

July 12, 2023
Nikkei Inc.

Changes to the Index Guidebook and the Constituents Selection Rules of
the Nikkei Stock Average

From May 10 to June 12, Nikkei Inc. consulted about the introduction of the “Stepwise Addition” and changes to the “Technical Listing” Rules of the Nikkei Stock Average (Nikkei 225). Nikkei asked 2 questions and the majority of the answers to all of these questions were affirmative. As a result, Nikkei concluded that its proposals were supported and revises as presented in Exhibit 1 “Details of the changes to the Index Guidebook and the Constituents Selection Rules”. The changes will be implemented from the periodic review in October 2023.

In addition to the 2 specific questions, Nikkei also invited consultation participants’ “opinions and ideas to further improve the Nikkei 225” as question No.3. Summary of comments to the question No.3 is shown in Exhibit 2. Nikkei intends to treat these comments as valuable inputs to further improve the quality of the Nikkei 225.

Above changes to the “Technical Listing” Rules are applied also to the Nikkei Stock Index 300 and the Nikkei 500 Stock Average. Refer to the Index Guidebook of these indexes for details.

Exhibit 1: Details of the changes to the Index Guidebook and the Constituents Selection Rules

* Changes are underlined. No modification is made from the proposal.

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

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

Current Rule	New rule after consultation
<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 base date until the effective date of the change, the PAF may be adjusted. In this</p>	<p>When a stock of a newly established holding company is added replacing the delisting original</p>

<p>case, such an adjustment will be announced at least 5 business days before the effective date in principle.</p>	<p>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>
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[Index Guidebook] 3: Calculation method (4) Divisor - Points on the divisor change①

Current Rule	New rule after consultation
<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

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

Current Rule	Proposed new rule
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<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 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>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 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>
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[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>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 an ex-right for the calculation of the Nikkei225.</p>	<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 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>
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In addition to the above amendments, simple replacements of the words/concepts are made to the text of the Index Guidebook and the Constituent Selection Rules. Please refer to the revised Index Guidebook and Constituent Selection Rules for detail.

Exhibit 2: Summary of comments to Q3 “opinions and ideas to further improve the Nikkei 225”

In this consultation, Nikkei asked a general question (question No. 3) regarding possible measures to maintain and improve the quality of the Nikkei 225. Please find below the summary of the comments to this question No. 3.

[from Security & Financial institution]

We believe that the series of rule revisions will considerably reduce the impact on price formation at the index rebalance. Although the effect on some highly priced constituents needs to be noted, we expect Nikkei continues periodical consultations and listens to the opinions in the market.

[from Security & Financial institution]

Nikkei should, after verifying the weights, consider increasing the PAFs of the stocks, whose PAFs are regulated so that their weights do not exceed 1% when they are newly adopted, at the subsequent periodic reviews. As a result, the concentration of weights in the top stocks will be eased, and the quality of the Nikkei 225 will be improved.

[from Security & Financial institution]

We would welcome further information and transparency on the methodology for e.g. criteria for stepwise addition, liquidity calculations etc.

[from Self-employed, Individual, Others]

Please improve the situation where the index doesn't work well due to high contribution of some stocks.