

Abu Dhabi Securities Exchange (ADX) Indices Rules

Contents

Introduction	2
1. Abu Dhabi Securities Exchange “ADX”	2
2. ADX Index Family	3
a. ADX General Index “ADI”	3
b. ADX Sector Indices.....	3
3. Index Methodology	5
a. Market Capitalization	5
b. Free Float.....	6
c. Liquidity	6
4. Index Calculation and Publishing	7
a. Index Formula	7
b. Start of ADX Index	8
c. Special Situations	8
d. Index Publication.....	8
5. Index Management Responsibilities	8
6. Corporate Actions and Special Situations	11
7. Index Governance	13
8. Intellectual Property and Index Licensing	14

This Document describes how ADX calculates its Indices. It is aimed at users, investors and others interested in the construction and computation of such indices.

Contact: Abu Dhabi Securities Exchange (ADX)
Information Services TEL:
Toll Free 800 - ADX (800239)
+971 2 6277777

The Market Operations and Surveillance Dept.
(ADX Indices Calculation)
mos@adx.ae

Introduction

1. Abu Dhabi Securities Exchange “ADX”

Abu Dhabi Securities Exchange (ADX) was established on 15th of November 2000 by Local Law No. (3) of 2000, the provisions of which vests the Market with a legal entity of autonomous status, independent finance and management, and gives ADX the necessary supervisory and executive powers to exercise its functions.

Moreover, ADX has the authority to establish centers and branches outside the Emirate of Abu Dhabi, and so far it has done so in Al Ain, Zayed City, Fujairah, Ras Al Khaimah and Sharjah.

ADX’s board of directors is comprised of seven members nominated by Amiri Decree. The members of the board hold office for a term of three years. The first board of directors was constituted by Amiri Decree No. (8) of 2000.

ADX Functions are:

- Provide opportunities to invest savings and funds in securities in order to benefit the national economy.
- Ensure the soundness and accuracy of transactions and ensure the interaction between demand and supply in order to determine the prices.
- Protect investors through establishing fair and proper dealing principles between various investors.
- Impose stringent controls over securities transactions to ensure sound and conduct procedure.
- Develop investment awareness by conducting studies in order to ensure that savings are invested in productive sectors.
- Support financial and economic stability and develop trading methods in order to enhance the liquidity and stability of prices of all Securities listed on the market.

2. ADX Index Family

ADX has several indices, providing investors with a comprehensive set of data, which measures the performance of the major capital and industry segments of the markets.

a. ADX General Index “ADI”

The ADX General Index “ADI” is the all share benchmark index for ADX. The ADI index includes those companies that are listed at ADX as a principal Market. Companies that are listed at ADX as second market (Dual Listing) and Private Joint Security Company will not be considered at ADI index. Hence, the index represents the performance of all domestic companies with principal listing on ADX.

The ADI index is computed in real-time and published during the hours of trading.

The base Currency for the ADI index is UAE dirham.

The ADI index is calculated based on market capitalization.

Eligible Companies

Only Public Joint Security company’s shares will be included in the index. Private Joint Security Company Companies, Dual listed companies, Debt instruments and Funds will be excluded.

b. ADX Sector Indices

ADX Sector Indices is used as the sub-Indices for ADX. ADX Sector Indices includes those companies that are listed at ADX as a principal Market. Companies that are listed at ADX as second market (Dual Listing) and Private Joint Security Company will not be considered in ADI (ADX General Index) Index.

The ADI index is calculated in real-time and published during the hours of trading.

The base Currency for the ADI index is UAE dirham.

The index is based on market capitalization.

Eligible Companies

Only Public Joint companies will be included in the index. Private Joint companies, Dual listed companies, Debt instruments and Funds will be excluded from the index.

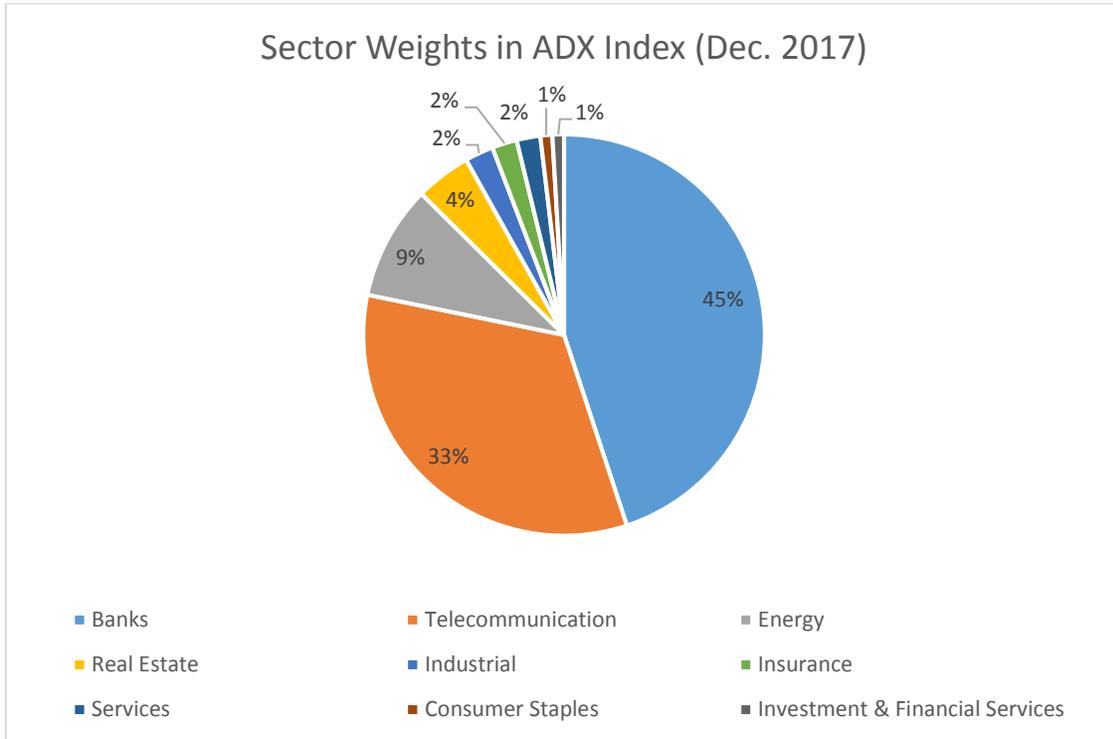
The Sector Classification Standard:

ADX use The Global Industry Classification Standard “GICS” structure as reference to classify the sectors within the indices. GICS is an industry taxonomy developed in 1999 by MSCI and Standard & Poor's (S&P) to be used by the global financial community.

GICS is used as a basis for ADX sector sub-Indices in which each company is assigned to a sub-industry, and to a corresponding industry, industry group and sector, according to the definition of its principal business activity.

The sector list:

1. Banks
2. Telecommunication
3. Energy
4. Services
5. Industrial
6. Real-Estate
7. Insurance
8. Consumer Staples
9. Investment & Financial Services



3. Index Methodology

Only Eligible Companies are included in the ADX indices. The index mainly uses market capitalization and free float of stocks to determine weights.

a. Market Capitalization

Each stock represented in the index contributes the index proportionally to its market capitalization. Only company's ordinary shares will be included in the index.

ADX indices use free-float market capitalization based method for calculation. Market capitalization is the market value of a Security's outstanding shares, and the Free Float adjusts the number of outstanding shares to reflect only the shares that are available for trading. The eligible company market cap is adjusted using this free float and the adjusted free-float market cap is used for final weights in the index.

b. Free Float

ADX considers only equity shares available for trading (free float) to be used for the calculation of ADX indices with float-adjusted weighting. Free float” is defined as the below:

Free float shares in a company are all shares in a company with the exclusion of the following:

- Government ownership.
- Companies founder shares during their prohibition period.
- Unmaterialized shares.
- Major security holdings that are 10% and above.

Free Float is reviewed twice a year in order to reflect the latest share ownership distribution.

c. Liquidity

The ADI is a composite index and includes all companies therefore liquidity is not an inclusion criteria. However, the ADX does implement a liquidity screening process for research and development requirements. Each Security will be tested annually at the end of December; Calculating the monthly median of its daily trading volume.

In ADX liquidity is tested/reviewed on listed companies by their Trade value, Trade Volume, Number of Trading days, and Trading frequency.

Trade Volume:

The total number of shares traded for a listed company reflects the trade volume on the ADI. It reflects the pace of trading activity in a listed stock.

Trade Value:

The Trade Value of a listed company on ADX is taken as the Trade Volume multiplied by the current share price. It reflects the size of investor interest in a company.

Number of Trades:

Takes into account the number of trades that take place giving an idea about the wide participation of investors

Trading Frequency:

Trading frequency reflects the consistency of interest in a company's stock. When investors track a company on a regular basis, generally it trades every day. For such company Trading Frequency is 100%.

4. Index Calculation and Publishing

a. Index Formula

On any given day, ADX calculates the indices in real-time and publishes during the hours of trading, capturing the latest changes in the market prices for constituent securities based on trades carried out on the market.

Their free-float shares to arrive at final index weights weight all index components.

ADI is calculated pursuant to the formula set forth below.

$$\text{ADX Index} = \frac{\sum_{i=1}^n \text{Price}(P_i) \times \text{Number of Free Float Shares}(FF_i) \times \text{Base Index}}{\text{Index Divisor}}$$

ADX index	The ADI index value at a time
n	The number of "securities i " in the index
i	The index securities
P_i	The latest price for "securities i " at time
FF_i	Free Float Shares set by the Exchange for the index security (i).
Index Divisor	An arbitrary number that is first defined when an index is first published. Its initial use is to divide the total value of the index to produce an initial index value that is a number, which is easy to handle, such as the number 1000. It is the basis for comparability across time, and the starting point for adjustments that need to be made due to changes in the equity composition of the underlying companies in the index.
Base Index Value	1000 points

b. Start of ADX Index

- Index Start Date for Calculation: January 02, 2003
- Index Base Date: January 02, 2003
- Index Base Value: 1,000 points

c. Special Situations

- Circuit Breaker halt trading “security is placed into an auction”:**
In the event of a temporary halt in trading because of Circuit Breaker in any particular security, which is an index constituent, as a rule it would retain index membership, quoted at the last price traded before the halt.
- Trading suspended halt:**
In the event of a temporary stopped and halt in trading because of disclosure regulations or any other regulations, rules and procedures related to public joint security companies in SCA or/and ADX, as a rule it would retain index membership, quoted at the last price traded before the halt.

d. Index Publication

ADX publishes and disseminates ADI values on its website. ADX provides real-time data for members that have registered on the ADX website. Non-registered members will have access to index values with a 15 minutes delay.

Major Data vendors like Thompson Reuters, Bloomberg, and CNBC extract their data directly from ADX official website.

5. Index Management Responsibilities

At ADX, the Market Operations and Surveillance Department is the benchmark administrator of the indices.

a. Index Maintenance

At ADX, the Market Operations and Surveillance Department is responsible for the calculation and dissemination of indices. They maintain records of market capitalization of each stock and free-float percentage as required for the calculation of the ADX indices.

ADX the Market Operations and Surveillance Department carry out an audit function on the indices. This includes ensuring the correct calculation of the Index and the correct implementation of corporate events and actions according to the Index Rules.

To assist in the oversight of the Indices ADX the Market Operations and Surveillance Department may consult SCA on the management of the Inclusion Rules and may recommend changes to the Index Rules.

b. Index Committee

ADX has appointed an Index Committee that comprise of the following officials:

- Deputy Chief Executive of Operations
- Head of Market Operations & Surveillance
- Head of Organizational Excellence
- Trading Manager
- Data Management Manager

The index committee is responsible of making decisions regarding adding/deleting index members and discussing other policy matters with regard to management of ADX Indices including index re-balancing and implementation.

c. Index Reviews

ADX Indices are reviewed twice each year for index component and free float changes and re-weightings. The Market Operations & Surveillance department analyses the data and makes recommendations based on the index rules.

During the review, Free Float of index companies is also reviewed based on the data given by Listed Companies department with regard to shareholders. The free-float is re-calculated, and any changes are then included in the recommendation to the Index Committee.

The sector classification for stocks that are members of the ADX indices is reviewed and any changes to the classification are included in the recommendation to the Index Committee.

The Index committee reviews the analysis presented to it and discusses the recommended changes before approving it. Index committee can ask for further information if it feels it requires to make index related decisions.

Review and Implementation Schedule

- The Bi-annual reviews of the ADX Indices take place before the 15th of January and 15th of July each year considering six months data up to 31st December and 30th June respectively.
- The reviews generally result in changes that relate to index additions/deletions, and/or changes in free floats both of which result in re-weighting of the index constituents.
- The outcome of these reviews is communicated to the market on the same day post the review meeting.
- Implementation of the changes happens on the 1st business day of the February and August each year.

Additions and Deletions outside Reviews

Any changes to the index that are needed to be made outside of the bi-annual reviews will be decided by the index committee. For example, if a company has been found to lose its reputation and credibility in the market due to any reason which has been established (e.g. Fraud, Insolvency), the Index Committee will convene and make a decision to remove the company as an Index Member.

Similarly, if a significant new listing happens that is a high profile large company, the Index Committee can decide to include it from day one of its trading on ADX. This is to ensure that the ADX Indices continue to retain their true representative nature of the market.

All Index changes outside of the bi-annual review shall be effective after a minimum notification of 1 week to the market

d. Methodology Change

ADX reviews the index methodology once a year with the objective to ensure the index remains reflective of the underlying universe it represents and continues to comply with the index rules. This exercise is done in parallel with the January review for index re-balancing. Any proposal to make changes to the Index methodology will be put up for market consultation before a final decision is made.

An out of turn methodology review may be considered if necessitated due to a significant market change or corporate event. In such cases, the methodology review may happen out of turn.

Any eventual decision to make changes to the index methodology will be communicated to the market with a of 3 month notice unless the change is necessary to be implemented before in order to maintain consistency and true representativeness of the index.

e. Public Consultation

In order to be fair to all its stakeholders, ADX as a provider for indices on its market, will go for public consultation whenever there is a proposal that involves significant change in the manner in which its indices are constructed, calculated, or maintained. Specifically, when faced with a situation of strong market feedback on any aspect of ADX indices whether in relation to the index methodology or implementation of outcomes of review.

ADX Public consultation will involve publishing a consultation paper with the proposed changes and arguments supporting the change. The consultation will invite public comments on the proposal and will remain open for 4 weeks. Post consultation the final decision on the proposal remains with ADX.

ADX public consultation is aimed at to provide transparency to the market and to give institutional investors sufficient time to analyze impact on the ADX indices.

Any changes with regard to the ADX indices will be disclosed to the market using the ADX official Website and Emails to ADX members.

6. Corporate Actions and Special Situations

The Corporate Actions are implemented when there is a change of Share Capital, Cash Dividends or Share Dividends, issue of bonus shares or Right Issues, stock split and merger/demergers etc. For example, (a company pays stock dividends by giving their investors free shares).

When a Rights Issue is initiated for a certain company, Corporate Action will be implemented by adjusting total number of shares for the specified company in the ratio of the Rights Issue. The table below summarizes various general Corporate Actions implemented by ADX:

Corporate Action Table

Corporate Actions	Definition and Index Adjustment	Index Division Change (Yes/No)
Right Issue	When a company issues shares on Rights basis, the share capital is increased. Corporate Action will be implemented to change the capital of the listed company and correspondingly adjust the ex-Rights price	Yes
Split	When a company decides to split its stock price, then the outstanding shares will increase according to the split ratio. Share value will correspondingly decrease to balance the increase in number of shares. The adjusted share price post stock split will be added on the trading system administrator. Then on next trading day, the trading system will show a company's new values (Price, Market Cap and issued shares)	No
Acquisition	Is when a company buys all the shares of another firm's to officially take control of it. Values of the new Acquisition will be added on the trading system administrator. Then on next trading day, the trading system will show a company's new values (Price, Market Cap, and issued shares). In addition, a new company details will be created, and the old company will be deleted.	Yes
Stock Dividends/ Bonus Share	When a listed company announces to distribute stock dividends or free shares for its shareholders. Share price of the company as a result of bonus will be adjusted in the ratio of the Bonus issue. On the Ex-Date, the adjusted price will be changed in the trading system administrator to reflect the new bonus shares.	No
Redemption and Cancellation	When a listed company announces reducing its outstanding share capital, the number of shares change because of consolidation or cancellation. The change to the share capital will be added to the system administrator, and on the next day, the symbol will be deleted from the trading system.	Yes

a. Company Suspension and Index Calculation

- In case of suspension of index member for short term in compliance with SCA rules, the last available traded price will be used for Index calculation.
- If any index member is suspended due to technical issue in compliance with SCA rules, the last available price will be used to calculate ADX Indices.
- If any index member is suspended due to SCA regulatory action, then the member will be retained in the index and Index calculation will take the last available price until SCA has provided its official opinion to ADX on the company.

b. Suspension of Index Calculation

- If ADX decides to suspend the calculation of ADX Indices temporarily or permanently, ADX will give a 3 months lead time to the market.

7. Index Governance

a. Using Discretion

In normal circumstances, ADX does not utilize its discretion in matters of index calculation and maintenance decisions. If a circumstance arises which is not covered by ADX Index Rulebook, then ADX will selectively and responsibly apply discretion with the guidance of the Index Committee.

(Examples of such circumstances above can be a complex Corporate Action or Structural change in the ADX market, Unpredictable events like war, natural disaster or other events beyond control.

b. Record Keeping and Audit

ADX maintains records of all changes regarding ADX indices. The index management is also subject to internal and external Audit.

8. Intellectual Property and Index Licensing

- The Indices developed, compiled and released by ADX, as comprising their name and logo, are registered trademarks of ADX or the object of trademark applications it has filed with United Arab Emirates Ministry of Economy The Intellectual Properties Sector. Hence, all Intellectual Property with regard to the ADX Indices is solely vested with the ADX.
 - The index Licensing is managed and handled by the Legal department a standard Index License Agreement is signed with the licensee and the specific use of the ADX Index(s) and commercials are dictated through a schedule attached to the Index License Agreement.
-

For Investor Complaints and Feedback

Complaints regarding ADI Indices can be sent in writing to the below email or call us at the below number.

Email: (mos@adx.ae)

Telephone: +971 (02) 6128841

Appendix - Top 10 ADI Companies

Symbol	Name	ISIN	Market Capitalization (AED Billions)	Weight
ETISALAT	Emirates Telecommunication Group Company	AEE000401019	152,193,195,000.00	33%
FAB	National Bank of Abu Dhabi	AEN000101016	111,699,839,509.50	24%
ADCB	Abu Dhabi Commercial Bank	AEA000201011	35,347,972,221.20	8%
ADNOCDIST	Abu Dhabi National Oil Company for Distribution	AEA006101017	33,125,000,000.00	7%
ALDAR	Al Dar Properties	AEA002001013	17,297,785,126.60	4%
ADIB	Abu Dhabi Islamic Bank	AEA000801018	11,975,040,000.00	3%
UNB	Union National Bank	AEU000401015	10,455,420,935.60	2%
RAKBANK	The National Bank of Ras Al Khaimah	AEN000601015	7,962,165,783.00	2%
NBF	National Bank Of Fujairah	AEN000801011	6,832,632,815.00	1%
DANA	Dana Gas	AED000701014	5,651,064,971.82	1%

As on 31, Dec 2017.