

Mirae Asset Standard Corporate Action Treatment Methodology

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1. Introduction

The intent of this document is to record standard treatment of Corporate Actions in Equities as handled by Mirae Asset Global Index Pvt Ltd (Index Provider) during the administration of their indices.

This is a guidebook to serve as a reference for the standard treatment of the events. However, there might be special handling of corporate actions which are deviant from the standard list below and will be handled by the Index Administration team in line with the best practices of the industry and the most transparent manner. We can also work on implementing custom treatment of nonstandard Corporate Actions based on the recommendations of the clients as per their standard treatment of Corporate Actions.

2. Divisor

Divisor is a factor that is used to calculate the value of an Index and is adjusted so as to reflect the impact of the Corporate events on the Index. It is a way to maintain the continuity of the Index series. From a theoretical standpoint any changes to a stock in the Index which alters the Market Capitalization of the stock would impact the entire Index weightings itself. In order to compensate for this, we adjust the divisor. The adjustments to the divisor are resulting from changes in the adjustment factors of price and number of shares of an individual stock of the Index. These are respectively called as PAF and SAF adjustments.

Divisor is calculated as below:

$$Divisor_t = Divisor_{t-1} * \frac{\sum_{i=1}^n [(P_{t-1}^i * PAF_t^i) * IWF_t^i * WCF_t^i * (NOS_{t-1}^i * SAF_t^i) * FX_{t-1}^i]}{\sum_{i=1}^n [P_{t-1}^i * NOS_{t-1}^i * IWF_{t-1}^i * WCF_{t-1}^i * FX_{t-1}^i]}$$

Where:

$Divisor_t$	Value of divisor on date t .
P_{t-1}^i	Price per share of company i on date $t - 1$.
FX_t^i	Foreign exchange rate applied on company i 's stock to translate its value to the index currency on ex-date t .
NOS_t^i	Number of shares of the company i on date t .
SAF_t^i	Shares Adjustment Factor of company i on date t .
PAF_{t-1}^i	Price Adjustment Factor of company i on date $t - 1$.
IWF_{t-1}^i	Investable Weight Factor of company i on date $t - 1$.
WCF_{t-1}^i	Weighting Cap Factor of company i on date $t - 1$.

3. Cash Dividend

Dividends are extra payments provided by companies to their shareholders from their profits earned. This can be a scheduled payment as per a fixed payment period or an ad-hoc payment basis the discretion of the company. Companies are not mandated to payout cash dividends but this is done so as to boost investor confidence in the company's good performance. The payment period is generally, quarterly, semi-annually or annually basis the company's discretion.

From a taxation standpoint, companies withhold a portion of the dividend payout amount. This is termed as the withholding tax and is dependent on the withholding tax rates prevalent in the country of incorporation of the company. Gross dividend amount if declared by the company is without withholding the tax amount and net dividend if declared is the amount exclusive of the withholding tax of the company.

From an Index treatment perspective, regular cash dividends do not affect the price return Index in any way. However, we do see an adjustment in the prices of the Net Total Return Index and the Gross Total Return Index versions. The SAF remains the same in all cases.

3.1. Treatment

Company i announces the payment a regular cash dividend per share of Div_t^i with ex-date t . The withholding tax rate as on ex-date t in country of incorporation of the company i is Tax_t^i and the FX rate of the dividend amount (if dividend declared is in a different currency than the Price currency) is FX_{t-1}^i .

3.1.1. Gross Total Return Index

Adjust the index divisor as below:

$$PAF_{t-1}^i = \frac{P_{t-1,close}^i - (Div_t^i * FX_{t-1}^i)}{P_{t-1,close}^i}$$

$$SAF_{t-1}^i = 1$$

3.1.2. Net Total Return Index

Adjust the index divisor as below:

$$PAF_{t-1}^i = \frac{P_{t-1,close}^i - [Div_t^i * (1 - Tax_{t-1}^i) * FX_{t-1}^i]}{P_{t-1,close}^i}$$

$$SAF_{t-1}^i = 1$$

3.1.3. Price Return Index

Adjust the index divisor as below:

$$PAF_{t-1}^i = 1$$

$$SAF_{t-1}^i = 1$$

The impact of cash dividends on the security price and hence on the Index is as of the ex-date of the dividend payout. There are a few notable deviations from the regular treatment of cash dividends. These are as follows -

1. For UK REITS, there is an extra taxation of 30% from the customary no taxation for the other UK stocks
2. For Australian stocks the dividend amount declared are also franked by the firm

3.2. Treatment of Japanese and Korean dividend

The dividend adjustment process for companies in Japan and South Korea differs due to the timing of dividend amount confirmation, which is generally received after the ex-date. On ex-date Mirae Asset Global Indices considers the available dividend amount at that time for index calculation. Post final dividend amount confirmation, adjustments are made to the indices accordingly. Historical index levels are not adjusted retrospectively for changes in the dividend amount.

The difference between the ex-date dividend amount and the final confirmed dividend amount as of the dividend pay date is applied on the Dividend Implementation Date (DID). The Post Ex-Date Dividend Adjustment is executed on pre-scheduled DID, which occurs weekly on Fridays. Index adjustments are made if the dividend-paying company was a constituent of the index as of the ex-date, regardless of current membership in the index.

The difference between the confirmed dividend amount and the dividend amount as of the ex-date will be applied to the affected indices using the Dividend Adjustment Amount (DAA). DAA is incorporated into the market capitalization at the opening of the DID.

$$DAA_{DID}^i = \sum_{i=1}^n \frac{DD_{DID}^i * FX_{DID-1}^i * U_{ex-1}^i}{Divisor_{ex-1}^i} * Divisor_{DID-1}^i$$

Where:

DAA_{DID}^i	Dividend adjustment amount for company i on DID
DD_{DID}^i	Delta Dividend is the difference between the dividend amount on ex-date and pay date of company i on DID
FX_{DID-1}^i	Foreign exchange rate applied on company i 's stock to translate its value to the index currency on DID-1
U_{ex-1}^i	Number of units of the company i on date ex-date - 1
$Divisor_{ex-1}^i$	Value of divisor on ex-date - 1
DID	Dividend Implementation Date

Note: This treatment was made effective from 1 August 2024. Prior to that, delta dividends for any security were applied on the respective pay dates.

4. Special Cash Dividend/Capital Payments

As described earlier dividend payments by companies can be scheduled like the cash dividends above or ad-hoc payments. These ad-hoc payments are termed as special Cash Dividends which is generally over and above the regular dividend payments and also of a higher payout amount compared to cash dividends. If this is a capital payment or asset distribution payout then taxes will not be applied. In this case the PAF of the price return Index is also adjusted to reflect the dividend payout.

4.1 Treatment

Company i announces the payment a special cash dividend per share of Div_t^i with ex-date t . The withholding tax rate as on ex-date t in country of incorporation of the company i is Tax_t^i and the FX rate of the dividend amount (if dividend declared is in a different currency than the Price currency) is FX_{t-1}^i .

4.1.1. Gross Total Return Index

Adjust the index divisor as below:

$$PAF_{t-1}^i = \frac{P_{t-1,close}^i - (Div_t^i * FX_{t-1}^i)}{P_{t-1,close}^i}$$

$$SAF_{t-1}^i = 1$$

4.1.2. Net Total Return Index (if Withholding Tax is applicable)

Adjust the index divisor as below:

$$PAF_{t-1}^i = \frac{P_{t-1,close}^i - [Div_t^i * (1 - Tax_t^i) * FX_{t-1}^i]}{P_{t-1,close}^i}$$

$$SAF_{t-1}^i = 1$$

4.1.3. Net Total Return Index (if Withholding Tax is not applicable)

Adjust the index divisor as below:

$$PAF_{t-1}^i = \frac{P_{t-1,close}^i - (Div_t^i * FX_{t-1}^i)}{P_{t-1,close}^i}$$

$$SAF_{t-1}^i = 1$$

4.1.4. Price Return Index

Adjust the index divisor as below:

$$PAF_{t-1}^i = \frac{P_{t-1,close}^i - (Div_t^i * FX_{t-1}^i)}{P_{t-1,close}^i}$$

$$SAF_{t-1}^i = 1$$

5. Stock Dividend/Bonus

In order to preserve their cash balance, companies at times resort to paying the dividends in the form of shares of the firm. This is called as a stock dividend payout. In some cases, the stock dividend payout can be a stock of a different entity as well. These payments are generally made as a fraction of the current stockholding of the investor.

5.1 Treatment

Scenario 1: Company i would announce a stock dividend of say m shares of its own for every stock held by the investor with an ex-date of t . The price and share adjustment factors will be updated to reflect this change in the company stock at the open of ex-date t as per below:

$$PAF_{t-1}^i = \frac{1}{1+m}$$

$$SAF_{t-1}^i = 1+m$$

Scenario 2: Company i would announce a stock dividend of say m shares of a different entity j for every stock held by the investor with an ex-date of t . The price and share adjustment factors will be updated to reflect this change in the company stock at the open of ex-date t as per below:

$$PAF_{t-1}^i = \frac{P_{t-1,close}^i - (m * P_{t-1,close}^j * FX_{t-1}^j)}{P_{t-1,close}^i}$$

$$SAF_{t-1}^i = 1$$

6. Stock Split

Stock split is basically the division of the existing shares of the shareholders into multiple units of stock held. This is generally done when the stock price becomes unaffordable for the retail investors. As a result of the stock split, the number of shares is increased by a factor and the price of the security is decreased by that factor.

Bonus issue is when the company issues additional shares to the existing shareholders in lieu of the current shares held by the shareholders.

6.1. Treatment

Company i announces a stock split/bonus with the ex-date t . For every unit of stock held, shareholders receive m units of shares of the same company. Price and share adjustment is done on the opening of the ex-date.

As mentioned earlier, the shares are increased by the factor m and prices are reduced by the factor m , hence Index adjustment is also as follows:

$$\begin{aligned} SAF_{t-1}^i &= m \\ PAF_{t-1}^i &= \frac{1}{m} \end{aligned}$$

7. Reverse Split/Consolidation

This is exactly the opposite of Stock split and bonus. In a reverse split or consolidation, the company consolidates the shares outstanding into lesser number of shares. This is generally announced as a factor of the current shares outstanding.

a. Treatment

Company i announces the consolidation of its shares with the ex-date t . For every m units of stock held, shareholders will be left with one share of the same company. Price and share adjustment are done on the opening of the ex-date.

Treatment is exactly opposite of the stock split adjustment. Here we increase the price by a factor m and decrease the shares by the same factor m :

$$\begin{aligned} SAF_{t-1}^i &= \frac{1}{m} \\ PAF_{t-1}^i &= m \end{aligned}$$

8. Rights Issue

Rights issue is an event where a company in order to raise more capital gives a right to its existing shareholders to purchase additional shares of the company at a price decided by the company in a specified ratio of their current holdings. The price decided by the company is called as the offer price or the subscription price and the ratio is the number of shares the shareholder can purchase for every existing share of theirs. The key point to note in this scenario is that this gives the shareholders a right to purchase these additional shares and they also have the right to refuse purchasing them. If they are willing to buy the additional shares they have to do so before a final cutoff date called effective date t declared by the company.

8.1. Treatment

Scenario 1: The offer price is higher than the current traded market price of the company. In such a scenario a rational investor will never exercise the right to buy as he can purchase at a discount from the open market. Hence no adjustment needed for the Index. This is called out of the money rights issue.

Scenario 2: The offer price is lower than the current traded market price of the company. In such a scenario a rational investor will exercise the right to buy as he can purchase at a discount in the rights offering. This is called in the money rights issue. For this scenario we would have to adjust the PAF and SAF of the security in consideration.

Company i announces rights issuance with ex-date t , such that for every share of company i held, the shareholder can buy m shares at a subscription price (P_{rights}^i)

$$PAF_t^i = \frac{P_{t-1}^i + (m * P_{rights}^i)}{P_{t-1}^i * (1 + m)}$$

$$SAF_{t-i}^i = 1 + m$$

9. Share Repurchase/Buyback

Share repurchase or buyback as the name suggests is an action by a company to buy back the current outstanding shares in the market by means of a tender offer or an open market purchase. We do not make any adjustments in case of an open market purchase and this gets reflected in the free float of the company at the next rebalance. We do however adjust for tender offers from the company when we reach the ex-date or when we are certain that the tender offer will now be completed and last bit of stocks remain to be squeezed.

a. Treatment

Company i offers shares buyback on ex-date t at a buyback price P_{BB}^i . As per the terms, for every share of the company i held, shareholders can sell m shares of the same company.

$$PAF_t^i = \frac{P_{t-1}^i - (m * P_{BB}^i)}{P_{t-1}^i \times (1 - m)}$$

$$SAF_{t-i}^i = 1 - m$$

10. Spin-Off / De-merger

A spin-off event is defined as a corporate event wherein a parent company decides to hive off one or more of its business units into one or more separate legal entities. This is generally done in a specific ratio of the current shares of the firm which is defined in the terms of the spin-off.

10.1. Treatment

The spin-off security is temporarily added to all the indices, in which parent company is a constituent of, at a zero price on the open of ex-date. There won't be any adjustment to the parent company's price or the index divisor at this point. The spin-off security will then be removed from such indices after two days of regular trading with the conditions described below.

If the spin-off security begins trading on ex-date, the index switches to its official closing price at the close of ex-date and then removed as stated above with a corresponding divisor adjustment. If spin-off security does not commence trading on ex-date, a fixed theoretical price may be assigned to it until it commences trading, which is usually calculated as:

Spin-off security's close price on ex-date = ((parent company's close price on the day preceding ex-date) – (parent company's opening price on ex-date)) / Spin-off ratio

Moreover, if the spin-off security does not begin trading within 30 calendar days from the event's ex-date and the listing information is not available, it is removed from the index at a zero price, resulting in no change in the divisor. If an index rebalance occurs between the ex-date and first trading day of the spin-off security, it is removed from the index prior to the rebalance effective date using its official close price. If such price is not available, spin-off entity is removed at a zero price.

For the spin-off security (j), the number of shares (NOS) is calculated based on the spin-off terms (m) announced by the parent company (i):

$$NOS_t^j = NOS_{t-1}^i * m$$

All other attributes (i.e., sector, country) for the spin-off security are retained the same as the parent company's attributes, if not available explicitly. A temporary identifier may be assigned to the spin-off security until a valid identifier is known.

In the case of a spin-off where a parent company issues non-standard equity instrument (i.e., warrants, convertible bonds, private entity), the spin-off is recognized as a non-event and no adjustment is applied to the index.

As outlined above, the default approach to a spin-off event involves temporarily adding the spin-off security to the index, followed by its removal. However, if it is determined that a spin-off security is appropriate for inclusion over a longer period in specific indices, the Index Oversight Committee may decide to retain the security in such indices at its discretion. Moreover, the spin-off security may remain in an index if the index methodology explicitly permits it, as outlined in the defined rules of such index methodology.

11. Merger/Takeover

A merger event is when a target company is wholly acquired by an acquiring company or when one or more companies merge together to form a larger company as an overall entity. There can be 2 scenarios when the target company(s) are existing index constituents and the acquiring company is either a current constituent of the Index or not. The terms of the deal can be a share transaction or a cash transaction or a mix of both for the target company. The important terms of the merger are the ex-date t , when the merger is affected, and the R^i being the ratio of the shares of merged entity.

In such a case, one of the following two scenarios will unfold:

a. Treatment

Scenario 1: Some or all of the target companies are index constituents and are being merged into another entity which is an existing constituent

All target entities will cease to be a part of the Index and a corresponding adjustment is made to the acquiring constituent as follows -

$$\begin{aligned} SAF_{t-1}^i &= 0 && \forall \text{ target companies } i \\ NOS_t^i &= 0 && \forall \text{ target companies } i \\ NOS_t^A &= NOS_{t-1}^A + \sum_{i=1}^j NOS_{t-1}^i * R^i \end{aligned}$$

Where, A is the acquiring company

Scenario 2: Some or all of the target companies are index constituents and are being merged into another entity which is not currently an existing constituent

All target entities will cease to be a part of the Index and the proceeds are reinvested into the Index by adjusting the divisor at the open of ex-date

$$\begin{aligned} SAF_{t-1}^i &= 0 && \forall \text{ target companies } i \\ NOS_t^i &= 0 && \forall \text{ target companies } i \end{aligned}$$

12. Acquisition

An acquisition event is when an acquiring company buys out a controlling share percentage of the Acquired company (more than 50%). In such a event the acquired company can continue trading as a separate entity or be merged with the acquiring entity. Depending on the event that happens there can be 4 scenarios as outlined below along with their corresponding handling in the Index -

12.1. Treatment

Scenario 1: Acquiring company is a part of the Index but the acquired company is not.

No adjustment required in index

Scenario 2: Acquiring company and the acquired company are both a part of our Index.

Treatment similar to merger event as outlined above.

Scenario 3: Acquired company is a part of the Index but the acquiring company is not. The stocks of the acquired company continue trading post the acquisition event.

No adjustment required in index.

Scenario 4: Acquired company is a part of the Index but the acquiring company is not. The stocks of the acquired company cease trading post the acquisition event.

Treatment similar to delisting event as outlined below.

13.Share Conversion

Share conversion is the conversion of one share type or class of a security to another type or class. For example, Class A shares can be converted to Ordinary shares or a fraction thereof.

a. Treatment

We do not have to make any adjustments to the Index unless the methodology explicitly mentions the avoidance of the converted share class

14. Change of Listing/Delisting

Due to geographical constraints or changes or business enhancements, companies at time would like to change the listing of their stock from one exchange to the other or completely delist from one or more of the exchanges it is currently listed at.

Scenario 1: Company i changes its listing from an eligible exchange to another eligible exchange.

Scenario 2: Company i changes its listing from an eligible exchange to an ineligible exchange.

If a situation arises, where the company stops being listed on the eligible exchange and is converted to a privately-owned company, then this is called as delisting of the stock and is treated as per Scenario 2 below.

14.1. Treatment

Scenario 1: We do not make any adjustments to the Index

Scenario 2: The company will have to be removed from the Index constituents and proceeds reinvested across the remaining constituents by adjusting the divisor.

15. Suspension

For various reasons, including but not limited to anticipation of significant corporate action, insufficient liquidity or inadequate information, an exchange may suspend trading in a security for a specified period or until further notice.

15.1. Treatment

The following framework shall apply to the treatment of securities affected by a trading suspension. The framework is intended to ensure Index continuity and provide a consistent and transparent approach to the treatment of suspended securities. Where the applicable Index Methodology contains specific provisions relating to trading suspensions, such provisions shall prevail.

Review of Trading Suspension

The Index Provider will conduct an initial review of suspended security following the commencement of the suspension and will subsequently review the status of the security at least once every 10 trading days. An earlier review may be undertaken where there is material development.

The review will consider, as applicable:

- Prevailing trading status
- Duration and reason for the suspension
- Relevant exchange, regulatory and company announcements
- Likelihood and expected timing of resumption of trading
- Potential impact on the continuity, representativeness and investability of the Index

Following each review, the Index Provider may determine to continue the existing treatment, implement the applicable rebalance treatment, or take another appropriate action.

Treatment of Suspended Existing Constituents

A security that is suspended from trading will generally be retained in the current Index portfolio at its last available price provided there is no information reasonably indicating that trading will not resume.

Treatment During Rebalance

Where a trading suspension coincides with a rebalance schedule, the treatment will depend on the security's status in the rebalance as detailed below:

➤ Constituents Retained in the Index

Where an existing constituent, which is retained as part of rebalance, **remains suspended on the rebalance day**:

- Security will remain in the Index at its last available price
- Existing index shares will continue to be used on the rebalance day
- New index shares determined as part of the rebalance will be implemented once the security resumes trading, subject to at least two Index Business Days' notice.

➤ **Constituents Announced for Deletion**

Where an existing constituent announced for deletion as part of a scheduled rebalance **remains suspended on the rebalance day**:

- Security will not be removed from the Index on the rebalance day
- Security will be retained at its existing index shares and last available price
- Deletion will be deferred until the security resumes trading
- Following resumption of trading, the security will be removed from the Index subject to at least two Index Business Days' notice

➤ **Constituents Announced for Addition**

Where a security announced for addition to the Index **remains suspended on the rebalance day**:

- Security will be added to the Index with zero index shares to reflect an eligible new addition as part of rebalance. The security will therefore have no market value contribution to the Index while trading remains suspended
- New index shares determined as part of the rebalance will be implemented once the security resumes trading, subject to at least two Index Business Days' notice.

Removal of Suspended Security

In cases where the Index Provider is able to reasonably conclude that a security under trading suspension is unlikely to resume trading, the Index Provider may announce the removal of the security from the affected Index or Indices, whether from the existing portfolio or the rebalance portfolio, as applicable, subject to at least two Index Business Days' notice. Such removal will be implemented at a zero price. If the security resumes trading before the effective date of removal, the removal may be cancelled, and the security may continue to remain in the Index.

Rebalance Pro Forma and Index Files

The standard rebalance pro forma will, by default, reflect the new index shares and associated constituent weights determined as part of the rebalance. Where security is **suspended on the rebalance day** and is subject to any of the treatments described above, the rebalance effective day proforma and/or opening index portfolio file will reflect the index shares according to the treatment stated above and corresponding adjustments to the constituent weights. Depending on the timing of the determination of the suspension and the resulting treatment, the Index Provider may republish the relevant pro forma and/or index files to ensure that the published information accurately reflects the treatment applicable on the rebalance day.

Exceptional Circumstances

Where circumstances are not adequately addressed by above framework, the Index Provider may determine an alternative treatment where necessary to preserve the continuity, integrity and investability of the Index. Such cases will be referred to the Index Oversight Committee, which will determine an appropriate alternative treatment. Any such alternative treatment deviating from the standard arrangements will be announced clearly and with sufficient time before it becomes effective.

16. Bankruptcy

The index constituent will be dropped from the index if the company has become bankrupt. If the company has filed for Chapter 7 bankruptcy, Chapter 11 bankruptcy protection or is liquidating, the case will be reviewed by the Index Oversight Committee for its inclusion/exclusion.