

June 2021



[POLICY ON INDEX MANAGEMENT]

SECTION 1 - Introduction

1.1. General Policies

- 1.1.1.** This document sets out the policy of the Philippine Stock Exchange, Inc. (PSE or Exchange) for the management of the PSE Index Series.
- 1.1.2.** The PSE Index Series was created to provide investors and market participants a set of benchmarks that measures the performance of Philippine stock market and its specific industry segments.
- 1.1.3.** Any change or revision in the policies contained herein shall be duly announced to the public for the information and guidance of all concerned.

1.2. The PSE Index Series

- 1.2.1.** The PSE index series consists of the PSEi, six sector indices and the All Shares Index. With the exception of the All Shares Index, all these indices are free float-adjusted.

PSEi. The PSEi is the main index of the Exchange. It is composed of a fixed basket of 30 companies, whose selection is based on a specific set of criteria. The PSEi measures the relative changes in the free float-adjusted market capitalization of the 30 largest and most active common stocks listed at the PSE. By gauging changes in the stock prices of select listed companies, the PSEi provides a snapshot of the market's overall condition. The base level of the PSEi was pegged at 1,022.045 points. This was reckoned according to the close of the index on February 28, 1990, which is the PSEi's base date.

The name PSEi was adopted by the Exchange in April 2006. In the past, various labels were used to refer to the Exchange's main index, such as the Phisix and the PSE Composite Index.

Sector Indices. To track the performance of specific sectors of the market, the PSE also maintains six sector indices representing each major sector under the industry classification of the Exchange. These indices are the (1) Financials Index; (2) Industrial Index; (3) Holding Firms Index; (4) Property Index; (5) Services Index; and (6) Mining & Oil Index. Below is a summary of the base date and base value of each index:

Table 1. Base date and values of PSE Sector Indices

Indices	Base date	Base value
Financials	14-Nov-96	1,000.00
Industrial*	28-Feb-90	1,422.20
Holding Firms	29-Dec-05	1,000.00
Property**	30-Sep-94	1,000.00
Services	29-Dec-05	1,000.00
Mining & Oil*, ***	28-Feb-90	4,752.45

Notes:

*Base date shown is the date when the market capitalization method was first used to compute the indices. Base value refers to the average index level quoted at that time by PSE's two precursors, the MSE and MKSE.

**Originally 100.00 but the index was realigned to the 1,000.00 level starting November 15, 1996 (all prior values x 10).

***Previously separate, the Mining and Oil sectors, along with their respective indices, were folded together on January 2, 2006, with the combined index continuing the level of the Mining index.

All Shares Index. The All Shares Index is a complementary index to the PSEi. It is considered a broader barometer of the index, because it includes all the common stocks of companies listed at the Exchange. The base value of the All Shares Index was set on November 14, 1996, at 1,000.00 points. The full market capitalization method is used in computing the All Shares Index. The All Shares index excludes those listed in the Small, Medium and Emerging (SME) Board.

1.3. Index Calculation Mode

1.3.1. The PSE index series are calculated and broadcasted through the PSEtrade XTS.

1.3.2. The index levels calculated are displayed on all the computer terminals linked to the PSEtrade XTS and are broadcasted to members and data vendors. In addition, the indices may be monitored through radio, television, the PSE website and other websites that provide reports on the performance of the stock market.

The final results of trading are published in the PSE Daily Quotation Report, as well as in major newspapers.

- 1.3.3.** The PSE Index Series is calculated in Philippine Pesos (Php) and is broadcasted on a continuous mode where index levels are broadcasted periodically at a frequency that can be configured for each index. (Please see 5.2. Calculation Frequency for details)

SECTION 2 - Index Construction

2.1. Eligible Securities

- 2.1.1.** Only companies with common stocks listed in the main board of the PSE for at least 12 months during the review period are eligible for inclusion in the PSEi and sector indices, subject to complying with the requirements for free float and liquidity.
- 2.1.2.** Foreign companies whose shares are simultaneously listed at the PSE and in other exchanges overseas are not eligible for the PSEi but may be included in the sector indices.
- 2.1.3.** Convertible preferred shares are excluded until converted.
- 2.1.4.** Exchange Traded Funds or other forms of investment funds which prices are derived from underlying holdings of other listed issues at the PSE are not eligible for inclusion in the PSE indices.
- 2.1.5.** Dollar Denominated Securities shall not be eligible for inclusion in the PSE indices.
- 2.1.6.** Companies shall be considered ineligible for inclusion in the index due to conditions that may cause their stocks to be unavailable for trading for a significant period of time for the next six months from the scheduled review of the indices. Such conditions include, among others, the commencement of delisting proceedings against the company, or when it is suspended from being traded in the PSE.

2.2. Free Float

- 2.2.1.** Only the free float shares of a company are factored in when computing the indices. Free float, also known as public float, refers to the portion of the outstanding shares that are freely available and tradable in the market, or those shareholdings which are non-strategic in nature.
- 2.2.2.** A company's free float shares must be at least 20% of its outstanding shares at the end of the 12-month period in review.
Note: This requirement is effective December 2022. Prior to this, the free float requirement for index inclusion is 15%.

The Exchange, if it deems necessary, may impose a higher free float level requirement.

The public float requirement shall also apply for membership in the sector indices.

2.2.3. In determining a company's free float, its outstanding shares shall be adjusted to exclude shares classified as being held strategically. The following are viewed as strategic in nature and are deducted from the outstanding shares:

- a) Shares held by founders, directors and officers, and their families. For this purpose, directors shall refer to anyone owning at least one share capital of the corporation of which he is elected as a director and also refers to independent directors defined under Rule 38 of the IRR of the Securities Regulation Code (SRC). Officers shall refer to the president, secretary and treasurer, as specified under the Corporation Code, and other officers elected by the board of directors of a corporation, as may be provided for in the corporation's by-laws;
- b) Shares held by pension funds and government-run social security funds SSS and GSIS are generally considered free float. However, if these shares are considered strategic shares with the acquisition made out of the intention of exercising control over the company, the shares shall be treated as non-free float;
- c) Restricted shares or shares under lock-up;
- d) Treasury shares;
- e) Shares held by employees under stock ownership plans;
- f) Shares held by affiliates. For this purpose, an affiliate shall refer to a person who directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with the person specified, through the ownership of voting shares or other means, such as contractual agreements, as defined under the PSE Revised Listing Rules;
- g) Shares held by principal shareholders or those who individually or collectively control 10% or more of the outstanding shares; and
- h) Shares held by controlling shareholders or those who are individually or collectively under a common control or bound by a voting trust agreement that exerts control over the company. For this purpose, a voting trust agreement shall refer to an agreement or a contract executed among shareholders giving them control of the company.

2.2.4. Shares lodged under the PCD Nominee Corp. account of the Philippine Depository and Trust Corporation (PDTC) are classified as free float except the shareholdings of an entity whose shares lodged at the PDTC comprise 10% or

more of the outstanding shares of a company or are defined as shares held strategically based on Section 2.2.3.

- 2.2.5.** The underlying shares of Philippine Deposit Receipts (PDRs) are considered as free float except when the shares that underlie the PDR-holding of an entity constitute 10% or more of the company's outstanding shares or are defined as shares held strategically based on Section 2.2.3.
- 2.2.6.** The underlying shares of depositary receipts issued in overseas exchanges are also considered as free float except when the shares that underlie the depositary holding of an entity constitute 10% or more of the company's outstanding shares or are defined as shares held strategically based on Section 2.2.3.
- 2.2.7.** In computing the free float shares of dual-listed companies or those companies which shares are likewise listed in other exchanges, only the number of shares that are deemed traded in the PSE or those shares held by locally domiciled investors shall be treated as free float.
- 2.2.8.** Data on free float shares are based on the Public Ownership Reports (PORs) that the listed companies submit to the Exchange every quarter or at other periodic intervals as may be required by the Exchange.

2.3. Liquidity

- 2.3.1.** Each company will be tested for liquidity by computing its median daily trading value for each month of the twelve-month period in review. The median is computed by ranking each daily trading value in the regular board of a company's stock and selecting the middle value. Daily totals with zero trades are included in the ranking.
- 2.3.2.** To be eligible for the PSEi, the stocks of the company must rank among the top 25% in terms of median daily trade per month in nine out of the twelve month period in review.

If market conditions cause that less than 30 companies qualify in the PSEi, the PSE Management Committee may increase the threshold in increments of 5%, *i.e.* 30%, 35%, and so on, in order to avoid a large number of constituents being removed from the PSE indices.

2.3.3. To be eligible for the sector indices, the stocks of the company must rank among the top 50% in terms of median daily trade per month in eight out of the twelve month period in review.

2.4. Final Selection

2.4.1. Companies that pass the public float and liquidity eligibility requirement are ranked from highest to lowest according to their full market capitalization. The full market capitalization is computed using the volume-weighted average price (VWAP) of the company's stock price during the 12-month period in review.

If a company has common stocks that are classified (e.g., Class "A" and Class "B") or has an underlying PDR issue, the activity of all share classes or types are taken together.

2.4.2. The 30 largest companies based on full market capitalization are to be included in the PSEi.

2.4.3. The PSE may also take into consideration relevant financial criteria to ensure that index constituents are closely representative of the market or a particular sector. These financial criteria will be applied to the following:

- a) New entrants to the PSEi; and
- b) Qualified companies for sector index membership.

SECTION 3 – Regular Review of Index Constituents

3.1. Review Dates

- 3.1.1.** The Exchange conducts a semi-annual review of the PSE indices and the results become the basis also for a re-composition of the PSEi and the sector indices.
- 3.1.2.** The data used for the review encompasses a one-year period. The first review or examination, which covers the period January to December for the immediately preceding year, becomes the basis for the PSEi recomposition every mid-February of the year that follows the period under examination. The second review, which covers the period July of the immediately preceding year up to June of the current year, becomes the basis for the PSEi recomposition every mid-August.
- 3.1.3.** Announcements regarding the outcome of the review and changes in the composition of the indices will be made, as much as practicable, five trading days prior to their implementation. The notice shall be made by way of press release and the publication of a memorandum in the PSE website.

3.2. Rules for Insertions and Removals

- 3.2.1.** The rules for additions and removals during the semi-annual review are designed to provide stability in the selection of constituents of the PSE indices and at the same time to ensure that the indices are representative of the market by including and/or excluding those companies which have risen or fallen significantly.
- 3.2.2.** A company shall be inserted in the PSEi if it rises to the 25th position and above by full market capitalization. It shall replace the company that ranks the lowest in terms of full market capitalization.
- 3.2.3.** A company shall be deleted in the PSEi if it falls to the 36th position and below by full market capitalization. It shall be replaced by the company with the highest market capitalization from the list of companies that passed the public float and liquidity eligibility requirements.

SECTION 4 – Changes to Constituent Companies

4.1. Removal and Replacement

- 4.1.1.** A company shall be removed from the list of constituents if any of the following events occur:
- a) the constituent is delisted;
 - b) a corporate action causes a significant change in the constituent's ability to satisfy the requirements stated in this policy;
 - c) the constituent ceases to have a reliable price or in the opinion of the PSE Management Committee has ceased to be a viable index constituent.
- 4.1.2.** The vacancy created following the removal of the company from the indices shall be replaced by the company which eligibility is determined using the same methodology for PSEi inclusion stated in this policy. The Exchange shall base its computation on the latest available data during the 12-month period preceding the removal.
- 4.1.3.** The removal and replacement are effected simultaneously, no later than five (5) trading days from the announcement.

4.2. Eligibility for Early Inclusion

- 4.2.1.** Companies that have been listed for at least six (6) months may be eligible for early inclusion in both the PSEi and sector indices, provided that it ranks at least in the 25th position in terms of market capitalization at the end of the review period, subject to compliance with the free float and liquidity criteria.
- 4.2.2.** The company must comply with the free float requirements stipulated in Section 2.2.
- 4.2.3.** To be eligible in both the PSEi and sector indices, the stocks of the company must be among the top 20% in terms of median daily trade per month for at least six months (6) or 75% of the total number of months it has been listed, whichever is higher.

4.3. Takeovers, Mergers and Acquisitions

- 4.3.1.** When two index companies merge, the surviving entity will remain a member of the index. The slot vacated by the merged company shall be filled by another company based on the process provided in Section 4.1.

4.4. Suspension

- 4.4.1.** When an index constituent is suspended, it may remain in the index for up to 10 business days and the last traded price of the suspended constituent shall be used in the index computation.
- 4.4.2.** When the suspension lasts for more than 10 trading days, the PSE Management Committee shall decide on whether the company shall be removed from the index or not on the basis of whether trading is likely to resume.
- 4.4.3.** Replacement of constituents shall be done in accordance to Section 4.1 of this document.
- 4.4.4.** A suspended constituent that has been removed from the indices and has subsequently resumed its trading shall wait for the next regular semi-annual review to be included in the indices.

4.5. Rebalancing or Changes to Constituent Weightings

- 4.5.1.** Adjustments in the free float level of index constituents arising from corporate actions shall be made accordingly on a quarterly basis.
- 4.5.2.** As part of the semi-annual index recomposition, a full review shall be made based on the end-December and end-June POR submissions. Adjustments to free float levels are applied regardless of the amount of change in the free float level for each company.
- 4.5.3.** A rebalancing of the free float levels of index constituents shall also be conducted based on POR submissions as of end-March and end-September, effective every May and November. The free float level for each index constituent is amended only when it changes by at least five percent (5%) on a cumulative basis, to prevent a large number of insignificant weighting changes. The rebalancing of float levels does not affect the composition of the PSE Indices.
- 4.5.4.** For primary and secondary offerings, the shares shall be updated after the receipt by the PSE of an updated POR or other relevant reports from the company that reflect the changes arising from the public offering.

4.5.5. The Exchange may adjust the free float level of an index constituent outside of the quarterly rebalancing schedule should there be any corporate actions that may significantly affect the reliability of the indices.

4.5.6. Float adjustments shall be effective no later than five (5) trading days from the announcement.

4.6. Industry Classification Changes

4.6.1. Any change in an index constituent's industry classification will be implemented simultaneously with a relevant change in its membership in the relevant indices.

SECTION 5 – Index Calculation

5.1. Prices

5.1.1. The PSE Index Series use actual last traded prices for computing the index levels.

5.2. Calculation Frequency

5.2.1. The base calculation frequency of the PSEi and the sector indices is set to 15 seconds. The broadcast mode of the index levels, which is a multiple of the base calculation frequency, is set to 60 seconds. As a result, calculated PSE index levels are broadcasted every minute.

5.3. Index Calculation

5.3.1. All index levels broadcasted will be displayed up to two decimal places.

5.3.2. For any trading day, the index is computed by deriving the change in the index components' current total free float-adjusted market capitalization from the base total free float-adjusted market capitalization, and multiplying this change with the previous day's closing index level. The base total free float-adjusted market capitalization is the sum of all the products of the index stocks' previous day's last traded price and their current free float shares. Below is the formula for computing the index:

$$\text{PSE Index}_t = \frac{\sum_{i=1}^n (P_i \times S_i \times F_i)}{b} \times \text{PSE Index}_{t-1}$$

$$i = 1, 2, 3, \dots, n$$

where:

n	=	Number of constituents of the index
P _i _t	=	Last traded price of company i at day t
S _i _t	=	Number of outstanding shares of company i at day t
F _i _t	=	Free float factor of company i to be applied to each security, expressed as a number between zero to 1, where 1 represents 100% free float.
b	=	Base free float-adjusted market capitalization.

5.3.3. Adjustments are applied to the base free float-adjusted market capitalization when there are stock dividend declarations, stock rights offerings, stock splits, reverse stock splits, or other corporate actions. Such corporate actions result in adjustments in a company's previous day's last traded price and/or free float factor.

5.4. Index Correction

5.4.1. Corrections on index values will be made for errors where the discrepancy is greater than 0.10%.

5.4.2. Only significant index errors discovered within ten (10) trading days will be corrected and retroactively computed by the Exchange. Errors discovered beyond the prescribed period will no longer be corrected. Management may, however, provide exceptions in instances where the retroactivity of applying corrections beyond the ten-day limit may be deemed necessary to ensure the integrity of the data series maintained by the Exchange.

5.4.3. Discovery is counted from the day the error occurred to the day it is observed or reported. An error may be observed during the daily checking of index values using End-Of-Day output files or on the day erroneous price or shares data used in the computation is discovered.

5.4.4. Reports on data error (index, price, outstanding shares, and free float) will be investigated immediately. The error is "discovered" on the day a valid report is received. Correction(s) will be made on the trading day following the discovery of the error.

5.4.5. The corrected values will be announced in the Daily Quotations Report. Data vendors shall also be emailed of the corrections.

Disclaimer

This policy was created by the PSE for the sole purpose of providing guidance on the calculation of the PSEi as a barometer of the market's overall condition. The PSE thus reserves the right to change or amend the contents of this document as appropriate to enable the index to achieve its objective.

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