

21 June 2019

Sammit Joshi
Vice President
NSE Indices Limited

By Email

ASIFMA Feedback re Proposed Changes to Weights and Selection of Stocks in the NIFTY 50 Index

Dear Sammit,

Please find below on behalf of our members, the Asia Securities Industry and Financial Markets Association's ("ASIFMA's")¹ feedback to NSE Indices Limited's market consultation regarding the "Introduction of Sectoral Weight Caps and Surveillance Related Parameters Imposed by Stock Exchanges for Selection of Stocks in NIFTY 50 Index." We are grateful to NSE Indices for requesting the Industry's feedback on the proposed changes and for extending the consultation deadline to 21 June to allow us to collect member feedback and build Industry consensus.

1. Is there a need to introduce sector weight caps in NIFTY 50 index? ASIFMA's Feedback: NO

Indices such as the NIFTY 50 are reflective of a market's dynamic market conditions, economic trends, and investor interests and as such are often tracked by passive investors. While introducing sectoral caps will diversify the NIFTY 50, by artificially increasing the representation of some sectors, such will cause the index to no longer be reflective of the market. Introducing sector caps will also cause passive investors tracking such to re-allocate positions, which will produce significant market turnover and impact costs. Furthermore, it remains unclear how this change will be interpreted by regulators in other jurisdictions and whether foreign investors will be affected (for example, the NIFTY currently enjoys a 'No Action Letter' from the CFTC, permitting US investors to trade in NIFTY futures). Therefore, our members support maintaining the status quo and not introducing sectoral weight caps.

2. Should stocks that are subject to additional surveillance margin requirement for one year period or more be considered ineligible at the time of reconstitution of NIFTY 50? ASIFMA's Feedback: NO

While additional surveillance margins can help mitigate some risk from speculators in the F&O segment, our members are uncertain how frequently the current NIFTY 50 constituents may trigger such additional margins and for how long such remain. It is also unclear how many NIFTY 50 constituents may trigger such during periods of marketwide volatility or distress. As these margins were only implemented in Q3

¹ ASIFMA is an independent, regional trade association with over 100 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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2018, additional time and some backtesting may be beneficial to provide further clarity. Given these uncertainties, our members' feedback is to **not exclude stocks from the NIFTY 50 if they are subject to the additional surveillance margins for a one year period or more**. Additionally, to allow for natural (fundamentally driven) volatility and price discovery, we encourage NSE to not only focus on volatility alone but to also consider whether such was driven by market misconduct or speculation without basis. **Otherwise, it is safe to continue current practice as is.**

Thank you for considering our feedback and should you have any questions, please do not hesitate to contact Lyndon Chao via email (lchao@asifma.org) or by telephone (+852 2531 6550).

Sincerely,

A handwritten signature in black ink, appearing to be 'L. Chao', with a long horizontal stroke extending to the right.

Lyndon Chao, Managing Director
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