma | 3,500,000 | 330 | 1,155,000,000 |
| **Total** | | | **3,000,000,000** |

No divisor adjustment will be necessary. Opening Index will remain unchanged on 16/9/10 due to this adjustment.

**C. Adjustment for Right:**
In case of a right issue by a company, there is need for adjustment of ex-right price and the number of free float shares. To be precise, adjustments for right will be necessary in two stages –

(a) at the close of record date
(b) at the close of subscription of right shares.

But for the sake of simplicity, a single adjustment on the second record date is recommended. Adjustment should be made with respect to stock price and number of free float shares.

**Example:**
Presently Company Alpha has 300,000 free-float shares. Its stock price is Taka 2400 on September 14, 2010. It declared 1R:2 (50%) right with second record date of September 15/9/10 after SEC approval. Right offer price Taka 600.

CSE Index on 15/9/10: 5000
Free float market capitalization on 15/9/10 3,000,000,000
Divisor 600,000

**Present Index Composition:**

| Stock | No. of Free Float Shares | Stock Price (Taka) | Free Float Market Cap (Taka) |
|---|---|---|---|
| Alpha | 300,000 | 2,400 | 720,000,000 |
| Beta | 2,500,000 | 450 | 1,125,000,000 |
| Gamma | 3,500,000 | 330 | 1,155,000,000 |
| **Total** | | | **3,000,000,000** |

**Step 1:**
**Determine the Ex-right price:**

$$\begin{pmatrix}\text{Ex Right}\\ \text{Price}\end{pmatrix} = \frac{\begin{pmatrix}\text{Cum Right Closing}\\ \text{Stock price prior to}\\ \text{2nd record date}\end{pmatrix} + (\text{Rate of Right} \times \text{Offer Price})}{(1 + \text{Rate of Right})}$$

$$= \frac{2400 + (0.5 \times 600)}{(1 + 0.5)}$$

$$= 1800$$

**Step 2:**
**Determine the diluted new number of free float shares.**

$$\begin{pmatrix}\text{New Number of}\\ \text{Free Float Shares}\end{pmatrix} = \begin{pmatrix}\text{Existing Number of}\\ \text{Free Float Shares}\end{pmatrix} \times (1 + \text{Rate of Right})$$

$$= 300{,}000 \times (1 + 0.50)$$

$$= 450{,}000$$

**New Index Composition:**

| Stock | No. of Free Float Shares | Stock Price (Taka) | Free Float Market Cap (Taka) |
|---|---|---|---|
| **Alpha** | **450,000** | **1800** | **810,000,000** |
| Beta | 2,500,000 | 450 | 1,125,000,000 |
| Gamma | 3,500,000 | 330 | 1,155,000,000 |
| **Total** | | | **3,090,000,000** |

**Step 3:**
**Estimate the Divisor Adjustment:**

$$\text{New Divisor} = \frac{\text{Revised Free Float Market Capitalization}}{\text{Closing CSE Index on Record Date}}$$
$$= \frac{3{,}090{,}000{,}000}{5000}$$
$$= 618{,}000$$

Alternatively, the divisor can be adjusted as:

$$\text{New Divisor} = \text{Old Divisor} \times \frac{\text{Revised Free Float Market Capitalization}}{\text{Previous Free Float Market Capitalization}}$$
$$= 600{,}000 \times \frac{3{,}090{,}000{,}000}{3{,}000{,}000{,}000}$$
$$= 618{,}000$$

**Step 4:**
**Estimate the Opening CSE Index on September 16, 2010**

$$\begin{pmatrix}\text{Opening CSE Index} \\ \text{on Ex Right Date}\end{pmatrix} = \frac{\begin{pmatrix}\text{Revised Free Float} \\ \text{Market Capitalization}\end{pmatrix}}{\text{New Divisor}}$$
$$= \frac{3{,}090{,}000{,}000}{618{,}000}$$
$$= 5{,}000$$

CSE Index remains unchanged at the opening of next trading day.

**Other Corporate Actions that will require Index/ Stock Adjustment**

(a) Bond Conversion / Preferred Stock Conversion into common stock
(b) Increase in the number of shares due to stock warrants
(c) Mergers and Acquisitions
(d) Stock Split / Reverse Split
(e) Spin off / Split Off / Split up
(f) Stock Buyback

**Inclusion of New stock in the Index:**

The new stock should be included in the index after the close of first day trading. This means that there will be no impact of the new stock's price change on the first day of trading of IPO in the secondary market. At the closing of first day, the new divisor has to be estimated.

**Example:**
Company Lambda enters the secondary market on 15/9/10. Lambda has 450,000 free-float shares. On 15/9/10, its closing price was Taka 400.

| | |
|---|---|
| CSE Index on 15/9/10: | 5000 |
| Free float market cap (without new IPO) on 15/9/10 | 3,000,000,000 |
| Divisor | 600,000 |

**Present Index Composition:**

| Stock | No. of Free Float Shares | Stock Price (Taka) | Free Float Market Cap (Taka) |
|---|---|---|---|
| Alpha | 300,000 | 2,400 | 720,000,000 |
| Beta | 2,500,000 | 450 | 1,125,000,000 |
| Gamma | 3,500,000 | 330 | 1,155,000,000 |
| **Total** | | | **3,000,000,000** |

**Step1:**
**Estimate the revised free float market capitalization with the new IPO.**

**Revised Index Composition:**

| Stock | No. of Free Float Shares | Stock Price (Taka) | Free Float Market Cap (Taka) |
|---|---|---|---|
| Alpha | 300,000 | 2,400 | 720,000,000 |

| | | | |
|---|---|---|---|
| Beta | 2,500,000 | 450 | 1,125,000,000 |
| Gamma | 3,500,000 | 330 | 1,155,000,000 |
| **Lambda** | **450,000** | **400** | **180,000,000** |
| **Total** | | | **3,180,000,000** |

**Step 2:**
**Estimate the new divisor:**

$$\text{New Divisor} = \frac{\begin{pmatrix}\text{Revised Free Float} \\ \text{Market Capitalization}\end{pmatrix}}{\begin{pmatrix}\text{Closing CSE Index} \\ \text{on the first day of} \\ \text{trading of new IPO}\end{pmatrix}}$$

$$= \frac{3{,}180{,}000{,}000}{5000}$$

$$= 636{,}000$$

Alternatively the new divisor can be estimated as:

$$\text{New Divisor} = \text{Old Divisor} \times \frac{\text{Revised Free Float Market Capitalization}}{\text{Previous Free Float Market Capitalization}}$$

$$= 600{,}000 \times \frac{3{,}180{,}000{,}000}{3{,}000{,}000{,}000}$$

$$= 636{,}000$$

**Step 3:**
**Estimate the Opening CSE Index on September 16, 2010**

$$\begin{pmatrix}\text{Opening CSE Index on the} \\ \text{second day of IPO trading}\end{pmatrix} = \frac{\begin{pmatrix}\text{Revised Free Float} \\ \text{Market Capitalization}\end{pmatrix}}{\text{New Divisor}}$$

$$= \frac{3{,}180{,}000{,}000}{636{,}000}$$

$$= 5{,}000$$

CSE Index remains unchanged after the inclusion of new IPO.

## Guidelines in Free Float Adjustment in Index

### 1. Definition of Free-float

Shareholdings of investors that would not, in the normal course, come into the open market for trading investment are treated as 'Controlling/ Strategic Holdings' and hence not included in free-float. Specifically, the following four categories of holding are generally excluded from the definition of Free-float:

1. Holdings by Promoters/directors/acquirers which have control element and by persons/bodies with "Controlling Interest &/or strategic stakes": Holdings by current or former directors of the company, founders of the company, or family trusts of officers, directors or founders. In addition, holdings of trusts, foundations, pension funds, employee stock ownership plans or other investment vehicles associated with and controlled by the company.

2. Holdings by Government/Government Entities as promoter/acquirer/ Controller

3. Strategic stakes by private corporate bodies/Individuals.

4. Holdings by associated/group companies (cross-holdings)

5. Locked-in shares and shares which would not be sold in the open market in normal course.

***The remaining shareholders fall under the Free-float category.***

### 2. Concept of Free-float Methodology

Free-float Methodology refers to an index construction methodology that takes into consideration only the free-float market capitalization of a company for the purpose of index calculation and assigning weight to stocks in the Index. Free-float market capitalization takes into consideration only those shares issued by the company that are readily available for trading at the Stock Exchange. It generally excludes promoter's holding, government holding, strategic holding and other locked-in shares that will not come to the market for trading in the normal course. In other words, the market capitalization of each company in a Free-float index is reduced to the extent of its readily available shares for investment in the market.

Subsequently all CSE indices will adopt the free-float methodology.

### 3. Goals of Free-float Adjustment

The CSE All Share Price Index (CASPI), CSE – 30 index, CSCX and CSE's all other indices will move to free-float adjustment Under free float adjustment, the share counts used in calculating the indices will reflect only those shares that are available to investors, not all of a company's outstanding shares for trading in the market. Free-float adjustment excludes shares that are closely held by associated companies (cross-holding), control groups or government agencies or institutions/individual having shares that are locked-in.

With a float-adjusted index, the value of the index reflects the value available in the market. Further, reducing the relative investment index investors have in stocks with limited float – stocks that typically are less liquid – should lower the cost of index investing.

## 4. Major Advantages of Free-float Methodology

- A Free-float index reflects the market trends more rationally as it takes into consideration only those shares that are available for trading in the market.

- Free-float Methodology makes the index more broad-based by giving weight for constituent companies as per actual liquidity in the market and thereby reducing the concentration of top few tightly held large-cap companies in Index.

- A Free-float index aids both active and passive investing styles. It aids active managers by enabling them to benchmark their fund returns vis-à-vis an investible index. This enables a peer benchmark comparison thereby facilitating better evaluation of performance of active managers. Being a perfectly replicable portfolio of stocks, a Free-float adjusted index is best suited for the passive managers as it enables them to track the index with the least tracking error.

- Free-float Methodology improves index flexibility in terms of including any stock from the universe of listed stocks. This improves market coverage and sector coverage of the index. For example, under a full-market capitalization methodology, companies with large market capitalization and low free-float can be included. However, under the free-float Methodology, since only the free-float market capitalization of each company is considered for index calculation, it becomes difficult to include such closely held companies in the index while at the same time preventing their undue influence on the index movement.

- Free-float can be used by the Exchange for regulatory purposes such as risk management and market surveillance.

- Globally, the free-float Methodology of index construction is considered to be an industry best practice and all major indexes like MSCI, FTSE and S&P have adopted the same. MSCI, a leading global index, shifted all its indices to the Free-float Methodology in 2002. NASDAQ-100, the underlying index to the famous Exchange Traded Fund (ETF) - QQQ is based on the Free-float Methodology.

## 5. Free-Float Calculation Methodology:

| | | |
|---|---|---|
| Total Outstanding Shares | | XXX |
| **Less:** Shares held by Directors/sponsors | XXX | |
| Government Holdings as promoter/acquirer/ controller | XXX | |
| Strategic Stakes by Private Corporate Bodies/ Individuals (Any holding more than 5% held by an individual/company, be considered as strategic) | XXX | |
| Shares held by Associated Companies (Cross holdings) | XXX | |
| Other shares under lock – in (if any) | XXX | XXX |
| **Free-Float:** | | **XXX** |

## 6. Float Adjustment Rules

The goal is to distinguish strategic shareholders, whose holdings depend on concerns such as maintaining control rather than the economic fortunes of the company, from those holders whose investments depend on the stock's price and their evaluation of the company's future prospects. Shareholders concerned with control of a company include board members, founders and owners of large blocks of stock. Likewise, holdings of stock in one corporation by another corporation are normally for control, not investment, purposes. Normally government holdings are not investments made because a stock is expected to appreciate or the government entity is managing its excess funds through equity investments.

Share owners acting as investors will consider changes in the stock's price, earnings or the company's operations as possible reasons to buy or sell the stock. They hold the stock because they expect it to appreciate in value and believe the stock offers better risk and return opportunities. Further, a sharp rise or fall in the stock's price could be a reason to adjust their positions. Mutual funds, pension plans and other institutional investors are usually in this category. The fact that an institutional investor has held a block of shares for several years is not evidence that the block is being held for control, rather than investment, reasons.

### *6.1 Determining Free-Float Factor (Investible Weight Factor):*

The listed companies shall submit their pattern of shareholding, in the prescribed manner, periodically to the Exchange. The Exchange will determine the Free-Float Factor for each such company. Free-Float Factor is a multiple with which the total market capitalization of a company is adjusted to arrive at the Free-Float market capitalization. Once the Free-Float of a company is determined, it is rounded-off to the higher multiple of 5 and each company is categorized into one of the 18 bands given below. A free-float factor of say 0.35 implies that only 35% of the market capitalization of the company will be considered for index calculation.

### 6.2 Free Float Bands:

Free float factors are calculated using available published information. The initial weighting of a constituent in the index will be applied in the following bands:

| % Free-Float | Free-Float Factor (IWF) | % Free-Float | Free-Float Factor (IWF) |
|---|---|---|---|
| < or = 5% | Ineligible | >50 – 55% | 0.55 |
| >5-10% | 0.10 | >55 – 60% | 0.60 |
| >0 - 15% | 0.15 | >60 – 65% | 0.65 |
| >15 – 20% | 0.20 | >65 – 70% | 0.70 |
| >20 – 25% | 0.25 | >70 – 75% | 0.75 |
| >25 – 30% | 0.30 | >75 – 80% | 0.80 |
| >30 – 35% | 0.35 | >80 – 85% | 0.85 |
| >35 – 40% | 0.40 | >85 – 90% | 0.90 |
| >40 – 45% | 0.45 | >90 – 95% | 0.95 |
| >45 – 50% | 0.50 | >95 – 100% | 1.00 |

### 6.3 Free Float Review Period/Re-composition:

The index will be reviewed and/or re-composed on semi-annual basis as follows:

| **Basis** | | **Revision** | |
|---|---|---|---|
| June | 30 | August | 15 |
| December | 31 | February | 15 |

### 6.4 Free float review

Underlying data for the calculation of free float is collected on an ongoing basis, and the detail free float percentage as maintained by CSE is updated accordingly.

Following the application of an initial free float restriction, a constituent's free float will only be changed if its actual free float moves to more than 5 percentage points above the minimum or 5 percentage points below the maximum of an adjacent new band.

A constituent's free float will also be reviewed and adjusted if necessary upon identification of information which necessitates a change in free float weighting or following a corporate event. If the corporate event includes a corporate action which affects the index, any change in free float will be implemented at the same time as the corporate action. If there is no corporate action, the change in free float will be applied as soon as practicable after the corporate event.