

FAQ for Index Consultation Regarding the Changes to the Presumed Par Value and  
other methodologies of the Nikkei Stock Average

Nikkei conducts the above consultation from May 10 to June 13. This document is prepared to answer the questions supposed to be asked frequently. Refer to these questions when you need clarification while responding to the consultation.

Q1: Why does Nikkei amend the methodology at this point of time?

A1: Nikkei is continuously carrying out research regarding possible changes to the methodology to improve the quality of the index. There is no specific timeline and amendments may be implemented when they are deemed necessary and appropriate after careful examinations. Nikkei has been monitoring the state of the market since the trading unit consolidation by the Tokyo Stock Exchange in October 2018 and decided that it is appropriate, at this time, to conduct a consultation and amend the methodology of the Nikkei 225 regarding the presumed par value and the market reform of the Tokyo Stock Exchange to be implemented next spring.

Q2: Why is the presumed par value changed to the price adjustment factor?

A2: It has passed 20 years since “Par value” of stocks was abolished from the Commercial Law of Japan, amended in 2001. As a result, concept and terminology of “Par value” is scarcely used now. Nikkei acknowledged that simple and easy-to-understand function to adjust stock prices shall replace the presumed par value which has roots in the old par value concept.

Q3: How are the price adjustment factor of the current constituents determined?

A3: For the current constituents, the price adjustment factor is determined to make the adjusted price for calculation unchanged. It will be 50 over the current presumed par value. However, since the price adjustment factor is defined as a number which has one digit under the decimal point, if the result of this calculation (50/presumed par value) yields 2nd digit, the 2nd digit will be rounded down. As a result, the adjusted price for the index calculation might change after the implementation of the price adjustment factor.

If this is the case, the difference will be adjusted by the divisor.

Q4: Can continuity of the index be maintained by setting new constituent's price adjustment factor as 1?

A4: Changes in the constituents are adjusted by the divisor regardless of the prices of removals and additions. For this reason, the price adjustment factor of new additions does not affect the continuity of the index.

Q5: Why is the weight of highly priced stocks adjusted by applying the price adjustment factor of less than 1 when added to the index while the weight of the highly priced current constituents remain unadjusted?

A5: The reason some constituent stocks are highly priced is because the price of such stocks surged after they are added to the index. The prices of these constituents need not be adjusted by the same standard as new additions.

Q6: How does Nikkei respond to the stock split or reverse stock split of a new constituent which is added with the price adjustment factor of 1.

A6: This is the same as how the presumed par value has been adjusted for the stock splits and reverse splits. When meeting certain criteria, the price adjustment factor will be changed based on the ratio of the split/reverse split so that adjusted price of such a stock is unchanged before and after the split/reverse split. This rule is applied regardless of the value of the price adjustment factor at the time of the split/reverse split.

Q7: Why is 1% limit imposed on the weight of a new constituent?

A7: Although it is a Nikkei's principle to add a highly liquid stock which is selected by the methodology, it might have an impact if the price of the added stock is very high. To mitigate such an impact, Nikkei decided to limit the weight of the new constituent up to 1% of the index with reference to the past constituent changes. Also, considered is the fact that 1% limit is compatible with the price range of 500 to 5,000 yen as recommended by the Tokyo Stock Exchange.

Q8: Will there be a special measure if the price of an addition candidate surges and is about to surpass the 1% mark?

A8: Although the price adjustment factor is not altered in principle, it may be restated if the price of the stock surges after the base date and the addition of such a stock is deemed to cause an impact.

Q9: Why is the upper limit set for the constituents change?

A9: It is necessary to review the constituents periodically to maintain and improve the quality of the index. However, as amount of the financial assets, such as investment funds, linked to the index grows, the change in the index constituents due to a periodic review might have a larger impact on the market in proportion to the size of such a change. Since market conditions may affect the result of the review and the size of the change is unpredictable, it is reasonable to set a pre-defined limit to the size of the constituent change.

Q10: Why is the upper limit determined by “the number of constituents” and why is it set at “3”.

A10: There may be several methods to control the size of the constituent change. After considering several options, the simplest method using “the number of constituents” is chosen. “3” is selected as a reasonable number with reference to the past reshuffle records and analysis of the impact on the market. Although the total size of the change may vary depending on the adjusted prices of the removals and additions, the new rule to limit the weight of an additional constituent up to 1% is also considered.

Q11: When the number of constituent change is limited, does it mean not all of the necessary additions or removals are put into effect?

A11: By setting the upper limit to the number of constituent change, removal or addition of some candidates may be delayed. However, by considering the benefit of improving the index as a measure and the cost of the possible impact on the market, Nikkei decided to set an upper limit.

Q12: Why does Nikkei choose to disclose the “base date” in this amendment?

A12: Under the new rule, the price adjustment factor may have a figure other than 1 based on the stock price level of a new addition. To clarify the timing when the price adjustment factor is determined, Nikkei chooses to disclose the base date.

Q13: Why doesn't Nikkei disclose the announcement date of the periodic (annual) review?

A13: Nikkei announces the changes to the index, including the result of the periodic review, with sufficient period before its implementation. For this reason, there is no plan to pre-disclose the announcement date itself.

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Should you have other questions, please forward them from the following form. Choose “Index Consultation” from the menu.

[https://www1.entryform.jp/nikkei\\_indexes\\_contact\\_en/](https://www1.entryform.jp/nikkei_indexes_contact_en/)