To,
NSE Indices Limited
Via email to: index-consultation@nse.co.in

02nd November, 2022

Sub: Comments on NSE Indices' consultation on treatment of merger/demerger in Nifty equity indices

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **NSE Indices' consultation on treatment of merger/demerger in Nifty equity indices.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the consultation paper on treatment of merger/demerger in Nifty equity indices. We believe that the proposed framework is a positive step and we realize the challenges with the existing approach. The proposed change will help to reduce the churn in index constituents due to merger and demerger events, which has become increasingly important with the rise of exchange traded funds (ETFs) and passive funds. This will address the challenges due to longer exclusion and multiple adjustments to indices.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

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B. Key Contributors:

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C. Suggestions / Comments:

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Category: Association of Investment Professionals

Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	**Proposed treatment of merger in Nifty equity indices**	We support the NSE Indices proposal to revise the treatment of merger in Indices as it will reduce the churn in index constituents. We suggest that NSE indices, in addition to the operational mechanics, clarifies the principle driving the changes - that of reducing the churn while balancing the need for being true to index character. In the existing framework, the challenge as rightly pointed out in the paper is that the transferor company is excluded at the point of shareholder approval, instead of ex-date. Apart from the issue of churn due to merged entity being included again after some time, this also opens up another issue that the merger/demerger event may not actually fructify or may take long happen even after the shareholder approval is in place, due to the prevailing regulatory environment.	We believe there is merit in the proposed changes by NSE as it definitely aligns the indices to mimic the actual experience of index clients. There are several benefits to the proposal i.e., reducing churn, mimic the actual character of indices, avoid reversals etc. Further, we understand that there is an impending merger of two large NIFTY 50 companies so the proposed changes become even more important in reducing the churn and reducing the impact costs.

		This may cause churn to the passive funds and will just lead to more headaches for the fund managers and investors There have been several cases where there was risk of events not going through even after shareholder approval. We also studied the global practices of treatment of merger demerger event. We see that S&P DJI indices treatment of mergers involves certain discretion to accomplish their stated aim to mimic the actual experience of index clients on a best effort basis and also the aim that turnover in index membership should be minimized when possible. Further, the changes in S&P DJI indices are mostly done close to the corporate action date or only when the shareholder approval is irreversible. This is in line with the proposed changes. In case of FTSE Russel Indices, we see that they may actually consider some merger events final even before the shareholder approval. They decide based on their judgement of prevailing shareholder sentiment, board/director recommendations, exchange notification, expected completion date, and stock price versus offer value when making this decision. We also see merit in the varied approach adopted by FTSE in different cases such as: 1. Merger between Index Constituents for Stock –	Please refer to the detailed S&P Dow Jones Indices global document on Equity Indices Polices & Practices. The various approaches can be referred to in the

		2. Merger between Index Constituents for Cash or Stock, or a Combination Thereof 3. Constituent Acquired by a Non-Constituent 4. Constituent Acquires a Non-Constituent	FTSE Russel Corporate Action and event guide.
2.	**Proposed treatment of demerger in Nifty equity indices**	We support the NSE Indices proposal to revise the treatment of demergers as it will reduce the churn in index constituents. As explained above, there are several examples, where there was considerable delay in the event happening post the shareholder approval. We have also seen examples of certain companies getting shareholder approval for corporate action and still the event getting delayed or even not going through. The idea is that if we know that if a company has to just move out and get in just on account of corporate action, this should be avoidable. Additionally, the driving principle behind any change is to be true to the nature or characteristics of indices. We also studied the global practices of treatment of merger demerger event. We see that S&P and FTSE follow a similar approach to the proposed changes by NSE. In case of demerger of spin off, S&P DJI indices follows a general policy, a	Similar to the above points, the proposed change should improve the NSE index methodology and also align it with best practices around the globe. One example of events taking long to fructify post shareholder approval is the case of Motherson Sumi. Motherson Sumi got shareholder approval to demerge in April, 2021. And, in June 2021, the company was excluded from NSE indices on account of the same. The demerged company was finally listed on stock exchanges in March 2022. The demerged entities were then included in indices in September 2022. Vedanta got the shareholder approval for delisting the stock and the company was excluded

		spin-off security is added to all indices where the parent security is a constituent, at a zero price at the market close of the day before the ex-date. The spin-off security will remain in the parent's indices if it meets the eligibility criteria. In case of FTSE, the spin-off entity will be added to the same indices as the parent company, per the terms, on the ex-date of the distribution. If the security meets the eligibility criteria it is retained until next quarterly review, where it will be re ranked or removed. While if its not eligible, the security is excluded at the time of listing.	from the indices. But eventually the event didn't go through and the reversal had to be done. This caused unnecessary churn, which could have been avoided if the rejig was done on the corporate action date.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Ravi Gautham, CFA at +91 99021 17087 or at advocacy@iaipirc.org.

Sincerely yours,
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Chairperson - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute