



Saudi Stock Exchange (Tadawul)

Tadawul Indices Methodology

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(I) Definitions:

Expressions and terms in the Indices Methodology have the meanings which they bear in the “Glossary of Defined Terms Used in the Exchange Rules”, and for the purpose of implementing this Indices Methodology, the following expressions and terms shall have the meaning they bear as follows, unless the contrary intention appears:

- **Capped Indices:** Capped index has a limit on the weight of any single security within that index, where it sets a maximum percentage on the relative weighting of a component that is determined by its market capitalization. The capped index is used to prevent any single security from having a dominating influence on an index.
- **Capping Threshold:** The maximum level at which the weight of a constituent can be at an index review.
- **Capping Factor:** Capping Factor is a derived factor used to reduce the Free Float Market Cap of equities in an index so that the weights of all index constituents remain under a set capping threshold, and it is applied at the constituent level. With the application of capping factor, the weight of dominant constituent(s) is contained and the excess weight is distributed over the remaining index constituents so that the total index weight remains at 100%.
- **Constituent:** A security that is part of an index.
- **Free Float Shares:** The percentage of an issuer’s share that are freely available for Trading.
- **Global Industry Classification Standard (GICS):** GICS is a four-tiered, hierarchical industry classification system, where standardized industry definitions are applied to all companies globally. The GICS methodology is widely accepted as the industry analysis framework for investment research, portfolio management and asset allocation.

(II) Introduction

The Tadawul Indices Methodology aims to set out the methodology for the construction and management of Tadawul equity indices.

- **Tadawul Indices¹**

- The Saudi Stock Exchange calculates public Equity indices (Tadawul All Share Index, Parallel Market Capped & Uncapped Indices, and Main Market Industry Group Indices). These indices represent equities that are listed on Tadawul. Tadawul indices are calculated and disseminated in real time during the trading session based on normal trades. Negotiated Deals are not considered for Tadawul index calculation.

- **Main Market Indices**

- **Tadawul All Share Index (TASI)**

TASI is an all share headline Index for Main Equity Market and comprises all eligible equities listed on Tadawul.

- **Industry Group Indices**

Industry Group indices are constructed from the All Share Index, TASI (Headline Index). Tadawul adopted GICS Global Industry Classification Standards (GICS) in January 2017 and subsequently the new Industry Group indices were created based on GICS Level 2 (Industry Group) with the base date of 8 January 2017. Details of Industry Group indices are available on Tadawul website.

- **NOMU Parallel Market Indices:²**

Parallel Market Capped Index (NOMUC) is the headline index for NOMU market and comprises all eligible companies listed on Nomu Parallel Market. In addition, an uncapped version, Parallel Market Index (NOMU) is also available for public on Tadawul website.

¹ The calculation and publishing of the Uncapped Parallel Market Index (Nomu) has been suspended by the end of trading on Thursday 14/05/2020.

² The calculation and publishing of the Uncapped Parallel Market Index (Nomu) has been suspended by the end of trading on Thursday 14/05/2020.

1. Index Management

1.1. Tadawul Responsibilities

1.1.1. Tadawul is the benchmark administrator of its Indices, daily calculations, production and operation. These responsibilities include:

- 1.1.1.1.** Maintain records of index weightings of all index constituents;
- 1.1.1.2.** make changes to index constituents based on the Tadawul Indices methodology
- 1.1.1.3.** perform index constituents rebalancing as specified in paragraph (2.3) and section (4) of this document;
- 1.1.1.4.** market participants' consultation regarding changes in methodology;
- 1.1.1.5.** announce any development related to Tadawul Indices, such as new indices, methodology changes, corporate actions and events, inclusions and exclusions; and
- 1.1.1.6.** publish and distribute index data and methodology.

1.2. Index Supervisory Committee (ISC)

1.2.1. The responsibilities of the ISC include the following:

- 1.2.1.1.** reviewing and approving the recommendations of the Index Operations and Management Committee (IOMC) regarding new Index creation and the existing index methodology; and
- 1.2.1.2.** approving IOMC's procedures related to maintenance of Tadawul Indices.

1.2.2. The ISC meets quarterly and as needed.

1.2.3. The ISC may invite people with expertise from the industry and representatives from the local asset managers for consultation.

1.3. Index Operation & Management Committee (IOMC)

1.3.1. IOMC is responsible for overseeing the index operational activities. These responsibilities include:

- 1.3.1.1.** Analyzing and recommending amendments in the Tadawul Indices Methodology to ISC;
- 1.3.1.2.** inclusion and exclusion of constituents;
- 1.3.1.3.** updating of free float shares;
- 1.3.1.4.** publishing announcements related to indices; and
- 1.3.1.5.** publishing index related public reports.

2. Constituents' Eligibility

2.1. Universe

- 2.1.1.** All equities listed on the Saudi Stock Exchange (Tadawul) are eligible for inclusion in Tadawul indices.

2.2. Index Inclusion for IPOs

- 2.2.1.** All Listed issuers on Tadawul shall have at least 5% free float at the time of listing and will be considered for index inclusion at the next quarterly index maintenance.
- 2.2.2.** After the announcements of the Tadawul's approval of the transfer of the issuer from Parallel Market to the Main market and complete the transfer procedures, the issuer will be excluded from the Parallel Market index and shall be considered for inclusion to the Main Market Headline index and Industry Group indices after meeting the eligibility criteria set out in the paragraph (2.2.1.) of this section.
- 2.2.3.** New constituents will be included in Tadawul's indices using the previous day's closing price.
- 2.2.4.** Inclusion and exclusion of constituents and the updating of the Free Float Shares will be announced on Tadawul's website on the quarterly maintenance dates.

2.3. Tadawul Free Float Rules

- 2.3.1.** The index calculation methodology includes equities that can be traded on Tadawul. The following shares are excluded (considered as Non Free Float) from all future Tadawul indices calculations:
- 2.3.1.1.** A government entity owning 5% and more in a listed company;
- 2.3.1.2.** restricted shares (shares that are not allowed to be traded during a period);
- 2.3.1.3.** shares acquired through buy-back by a listed company;
- 2.3.1.4.** shares owned by a member of the Board of Directors; and
- 2.3.1.5.** shares representing controlling ownership (30% or more).
- 2.3.2.** Listed equities on Tadawul and on other exchanges will be considered fungible and part of free float for Tadawul indices calculations, unless treated differently by the decision of ISC. In cases where the equities are not fungible, ISC will decide about the free float shares of those equities for Tadawul indices calculation.
- 2.3.3.** Quarterly Update of Free Float Shares:
- 2.3.3.1.** Any changes in the Free Float shares are updated as part of the quarterly index maintenance. The number of free float shares for the index constituents is fixed in the period between quarterly index maintenance reviews, except for corporate actions where adjustments will be made on the effective date.

2.4. Exception to Inclusion Rule – Fast Entry

- 2.4.1. Exceptions on the eligibility criteria for index inclusion can be considered for significantly large IPOs that may be eligible for Fast Entry into indices.
- 2.4.2. IPOs with a free float market capitalization of at least SAR 10 billion will be considered eligible for fast entry into Main Market index. First trading day closing price will be used for the calculation of free float market capitalization.
- 2.4.3. Announcement regarding the IPO Fast Entry will be made at the end of first trading day.

2.5. Fast Entry Effective Date

- 2.5.1. If the decision is made by ISC to include the IPO as Fast Entry into index, the inclusion is effective after the closing of the security's 5th day of trading.

3. Index Calculation

3.1. Index Calculation – Uncapped Equity Indices

- 3.1.1. All Tadawul indices are weighted by the free float market capitalization and are calculated based on normal trades. The free float market capitalization is calculated by multiplying the issuer's number of free floated shares by its closing price. Formula for uncapped indices calculation is explained as below:

$$Index_t = \frac{\sum_{i=1}^n p_{i,t} \cdot s_{i,t}}{\sum_{i=1}^n p_{i,T-1} \cdot s_{i,T-1} \pm Adj} Index_{T-1}$$

Where

n	Number of issuers in the Index
$Index$	Index value
$p_{i,t}$	Last price of Share for issuer i at time t
$s_{i,T}$	Number of free float shares
$p_{i,T-1}$	Price (closing price) of issuer i for previous trading day
$s_{i,T-1}$	Number of free float shares for the previous trading day
Adj	Adjustment for corporate actions
$Index_{T-1}$	Index close value for a previous trading day

3.2. Index Calculation – Capped Equity Indices

3.2.1. Tadawul’s capped indices follow the free float weighted calculation methodology with the addition of application of a capping factor (*c*) to contain the dominance of dominant weight issuers in the index. Index value calculation for capped indices calculation is explained as below:

$$Index_t = \frac{\sum_{i=1}^n p_{i,t} \cdot s_{i,t} \cdot c}{\sum_{i=1}^n p_{i,T-1} \cdot s_{i,T-1} \cdot c \pm Adj} Index_{T-1}$$

Capped Index = (Today’s total free float Capped market capitalization / previous day total free float Capped market capitalization) x index value of the previous day.

Where

<i>n</i>	Number of issuers in the Index
<i>Index</i>	Index value
<i>p_{i,t}</i>	Last price of Share for issuer <i>i</i> at time <i>t</i>
<i>s_{i,T}</i>	Number of free float shares
<i>p_{i,T-1}</i>	Price (closing price) of issuer <i>i</i> for previous trading day
<i>s_{i,T-1}</i>	Number of free floated shares for the previous trading day
<i>c</i>	Capping Factor*
<i>Adj</i>	Adjustment for corporate actions
<i>Index_{T-1}</i>	Index close value for a previous trading day

* Please refer to section (I) for definitions

3.3. Tadawul Capped Indices - Capping Threshold

- 3.3.1. Tadawul All Share Index (TASI):** Tadawul all share index is a capped headline index for the Main Market. The capping threshold of the weight of each issuer in the index is 15%.
- 3.3.2. Parallel Market Capped Index (NOMUC):** Parallel Market Capped Index is the headline index for the Parallel Market. The capping threshold of the weight of each issuer in the index is 20%.³

3.4. Capping Process

- 3.4.1.** Capping is an iterative process where capping application is repeated until all index constituents are contained under the set Threshold such as 15% or 20%⁴ (where applicable). Any issuer whose index weight reaches or moves above the set Threshold limit is capped at the Capping Threshold limit.
- 3.4.2.** The weights of the remaining uncapped index constituents are increased, in the proportion of their original weights, as a result of reducing the weight of constituents exceeds capping threshold.
- 3.4.3.** As a result of the weight redistribution of capped constituent(s) to uncapped constituents, the weight of uncapped constituents are checked and if weight of any other uncapped constituent reaches or exceeds the Capping Threshold, that constituent is also capped. This process continues until weights of all index constituents either are capped at Capping Threshold or are below the Threshold.
- 3.4.4.** Capping Calculations: Capping calculation is based on the free float number of shares determined after the quarterly index maintenance activities and closing prices of equities for the maintenance day.

4. Index Review & Constituent Changes

4.1. Uncapped Indices

4.1.1. Quarterly Reviews

- 4.1.1.1.** The rebalance date and constituents' inclusion or exclusion will be announced on Tadawul website three (3) trading days before the rebalance date.

4.1.2. Changes Due to Corporate Actions & Events

- 4.1.2.1.** Adjustments for the following corporate actions will be made on the effective date:

- 4.1.2.1.1.** Bonus issues;
- 4.1.2.1.2.** rights issues;
- 4.1.2.1.3.** splits / reverse splits and change in face value;
- 4.1.2.1.4.** merger / Acquisition; and
- 4.1.2.1.5.** redemption and cancellation of shares.

- 4.1.2.2.** Adjustments as a result of corporate actions will be announced on Tadawul's website and the list of the equities' number of shares (issued and free float) will be updated.

³ Based on the responsibilities of the Index Supervisory Committee stipulated in section (1.2) of this document, the capping threshold of the weight of each issuer in the Parallel Market Capped Index (NOMUC) has been adjusted to 35%.

⁴ Based on the responsibilities of the Index Supervisory Committee stipulated in section (1.2) of this document, the capping threshold of the weight of each issuer in the Parallel Market Capped Index (NOMUC) has been adjusted to 35%.

4.1.2.3. Major Corporate Events, such as Merger and Acquisitions, Spin offs, Tender offers, etc. will be reflected in the capped indices during the quarter.

4.1.3. Suspensions & Exclusions

4.1.3.1. Suspension of an issuer continues in the Headline Index until the end of the quarter and will be excluded from index if still suspended at the quarterly index maintenance.

4.1.3.2. If the suspension is lifted, the issuer will be included in the index at the next quarterly index maintenance.

4.1.3.3. If an issuer is delisted from the market and if the delisted issuer was an index constituent, the constituent will be excluded from the index on the delisting date at any time between quarterly reviews.

4.2. Capped Indices

4.2.1. Quarterly Reviews

4.2.1.1. Capped indices are rebalanced at the quarter end, aligned with the index maintenance activities. The prime index maintenance activity for capped indices is the adjustment of capping factors taking into consideration the corporate actions and events effective till the maintenance day.

4.2.2. Intra-Quarter Adjustments

4.2.2.1. In addition to quarter end capping factors adjustments, ISC may decide to perform intra-quarter capping factor adjustment due to a corporate event that may 'significantly' affect the stability of the Index. These decisions will be communicated to the market participants at the earliest opportunity.

4.2.2.2. After calibrating the capping factors at the index maintenance or Intra-Quarter, constituents' weights may fluctuate during the quarter according to market movements.

4.2.3. Early Inclusions

4.2.3.1. Early IPO inclusions to Headline index outside of the quarterly review cycle will also be added to the capped index. The weight of the added security will be capped, if needed, at the discretion of the ISC.

4.2.4. Inclusions, Suspensions & Exclusions

4.2.4.1. Corporate Actions / Events related changes in the Headline index, if any, are simultaneously reflected in the capped index.

4.2.4.2. A security added to the Headline Index following a corporate event will also be added to the capped index. Capping factor adjustment will be at the discretion of the ISC.

4.2.4.3. Inclusions, except for Early Inclusions and due to corporate events, will be treated in accordance with the Tadawul Indices Methodology.

4.2.4.4. Suspension of an issuer continues in the capped Index until the end of the quarter and will be excluded from index if still suspended at the quarterly index maintenance.

4.2.4.5. Constituents excluded from the Parallel Market Capped Index will be simultaneously excluded from the Parallel Market Index.

5. Further Information / Contact Information:

For any queries related to the Tadawul Indices Methodology, please contact:

- Tadawul Customer Services Team at csc@tadawul.com.sa

Queries may also be directed to:

- Index Development Team at MI@tadawul.com.sa or
- Index Operations Team at MIO@tadawul.com.sa

6. Disclaimer

All information mentioned herein is solely in relation to the Tadawul Indices Methodology. Tadawul disclaims any liability for any direct, indirect, special or general damage, loss as a result of misuse the information contained in this document. Tadawul may, due to special circumstances, if deemed essential, apply adjustments to ensure and maintain the high quality of the index calculation. For any information or more inquiries related to this document, please rely on the contact information contained in this document.