

S&P Sri Lanka 20 Consultation on Eligibility Criteria

MUMBAI, NOVEMBER 4, 2019: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with members of the investment community on potential changes to the S&P Sri Lanka 20.

In order to take advantage of more readily available financial data and ensure a sufficient number of eligible stocks for the index given the declining liquidity in the Sri Lankan equity market, S&P DJI is considering amending the index’s liquidity and financial viability criteria. The table below summarizes the proposed changes.

Proposed Change	Methodology	
	Current	Proposed
Liquidity	<p>To ensure investability, stocks must have a minimum six-month median daily value traded (“MDVT”) of LKR 500,000 as of the reconstitution reference date. Current constituents’ require a MDVT of at least LKR 350,000 to remain eligible. Liquidity is measured independently for voting and non-voting share classes.</p> <p>If there are less than 20 eligible companies after applying all the eligibility criteria, the liquidity requirement is relaxed by 10% for both constituent and non-constituent stocks. If there are still less than 20 eligible companies after the 10% relaxation, the liquidity requirement is further relaxed by 5% incrementally for both constituent and non-constituent stocks until there are at least 20 eligible companies.</p>	<p>Stock fulfilling all other eligibility criteria are ranked based on their six-month median daily value traded (“MDVT”) with the 40 most liquid stocks comprising the selection universe from which index composition will be derived.</p>
Financial Viability	<p>Companies must be profitable, as measured by positive net income over the latest 12-month period, as of the reconstitution reference date. The figure is calculated by aggregating the latest four quarters of net income reported for the company.</p>	<p>Companies must be profitable, as measured by positive net income for the latest fiscal year, as of the reconstitution reference date.</p>

For details on the S&P Sri Lanka 20 index, including the current eligibility and construction rules, please refer to the S&P Sri Lanka 20 Methodology available [here](#).

IMPACT ANALYSIS

The table below shows the index's theoretical turnover had the proposed methodology changes been applied to the June 2018, December 2018 and June 2019 rebalancings as compared to the actual turnover based on the current methodology.

Rebalancing	Current Methodology (Actual)		Proposed Methodology (Theoretical)		Incremental Turnover
	Turnover	Adds/Drops	Turnover	Adds/Drops	
June 2018	12.12%	4 Adds/5 Drops	12.12%	4 Adds/5 Drops	0.00%
December 2018	18.93%	5 Adds/5 Drops	14.02%	4 Adds/5 Drops	-4.91%
June 2019	15.97%	4 Adds/5 Drops	15.73%	4 Adds/5 Drops	-0.24%

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, prior to the market open on Monday, December 23, 2019.

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. Do you agree with the proposed change to the liquidity rule?
2. Do you agree with the proposed change to the financial viability rule?
3. If the proposed changes are adopted, do you agree with the proposed implementation date?
4. Do you have any other comments or feedback regarding the proposed changes outlined above?

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. S&P DJI will make responses to consultations externally available upon request.¹ If you do not want your response to be made available, you must clearly state that in your response. Please respond to this survey by **December 3, 2019**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI will consider the issues and may request clarifications from respondents as part of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at index_services@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

¹ Individual and company names as well as contact details will be redacted.

CONSULTATION

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500[®] and the Dow Jones Industrial Average[®]. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

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