



Change of the mWIG40 and sWIG80 Methodology

Consultation Paper

Warsaw, January 2022

I. SCOPE OF THE PROPOSED CHANGE OF THE METHODOLOGY

Hereby Administrator of the Stock Exchange Indices publishes the Consultation Paper concerning the proposed Methodology change regarding change in the methodology being qualified as a "significant" one, consistently with the definition of a significant change in benchmarks methodology.

A significant change concerns the mWIG40 and sWIG80 index methodology, with regard to the rules for extraordinary adjustments of indices composition during the IPOs of companies with large capitalization, which meet the condition resulting from the procedure, i.e. fast path, to be implemented in March 2022, ie together with the annual revision of the Indices.

At the same time, in order to ensure the transparency and legibility of the undertaken actions, Administrator informs that the following changes to the methodology are planned to be implemented and are not subject to the public consultation procedure:

- Change in the rules of qualifying companies to the WIG20 reserve list, assuming that a company that takes a place below 40th in the capitalization ranking, would not qualify to the index's reserve list
- Determining the minimum number of instruments in the portfolios of all indices for which the publication of indices makes sense (similar to the WIGdiv case)
- Clarification of the provisions concerning the MTR (Monthly Turnover Ratio)
- Modification of the terms of earlier notifications of extraordinary changes in indexes (providing information about extraordinary changes, if possible 2 days in advance)
- Change of the date of qualification of the companies to the WIG and WIG-Poland indices and sector indices after a first trading day (from 3 to 7 sessions, while maintaining and taking the relevant criteria into account in this case, the introduction to the index would actually take place after 9 sessions after the IPO, taking into account the 2-day deadline for informing about extraordinary changes.
- Change in frequency of the WIGtech, WIG20TR, mWIG40TR, sWIG80TR and WIG30TR indices publication (increase in frequency).

The above listed changes do not apply to the Key Elements of the Methodology (KEM) or, in the case of their qualification as KEM, do not meet the criteria of materiality as they do not violate the materiality thresholds of adopted statistical tests; therefore, they have **not been classified as a material change of the Methodology and are not subject to public consultation**. A detailed description of the changes will be included in the Rules of GPW Indices (hereinafter the "Rules") and will be accordingly provided in accordance with the procedures and terms adopted in the Rules and consistently with the Procedure of the Cyclical Review of the Methodology.

II. GROUNDS OF THE PROPOSAL

Administrator has decided to introduce changes to the methodology of GPW Indices taking into account the results of the cyclical Review of the Methodology taking into account the conclusions, assessments and recommendations of Index users, observers and financial market practitioners, including in particular those gathered in the Index Committee and the Oversight Committee of Capital Market Benchmarks.

Bearing in mind the principles of introducing changes to the Stock Index Methods expressed in the Procedure of cyclical review of the Methodology, after the approval of the proposed changes and their qualifications, by the Oversight Committee of Capital Market Benchmarks, the Administrator is

obliged to conduct public consultations of such a change in methodology, which meet the criteria of a significant change consistently with the definition.

The proposed methodology change concerns the principles of qualifying companies to the mWIG40 and sWIG80 indices and refers to the Key Element of the Methodology, while the results of counterfactual tests confirm that the change as described below, (III. THE SCOPE OF PROPOSED CHANGES) meets the criteria of a significant change of methodology.

In the opinion of the Administrator, the proposed Methodology change concerning the so-called "fast track" to the mWIG40 and sWIG80 indices:

- a) meets expectations of the market (users of the Indices) as to the representativeness and quality of Indices, understood as the credibility and stability of companies in the Indices' portfolios;
- b) addresses the need to maintain transparency in the selection of companies for portfolios;
- c) the need for the Administrator to simultaneously meet both of the above expectations by constructing the principles of qualifying companies to the Index portfolios corresponding to the current market needs and the reputation of the Indexes.

Based on the results of the consultations, the GPWB Management Board will make a decision on the proposed Methodology Change, in accordance with the information set out in this document.

III. THE SCOPE OF PROPOSED CHANGES

Procedure of the so-called "fast track"

Administrator has been receiving inquiries about companies that has had an IPO on the WSE main market in 2021 and were not included, in indices other than WIG20 or WIG30, covering the largest companies despite their high capitalization on the start.

In the opinion of the Administrator, it is justified to unify the requirements of the Rules in the context of extraordinary changes resulting in addition companies to the mWIG40 and sWIG80 indices after the IPO date, when the companies achieve a sufficiently large capitalization, similarly to the procedure, i.e. the fast track, which is in force for the WIG20 and WIG30 indices.

Pursuant to point 5.2.19 of the Rules, there is a procedure for the WIG20 index, i.e. fast track, and is as follows:

The extraordinary 'fast track' adjustment of the list of Index Participants may be conducted to enter a Company which is new to the Exchange Trading to a list of WIG20 Index Participants, provided that the value of its shares in free float on the date of the first quotation equals at least 5% of the value of capitalisation of the Index Portfolio at the Session that day.

The Administrator, together with the Index Committee and the Oversight Committee of Capital Market Benchmarks, recommend introducing the following thresholds for individual indices that would be required to launch the "fast track" qualification to the indices:

- for the mWIG40 index - exceeding the threshold of 2.5% of the portfolio capitalization on the company's debut day
- for the sWIG80 index - exceeding the threshold of 1.25% of the portfolio capitalization on the company's debut day

and proposes to add the following provisions in the Regulations:

- for the mWIG40 index:

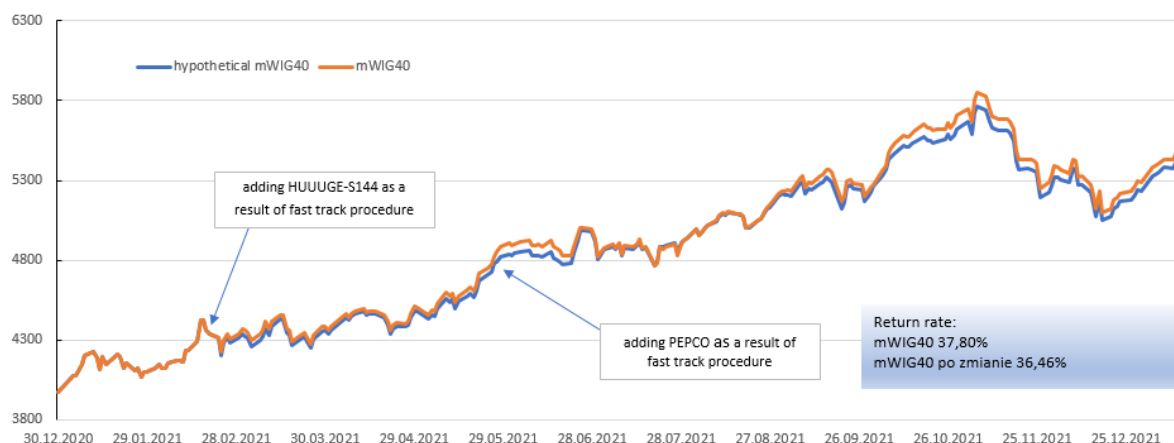
The extraordinary 'fast track' adjustment of the list of Index Participants may be conducted to enter a Company which is new to the Exchange Trading to a list of mWIG40 Index Participants, provided that the value of its shares in free float on the date of the first quotation equals at least 2,5% of the value of capitalisation of the Index Portfolio at the Session that day.

- for the sWIG80 index:

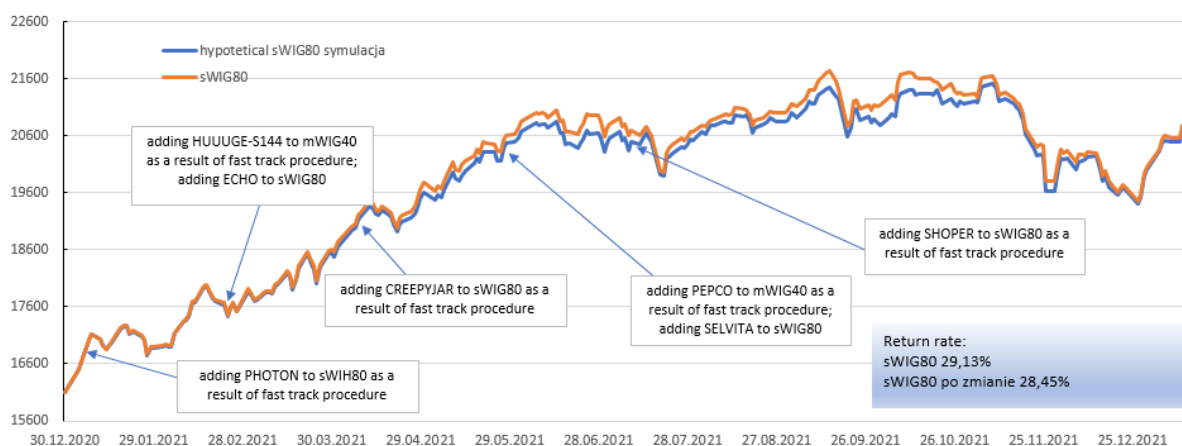
The extraordinary 'fast track' adjustment of the list of Index Participants may be conducted to enter a Company which is new to the Exchange Trading to a list of sWIG80 Index Participants, provided that the value of its shares in free float on the date of the first quotation equals at least 1,25% of the value of capitalisation of the Index Portfolio at the Session that day.

The charts below present the impact of the new fast track procedure implementation to the index methodology on the values of both above mentioned indices resulting from changes in the composition compared to their actual performance:

procedure of "fast track" - mWIG40 vs hypothetical mWIG40



procedure of "fast track" - sWIG80 vs hypothetical sWIG80



Analysis results and consultations

The results of the analysis have been presented to the Oversight Committee of Capital Market Benchmarks at its meeting on 20 January 2022. In view of the test results, the Committee acknowledged that the change of the methodology consisting on the introduction of the fast track procedure to the Rules for mWIG40 and sWIG80 (similar to the procedure for WIG20 and WIG30 indices) constitute a significant change for the above mentioned indices.

Following the opinion of the Committee and taking into account the results of the undertaken analysis, Administrator decided to open public consultations.

IV. CHANGE OF METHODOLOGY CONSULTATION FRAMEWORK

In order to participate the consultation process, concerning the change of the mWIG40 and sWIG80 methodology please answer the questions presented in the questionnaire and send the questionnaire to Administrator at indeksy@gpwbenchmark.pl **no later than 6 February 2022.**

Administrator will publish the results of the consultations on its website, including additional consultations' details, where applicable. Administrator will inform on its decision regarding the change of the methodology and on effective date of the implementation of the proposed changes in the GPW Indices' methodology, consistently with the provisions of the Rules.

V. QUESTIONNAIRE

1. Do you agree with the methodology change resulting in the introduction of the so-called "fast track" for the mWIG40 index (similarly to the procedure for the WIG20 and WIG30 indices)?

☐ Yes

☐ No

☐ I have no opinion

Remarks

2. Do you agree with the methodology change resulting in the introduction of the so-called "fast track" for the sWIG80 index (similarly to the procedure for the WIG20 and WIG30 indices)?

☐ Yes

☐ No

☐ I have no opinion

Remarks