

Market Consultation DAX: Q&A

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- *Adjustments – Corporate Actions*
- *Weighting & Capping*

General topics

What is the aim of the proposed changes?	As administrator of DAX indices, STOXX Ltd. (STOXX) must ensure that DAX constantly complies with its key objectives as outlined in section 1.1 of the DAX Equity Indices.pdf (dax-indices.com) guide. With the proposed changes STOXX mainly aims to improve the index calculation being with its key objectives: Representativeness, Tradability, Replicability, Stability, Rules-baseness.
When will the new rules come into effect?	With the publication of the results scheduled for 2-3 weeks after the end of the consultation, we plan to publish as well a rough implementation timeline for the announced rule changes. The implementation plan will most likely consist of several implementation steps. The exact dates when the changes will become effective are being published ahead of the implementation phase for the specific rule change to give market participants sufficient lead-time to adapt to the new rules. We expect most rule changes to come into effect within the following 6 to 18 months.
Will the rules also apply to other indices beyond DAX, like MDAX, SDAX and TecDAX?	The proposed rule changes (unless explicitly stated otherwise) will apply to the indices mentioned in the “Application Range Indices & Events” document.
Can the rules still be changed during or after the consultation?	After conclusion of the consultation, STOXX will carefully review the results of the consultation and decide upon final changes to the index rules. In this process, proposed rules may be added, deleted or modified as deemed necessary by STOXX.
Can I change my response to the consultation?	The consultation tool does not allow to change the response once it has been submitted. In the case the same user completes the form twice, they will be evaluated separately as two individual responses.

Which Ranking List Data and index compositions have been used for the supporting analysis?	Backtests provided for the headline DAX indices use quarterly ranking list data since August 2015. With regards to previous major rule changes (2018 and 2021), the backtest assumes that those changes had been implemented already at the start date of the backtest, i.e., DAX (MDAX) has 40 (50) components since August 2015. Also the removal of the separation between “tech” and “classic” is considered for SDAX and MDAX since 2015 . This allows analysis of the sole impact of a change in the treatment of corporate actions or an increase in the component cap on the index performance as calculated today. This is why the index performance figures of DAX, MDAX, SDAX presented in the analysis document may deviate from the actual performance of the indices.
Can STOXX specify the company names of the companies affected from the change in capping instead of the sole presentation of the weight differences over time?	STOXX intends to receive objective feedback. The name of any company that could be initially affected from the proposed changes should not guide the respondent when stating his opinion. The situation of all companies may change before any new or amended rules could become effective. The proposed changes are made for the good and well-functioning of the index in all circumstances.
Are these changes adjusted retroactively?	The predictability of the indices administered by STOXX is one of the key objectives of the DAX Index. It is part of its ground rules, therefore changes to index rules are never implemented retroactively, please refer to section 1.1 of DAX Equity Indices.pdf (dax-indices.com) .
What is the expected impact on the index performance?	STOXX has published the so called “Supporting Analysis” on the consultation website. Potential impacts of the rule changes proposed have been analyzed using backtested index levels since August 2015 onwards.
What is the exact scope of the proposed rule changes?	The exact scope of the proposed rule changes can be looked up in the “Application Range Indices & Events” document.
How will that change impact the index formula outlined in section 6.1.1 of the current DAX Equity Index Guide?	STOXX plans to change the index formula underlying the DAX calculation from the current correction-factor-based formula to a divisor-based formula, as applied for STOXX indices.
How are dividends in DAX currently reinvested?	The current methodology for DAX is outlined in the Guide to the DAX Equity Indices on DAX Equity Indices.pdf (dax-indices.com) .

What is the rationale behind the proposal of preponing the timing for weight and cap factor fixing at review?

As of today, the fixing of weight and cap factors is based on close prices at the effective date of the review, whereas 2 days prior to the review date a forecast is provided. In this context, the index is hard to replicate for passive investors, as they must adjust the number of shares according to the component weights by buying or selling shares before market close on the effective date of the review without knowing the exact number of shares they must buy or sell per constituent company to exactly track the index. Hence, in order to ensure the index complies with replicability, one of its key objective, the timing of weight fixing should be preponed going forward.

What is the rationale behind the proposed increase of cap limit from 10% to 15%?

STOXX, as administrator of the DAX indices, must ensure that it complies with its key objectives. Key objective 1 states that the index must be representative, as it aims to best represent the performance of the target market. Key objective 2 states that the index must be tradable, which means index components are tradeable in relation to the size of the companies and the target market. In this context, STOXX values your opinion to understand if these two objectives are still being met with the current component capping of 10%. Two considerations to bear in mind are that the existing component cap has been applied more frequently in recent years (visit as well supporting analysis for evidence), and that a 15% single-stock cap is the most common rule in other national benchmarks.

How do you ensure UCITS compliance of DAX in terms of 5/10/40 rule when increasing the maximum weight allowed from 10% to 15%?

The index itself is not regulated by the UCITS directive, as index trackers and active funds are.

The index is used by active investors, passive investors and constituent companies also have their own view on the capping rule. STOXX must ensure that the different views from all these user groups are considered, so that the index serves the need of the majority of its users.
