

May 10, 2023
Index Business Office
Nikkei Inc.

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

Nikkei conducts the above consultation from May 10 to June 12. This FAQ 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 introduce the stepwise addition?

A1: Effective from the periodic review in October 2021, Nikkei introduced “Price Adjustment Factor”(PAF) instead of “Presumed Par Value” in the index calculation and set the PAF of the stock to be added so that its weight in the index becomes less than 1%, in order to reduce the impact of the new constituent. Since we acknowledged some comments that not only a price level, but other factors, such as trading value or market capitalization should be considered in setting PAF for a new constituent, Nikkei has considered further improvement afterwards.

As a result, considering the size of financial assets linked to the Nikkei 225, we have recognized the necessity to consider the impact of the new stocks with relatively low trading value compared to the expected weight in the Nikkei 225, and have decided that such stocks will be added to the index in two steps.

Q2: What exactly do you mean by "an average daily trading value of a stock to be added is relatively low compared to its expected weight"?

A2: Since the Nikkei 225 is calculated as the sum of stock prices (adjusted by the PAF) divided by the divisor, the weight of the new constituent depends on the stock price of such a stock. At the same time, however, even if the price level is the same, the impact of a new constituent may be stronger when its trading value is smaller. Nikkei considers

the stepwise addition when the trading value is relatively smaller as compared with other new constituents, with conditions such as weight in the index and the daily trading value of the new constituent.

Q3: Why do you wait for the next periodic review to increase the PAF for the constituents to which the stepwise addition is applied?

A3: If the PAF is increased at a time other than the periodic review, it will increase the number of changes in the divisor and induce related trades. In order to decrease such number of changes, the PAF is increased at the time of the periodic review.

Q4: What happens if the price of a constituent applied a stepwise addition fluctuates drastically or it goes a large-scale stock split or reverse stock split before the PAF is raised to the planned value?

A4: The PAF of the stock shall be raised to the planned value at the next periodic review in principle. However, if the stock price level changes significantly from the time of first inclusion due to drastic stock price fluctuation, stock split or reverse split, we may take a different treatment with prior announcement.

Q5: Do you apply a stepwise addition for an extraordinary replacement?

A5: As with a periodic review, a stock with relatively low trading value to their expected weight will be added to the index in two steps at an extraordinary replacement. Even in this case, the second inclusion will be made at the next periodic review.

Q6: Why do you replace "Technical Listing" stock on its listing date?

A6: Currently, when we replace an old constituent by a new "Technical Listing" stock, the old stock is removed on its delisting date and a new constituent succeeding the substance of the delisting company is added on the day following its listing date. By changing the divisor each time, the continuity of the index is maintained.

However, since the divisor is adjusted each time, the impact of exclusion and inclusion occurs multiple times in a short period in this method. In order to reduce such impact, we will revise the rule so that the exclusion and inclusion occur on the same day. This

method is widely used among major indices such as the TOPIX.

Q7: How is the delisted stock treated in calculation of the Nikkei 225 before replaced by the "Technical Listed" stock?

A7: Even after the delisting, the stock will be treated as a constituent of the Nikkei 225 until it is replaced by "Technical Listing" stock to be added. The price of the stock which was used to calculate the Nikkei 225 on the last day before the delisting continues to be used until the replacement.

For example, if the closing price of the stock on the day before the delisting was 1,000 yen and the PAF was 2, the price used for the calculation in the closing of the Nikkei 225 was 2,000 yen (=1,000 yen x 2). The same 2,000 yen is used to calculate the index after the delisting until the replacement (on the day of delisting and the following day in general).



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/