

Index Consultation Regarding the Introduction of the “Stepwise Addition” and Changes to the “Technical Listing” Rules of the Nikkei Stock Average

Nikkei Inc. is considering amendments to the methodology of the Nikkei Stock Average (Nikkei 225) to better serve the users of the index either as a measure of the market or as an underlying for financial products.

Nikkei 225 is the best-known index of the Japanese equity market and widely used not only for evaluation of the equity market but for various financial assets. Nikkei keeps the basic features of the index unchanged, namely, its constituents selected from highly liquid stocks with considerations to the industrial sector balance. It will continue to be calculated as a price-weighted index and maintains continuity of the index with history of more than 70 years.

Based on the above policy, Nikkei intends to amend the methodology in consideration of the impact it might have on the market where the size of the assets linked to the index needs attention. Nikkei values the opinions received through this consultation and will continue to review the rules of the Nikkei 225 to reflect the changes in the market in the future.

Nikkei consults on the specific subjects listed below. The changes will be implemented from the autumnal periodic review in the year of 2023.

① Introduction of the “Stepwise Addition” to the constituents of the Nikkei 225

For stocks with relatively low trading values to their expected weights in the Nikkei 225, such stocks will be added to the index in two steps in order to reduce the impact at the time of their additions. Specifically, the price adjustment factor (PAF) of the stock will be set at half of the originally planned value when the stock is newly added to the index. The second inclusion will be made at the next periodic review and the PAF of the stock is raised to the originally planned value.

Example) In case of the split adoption is applied to a stock that is planned to be newly adopted with PAF of 1 at the periodic review in October 2023

- The PAF at the time of new adoption in October 2023 ... 0.5
- The PAF to be applied from the next periodic review in April 2024 ... 1

For more details on this amendment, please see the proposed changes to the index guidebook below.

[Index Guidebook] 3: Calculation method (2) Price Adjustment Factor ①Setting PAF

Current Rule	Proposed new rule
<p>The PAF of a stock to be added to the Nikkei 225 is 1. However, the value other than 1 (0.1 to 0.9) may be assigned provided that the price of such stock on the base dates (end of January and July) exceeds 1% of the sum of constituent prices. It is set at the highest value which does not exceed 1% of the sum of the prices by 0.1 interval.</p>	<p>The PAF of a stock to be added to the Nikkei 225 is 1. However, the value other than 1 (0.1 to 0.9) may be assigned provided that the price of such stock on the base dates (end of January and July) exceeds 1% of the sum of constituent prices. It is set at the highest value which does not exceed 1% of the sum of the prices by 0.1 interval.</p>
<p>PAF = sum of Adjusted stock price of the constituents x 1% / the stock price of the new constituent.</p>	<p>PAF = sum of Adjusted stock price of the constituents x 1% / the stock price of the new constituent.</p>
<p>Note) PAF is evaluated on the base date and rounded down to the nearest 0.1.</p>	<p>Note) PAF is evaluated on the base date and rounded down to the nearest 0.1.</p>
<p>When a stock of a newly established holding company is added replacing the delisting original company, value other than 1 may be set in accordance with the ratio of stock transfer, etc. in the establishment of the holding company.</p>	<p><u>If an average daily trading value of a stock to be added is relatively low compared with its expected weight, the stock may be added with the PAF which is one-half (rounded up to the nearest 0.1) of the value set by the method described above. In such case, the PAF of the stock shall be raised to the planned value at the next periodic review in principle.</u></p>
<p>Also note that if the stock price of the new constituent fluctuates drastically after the</p>	<p><u>When a stock of a</u></p>

<p>base date until the effective date of the change, the PAF may be adjusted. In this case, such an adjustment will be announced at least 5 business days before the effective date in principle.</p>	<p>newly established holding company is added replacing the delisting original company, value other than 1 may be set in accordance with the ratio of stock transfer, etc. in the establishment of the holding company.</p> <p>Also note that if the stock price of the new constituent fluctuates drastically after the base date until the effective date of the change, the PAF may be adjusted. In this case, such an adjustment will be announced at least 5 business days before the effective date in principle.</p>
---	---

[Index Guidebook] 3: Calculation method (4) Divisor - Points on the divisor change①

Current Rule	Proposed new rule
<p>① Divisor is recalculated when the following events happen.</p> <p>i) Changes in the constituents</p> <p>ii) Corporate action such as split, reverse split, paid-in capital increase. However, when the split or the reverse split is in a large scale, the price adjustment factor may also be adjusted. The divisor may not be changed so long as the adjusted price is unchanged before and after such split/reverse split.</p> <p>iii) Capping ratio application, revision, or cancellation.</p>	<p>① Divisor is recalculated when the following events happen.</p> <p>i) Changes in the constituents</p> <p>ii) Corporate action such as split, reverse split, paid-in capital increase. However, when the split or the reverse split is in a large scale, the price adjustment factor may also be adjusted. The divisor may not be changed so long as the adjusted price is unchanged before and after such split/reverse split.</p> <p>iii) Capping ratio application, revision, <u>cancellation or raising the PAF to the planned value for a stock whose PAF was one-half of the planned value.</u></p>

② “Technical Listing” stock be replaced on its listing date

In case where a constituent stock is delisted due to a corporate restructuring, such

as establishing a holding company, and a new company succeeding the substance of the delisting company is promptly listed ("Technical Listing"), the new listed stock will replace the delisted constituent on the first date of its listing (generally two business days after the delisting date of the constituent stock) in principle.

In this case, such delisted stock will remain as a constituent of the Nikkei 225 after delisting until the new company is listed. After the delisting and until the replacement, the Nikkei 225 will be calculated using the price for the delisted stock which is used to calculate the closing price of the index on the day before the delisting date.

Before this amendment, such delisted stock was removed on the day of delisting, while a newly listed company succeeding the substance of the delisting company was added on the day following its listing date. As the exclusion and the addition were not on the same day, the Nikkei 225 was calculated on 224 stocks (when the target was one stock) during that period.

For more details on this amendment, please see the proposed changes to the index guidebook and the Constituents Selection Rules below.

[Constituent Selection Rules] 2: Extraordinary Replacement Rules (3) Timing of the constituent change

Current Rule	Proposed new rule
<p>In principle, for each reason under 3(1), constituents are deleted and added as follows. The effective date is announced for each event.</p> <p>i) Designated as a “Security to be Delisted” or “Securities on Alert”: five business days after the designation.</p> <p>ii) Delisted due to corporate restructuring such as merger, share exchange or share transfer and iii) Transfer to the market other than the Prime: effective date of the event.</p> <p>In case that a constituent designated as a stock under supervision is deemed as</p>	<p>In principle, for each reason under 3(1), constituents are deleted and added as follows. The effective date is announced for each event.</p> <p>i) Designated as a “Security to be Delisted” or “Securities on Alert”: five business days after the designation.</p> <p>ii) Delisted due to corporate restructuring such as merger, share exchange or share transfer and iii) Transfer to the market other than the Prime: effective date of the event. <u>However, in case that a constituent stock is delisted due to a corporate restructuring and a stock of a</u></p>

<p>highly inappropriate and will be deleted, the announcement will be made approximately two weeks before its effective date. Even if such a constituent is designated as a stock to be delisted before the pre-announced effective date, the pre-announced effective date survives.</p>	<p><u>company which succeeds the substance of the delisting company is added, the newly listed stock will replace on the date of its listing in principle.</u></p> <p>In case that a constituent designated as a stock under supervision is deemed as highly inappropriate and will be deleted, the announcement will be made approximately two weeks before its effective date. Even if such a constituent is designated as a stock to be delisted before the pre-announced effective date, the pre-announced effective date survives.</p>
--	---

[Index Guidebook] 3: Calculation method (1) Selection of the prices

Current Rule	Proposed new rule
<p>Prices to be used for the calculation are selected in the following order of priority.</p> <ol style="list-style-type: none"> 1. Special Quote or sequential trade quote 2. Traded price 3. Base price <p><snip></p> <p>The theoretical price is calculated based on the price (i.e. special quote or sequential trade quote or closing price) used for the calculation on the preceding day. For example, if the closing price on the preceding day was 1000 yen for a constituent and it goes for 1 to 1.1 split today, the theoretical price for today is 909.1 yen (=1000 / 1.1) and this is the theoretical price for this constituent.</p> <p>Also note that ex-dividend is not treated as</p>	<p>Prices to be used for the calculation are selected in the following order of priority.</p> <ol style="list-style-type: none"> 1. Special Quote or sequential trade quote 2. Traded price 3. Base price <p><snip></p> <p>The theoretical price is calculated based on the price (i.e. special quote or sequential trade quote or closing price) used for the calculation on the preceding day. For example, if the closing price on the preceding day was 1000 yen for a constituent and it goes for 1 to 1.1 split today, the theoretical price for today is 909.1 yen (=1000 / 1.1) and this is the theoretical price for this constituent.</p> <p><u>Note that in the case where a newly listed</u></p>

<p>an ex-right for the calculation of the Nikkei225.</p>	<p><u>company which succeeds the substance of a constituent stock to be delisted due to a corporate restructuring is added on its listing date, the base price on the first day of addition for the stock to be added shall be the price based on the last price of the stock to be delisted used in the calculation of the Nikkei 225 at the closing of the previous day of its delisting date considering with the integration ratio and other factors.</u></p> <p>Also note that ex-dividend is not treated as an ex-right for the calculation of the Nikkei225.</p>
--	---

[Question]

Do you agree to the following proposed amendments?

1. Introduction of the stepwise addition to the constituents of the Nikkei 225
2. “Technical Listing” stock which succeeds the substance of the constituent to be delisted replaces on its listing date
3. If you have opinions or ideas to further improve the Nikkei 225, please provide.

Please submit your feedback to the consultation section at the following URL.

<https://indexes.nikkei.co.jp/en/nkave/governance>

Consultation closing date: June 12, 2023 (JST)

Although your contribution to this consultation is respected, Nikkei decides at its own discretion. The result of the consultation will be informed as a formal announcement of the new methodologies. Your contribution will not be published although a summary may be used in our documents preserving anonymity.

Contact: https://www1.entryform.jp/nikkei_indexes_contact_en/