



Nasdaq-100 Index Consultation November 2023

As part of an ongoing effort to preserve the future replicability, liquidity, and capacity of the Nasdaq-100 (NDX) and related indexes, certain index rules are being re-examined. Nasdaq is seeking feedback from investors, clients, and other industry professionals regarding the Security Eligibility Criteria, Index Calendar, and Index Maintenance sections of the written methodology, as noted below.

For the purpose of this consultation, related indexes are those that utilize the NDX as a parent index, including the Nasdaq-100 Equal Weighted Index (NDXE), Nasdaq-100 Technology Sector Index (NDXT), Nasdaq-100 Ex-Tech Sector Index (NDXX), Nasdaq-100 Target 25 Index (NDXT25), and Nasdaq-100 Dorsey Wright Momentum Index (NDXDWA). It also applies to indexes whose methodology closely mirrors that of the NDX, including the Nasdaq Next Generation 100 Index (NGX), Nasdaq Q-50 Index (NXTQ), and Nasdaq Innovators Completion Cap Index (NCX), plus any ESG versions of NDX-related indexes.

Please note that resulting changes to the methodologies, if any, will not be implemented prior to the December 2023 Annual Reconstitution. The current version of the methodologies will remain in force through the expected effective date of the upcoming Reconstitution on Monday, December 18, 2023.

For consideration and comment:

Free Float

1. Eligibility Criteria

The Nasdaq-100 Index methodology, as currently written, does not consider a security's free float percentage in determining eligibility for index inclusion. Given the significant amount of benchmarked assets, the introduction of a security with an extraordinarily low float might compromise the replicability and integrity of the index(es).

- Should a minimum free float requirement be implemented?
- If so, should it be a requirement for initial inclusion only? Or also a requirement for continued inclusion at each Annual Reconstitution?



2. Market Capitalization Adjustment

Except for companies represented by ADRs, index members are normally included based on their full market capitalization with no free float adjustment. Although a separate liquidity requirement is in place, companies with weights in disproportion to the value of their free-floating shares may pose liquidity challenges for passive investors.

- Should the index continue to use the full market capitalization of non-ADR index members?
- Or should each company's market capitalization, and resulting weight, be adjusted to reflect its free float percentage?

Liquidity Eligibility Criteria

The Nasdaq-100 Index methodology, as currently written, requires a security to have a minimum average daily trading volume of 200,000 shares. In terms of dollar volume, this imposes a more stringent requirement on companies with higher stock prices and a less stringent requirement on those with lower prices. Recent prices of current NDX members range from as little as \$5 per share, to as high as \$2,800. Given this wide range, the use of a share-based liquidity requirement creates an unintended and large disparity in the application of the rule.

- Should the liquidity requirement be revised to reflect a minimum threshold based on average daily dollar value traded instead of share volume?
- If so, should it be a requirement for initial inclusion only? Or also a requirement for continued inclusion at each Annual Reconstitution?

Options-related Eligibility Criteria

The Nasdaq-100 Index methodology, as currently written, contains an eligibility requirement related to the availability of listed options contracts. Specifically,

If the issuer of the security is organized under the laws of a jurisdiction outside the U.S., then such security must have listed options on a registered options market in the U.S. or be eligible for listed options trading on a registered options market in the U.S.

- Is this requirement necessary to maintaining the integrity of the index(es)?
- Or should it be removed?



Reconstitution Reference Dates

The Nasdaq-100 Index methodology, as currently written, specifies two reference dates for data used in the Annual Reconstitution. Specifically,

The Security Eligibility Criteria are applied using market data as of the end of October and total shares outstanding as of the end of November.

- Should the index methodology continue to use two reference dates for the Annual Reconstitution?
- Or should it instead use a single reference date? If so, which date should be used?

Index Share Adjustments

The Nasdaq-100 Index methodology, as currently written, includes a provision for updating the index shares of a security based on a corresponding change in the security's Total Shares Outstanding ("TSO"). Many TSO changes are automatically captured in the index as part of a corporate action, with specified terms and an announced effective date. Other changes do not always have a date or specific terms associated with them and tend to accumulate over time. As described in the **Nasdaq Corporate Actions and Events Manual – Equities**:

If a change in TSO arising from other corporate events is greater than or equal to 10%, an adjustment to Index Shares is made as soon as practicable after being sufficiently verified. If the change in TSO is less than 10%, then all such changes are accumulated and made effective at one time on a quarterly basis after the close of trading on the third Friday in each of March, June, September and December. The Index Shares are adjusted by the same percentage amount by which the TSO has changed.

This provision is in place to maintain index purity, by ensuring that each company's weight in the index maintains a close relationship with its relative market capitalization. However, because the index follows a modified market capitalization weighting scheme, that relationship can't be precisely maintained. Additionally, intra-quarter share changes can be somewhat disruptive to passive portfolios, creating additional turnover, market impact, and operational risk, even when the changes are small. Some stakeholders have expressed concerns that the benefit of intra-quarter TSO updates may not outweigh the associated costs and risks.

- Should the methodology maintain the current policy of intra-quarter updates for TSO changes of 10% or greater?
- If not, should the threshold be increased to a higher level (e.g., to 25%)?



- Or should all TSO updates not related to a specific corporate action only be implemented at the quarterly rebalance?

Feedback

Please provide responses to these questions here: <https://nd.nasdaq.com/GIGWR23-11-07Nasdaq-100IndexConsultationNovember2023.html>

This consultation will remain open for comment until the close of business on **December 8, 2023**. Once a final determination has been made, a summary of the results will be published. Stakeholders will not be identified in the summary.

To submit attachments with this consultation response, please e-mail IndexConsultations@nasdaq.com

Questions should be directed to Nasdaq Global Indexes via email at IndexServices@Nasdaq.com