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Executive Summary

This note finalises the consultation rounds on proposed operational rule changes to NYSE Euronext's national indices in Europe, including CAC 40, AEX, BEL 20 and PSI 20. The responses have led to rule changes for rights issues, cash takeovers, capital updates and net dividend indices, which we are now announcing.

Introduction

1. The purpose of the consultation that was held in the last few months was to receive feedback from index users on proposed operational rule changes to align corporate actions handling across our national indices. We thank our customers for having worked with us to review these proposals and provide feedback both in writing and in individual meetings.
2. The consultation process has followed a two step approach: initial proposals were circulated on 8 June 2009 in [NEIA 2009-125](#), and feedback on these proposals led to the revised proposals in [NEIA 2009-246](#) of 2 November 2009. A [high level summary](#) of the feedback we have received on the initial and revised proposals is made available on the website.
3. The consultation process has now been concluded and this Info Flash serves to announce the rule changes that will be implemented as a result. These rule changes will also be communicated by way of separate NYSE Euronext Index Announcements for each family of national indices in the course of the coming weeks. For the AEX family no rule changes follow from the consultation.

Rights issues

4. The initial proposal for rights issues, which essentially entails inclusion of newly issued shares in the index immediately on ex-date, was generally supported. The concerns that were raised were primarily related to relatively large rights issues and cases whereby newly issued shares are not fungible with the existing shares. The revised proposals were designed to address these concerns and will now be adopted as the new approach for all (divisor) indices¹.
5. The new approach will lead to one single adjustment, whereby newly issued shares are included in the index on ex-date, unless the rights issue is in excess of 0.4 new shares per outstanding share, and/or the newly issued shares are not fungible with the existing shares. In those cases, a divisor adjustment¹ is made on ex-date, whilst inclusion of the new shares will take place on the date of issue, or the date on which the shares become fungible, as the case may be. Please note that adjustments to the index are (and will) only be made when a right represents a positive value after close of business on the day immediately prior to the ex-date.

¹ For the AEX-index, being a fixed divisor index, one adjustment is made on ex date whereby the exact number of shares are included in the index to balance out the price effect of the rights issue.

Dividend in shares

6. As announced in Info Flash NEIA 2009-246, no changes will be made to the current rules for stock dividends for the time being. Continued talks will be held with index users before taking a further view on a revised approach for stock dividends. In this respect, please note that a consultation is pending on the treatment of stock dividends in relation to single stock derivatives ([LO09/43](#)), the results of which may be used as a driver to initiate further index consultations.

Takeovers in cash

7. Feedback on the initial proposal has led to a revised proposal, whereby removal of the target company would take place four business days before the end of the offering period². Using this approach, a company that would be subject to a cash takeover is removed early, unless in exceptional circumstances it would be unambiguously clear that the transaction is failing (e.g. in case of a mandatory offer at a price that is clearly below the prevailing market price). In such exceptional circumstances, the index compiler could decide not to remove the target company from the index, which would be announced well before the end of the offering period.
8. Comments received on the revised proposal were mixed. Most CAC 40 users had a clear preference for the mechanism of early removal, whilst other users generally preferred keeping target constituents in the index until takeover bids are declared successful. In the light of this, the revised proposal, which is essentially a refinement to the current methodology for the CAC 40, will only be implemented for the CAC/SBF family of indices. Basically, the difference between the current methodology for the CAC 40 and the new rule will be the timing for early removal. Where the current rule leaves a certain discretionary power for the index compiler to remove a target company somewhere in the last weeks of the offering period, the new rule is more specific: removal will take place four business days before the end of the offering period¹.
9. For all other indices, the current practise will remain in force, whereby target companies are only removed from the index after the bid is declared unconditional and using the last traded price.
10. For the avoidance of doubt, please note that where a takeover bid is (primarily) in shares, the target company is replaced by the acquiring company³, using the exchange ratio of the bid. This approach is also used for bids that are partially in shares and partially in cash, provided that the share portion at least represents 75% of the value of the bid. In that case, the adjustment to the index is based on both the exchange ratio of the bid and the last traded price of the shares of the acquiring company.

Capital updates

11. All respondents supported the proposed rule change to introduce a single non-cumulative threshold for capital updates. This threshold will lead to fewer changes to the indices in between reviews, except for the Belgian family of indices, including the BEL 20, where capital updates are currently only applied in exceptional cases. For the AEX family of indices, capital updates will continue to take place only at the annual review.

Tax table

12. All respondents supported the rule change for the calculation of net dividend indices, whereby dividend withholding taxes are based on the tax position of a Luxemburg fund.

Effective Date

13. All rule changes mentioned above will enter into force on 1 April 2010⁴. The rule changes will also be announced shortly in separate NYSE Euronext Index Announcements for each family of indices.

Questions

14. For any questions you may have, please contact mr Boudewijn van der Kaaij (Amsterdam + 31 20 550 4200)

² and in case of competing bids, before the end of the offering period ending first.

³ provided that the acquiring company meets the requirements for inclusion in the index

⁴ except for the changes pertaining to the use of the internal tax table for the net return indices, announced on 9 December 2009. These changes came into force on 1 January 2010