Summary SIX Equity Market Consultation

SIX conducted a market consultation between 7 September and 7 November 2023 regarding potential changes to the methodology of the SMI and other Swiss equity indices. The consultation was open to all market participants. SIX received about 200 responses from various market participants providing their feedback. The majority of the respondents were based in Switzerland and clients of SIX Index Services, however SIX received feedback also from respondents who are not clients of SIX Index Services.

The respondents were not of one single opinion and expressed their reasons for or against the proposals with a varying degree of details. The answers varied depending on the use-case for which the SIX indices are subscribed to, the size of the client in terms of assets under management and the covered market segment (blue-chip cap stocks versus mid & small cap – the next 170+ stocks).

Conclusion

In consideration of the market feedback, which was clearly against transitioning ten securities from the SMIM to the SMI and undecided about the abolishment of the turnover requirement, SIX will not pursue the idea of a rule change for its Swiss Equity Indices and refrains from implementing the proposed measures at the current time. SIX will continue to monitor the evolution of the Swiss equity market and regulatory landscape and will consult the market again in case its prevailing conditions would lead to consider material changes to the index methodologies.

Summary of the Responses

Q1: Do you agree with the proposal to increase the number of SMI components from 20 to 30?

The responses clearly indicated a preference against the proposal. While respondents acknowledged the benefits in terms of the representativeness of an SMI expansion, the vast majority expressed concerns about the collateral effects on other indices and perceived the drawbacks to outweigh the benefits. In particular, the reallocation of 10 securities from the SMIM was seen as severely detrimental to the representativeness of the mid-cap segment. In fact, some respondents found that the increase in the market capitalization captured by the large-cap index would be significantly lower than the corresponding decrease in the mid-cap indices. Respondents also noted that the positive diversification effect of an increase in the number of SMI constituents was mitigated by the presence of very large capitalizations that would still tend to dominate the large-cap segment.

Q2: Do you agree with the proposal to abandon the turnover ranking criterion for the SMI, SMIM and SLI indices?

The responses were mixed and very balanced, with a somewhat negative tilt. While some respondents believed that the turnover criteria was obsolete due to its high correlation with the Free Float Market Capitalization and an unnecessary complication of the index rules, others took the view that a turnover-criterion was an important safeguard to ensure that less liquid securities remain ineligible.

Q3: Do you agree with the proposed treatment of the dependent indices (SPI20, SMIM, SPI Extra, SMI Expanded)?

Responses showed that an expansion of the SMI would cause a loss of representativeness for the dependent indices, whose differentiating and characterizing elements would lose relevance. Furthermore, the transition of the 10 largest mid-cap constituents would result in a larger tilt towards mid-caps for the SMI, and towards the small caps for the SMIM.

Q4: In case SIX decides to implement the proposal to increase the constituents of the SMI, should the changes to the index portfolios (SMI, SMIM, SPI Extra and further dependent indices) be implemented at one single index review or be split between two consecutive reviews?

The large majority of respondents would support the execution in one single review should the proposed measures be implemented, however they reiterated clear feedback against them.

References

Rules Governing the SIX Equity Indices: https://www.six-group.com/dam/download/market-data/indices/equity-indices/six-methodology-smi-equity-and-re-en.pdf

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