



CONSULTATIONS TO DISCUSS MATERIAL CHANGES TO THE SOFIX INDEX CALCULATION METHODOLOGY

According to Art. 19 of the Rules for calculation of BSE indices, **with a decision under Protocol № 23 / 09.04.2021, the Board of Directors of BSE, convenes consultations to discuss material changes to the methodology for calculation of the SOFIX index**, which can be classified as a benchmark according to the definition of Art. 3 (1), item 3 of Regulation (EU) 2016/1011, as follows:

1. Subject of the consultations: Material changes to the methodology for calculating the SOFIX index, which, if adopted by the Board of Directors of the BSE, will enter into force cumulatively, as follows:

a) **Increasing the number of issues of shares included in the base of the SOFIX index from 15 to 20 issues** by amending item 2 of Appendix 1 (Methodology for calculation of SOFIX) of the [Rules for calculating the BSE indices](#):

Current text of item 2 of Appendix 1:

“2. SOFIX shall cover the 15 (fifteen) issues of shares complying with the requirements under item 3 and ranked in accordance with the requirements of items 4 - 7 of this Appendix. ”

Proposed amendment to item 2 of Appendix 1:

“2. SOFIX shall cover the 20 (twenty) issues of shares complying with the requirements under item 3 and ranked in accordance with the requirements of items 4 - 7 of this Appendix. ”;

and

b) **Reduction of the requirement for a minimum number of shareholders** by amending item 3 (d) of Appendix 1 (Methodology for calculation of SOFIX) of the [Rules for Calculating the BSE Indices](#):

Current text of point 3 (d) of Appendix 1:

„d) The number of shareholders of the issue shall be no less than 750 (seven hundred and fifty)“

Proposed amendment to item 3 (d) of Appendix 1:

„d) The number of shareholders of the issue shall be no less than 250 (two hundred and fifty)“;

2. In connection with Art. 13, para. 2 (b) of Regulation (EU) 2016/1011, the BSE will provide access to the statements received during the consultations and to the respective response of the administrator (BSE), unless the person sending the statement requests confidentiality;

3. Initial term of the consultations: 15 April 2021;



4. Deadline for submission of statements: 15 May 2021;
5. Deadline for processing the results of the consultations and announcing the received statements, for which confidentiality has not been requested in advance: 15 June 2021.

Reasons for the proposed changes:

1. Achieving greater diversification within the index

SOFIX is an index based on the market capitalization of the issues of shares included in it, adjusted with the free-float of each of them. From this point of view, the movement of the index depends to a greater extent on the change in the share price of the companies with a higher weight ratio. The proposed changes in the methodology will lead to a reduction in the number of issues having weight of more than 5%, as well as their total weight.

2. Increasing the sectoral representation of the index

One of the important objectives of any 'blue chip' index is to be sufficiently representative of the main economic sectors of the relevant capital market. Increasing the number of components of the index to 20, as well as easing the requirement for a minimum number of shareholders, would lead to the inclusion in the index of issues of companies from currently unrepresented sectors.

3. Increasing the correlation with the movement of the main indicators of the international capital markets

The analysis of the movement of SOFIX in recent years shows an extremely low correlation with the movement of the main stock market indicators in Europe - both for the developed capital markets and for those in Southeast Europe. The proposed changes would have a positive impact on the correlation, as they would allow issuers from perspective sectors with more dynamic development, but at the same time with a shorter stock exchange history and a smaller number of shareholders, to meet the requirements for inclusion in SOFIX.

4. Creating an equal environment for all issuers on the stock exchange

The criterion for the number of shareholders is an integral part of the requirements for SOFIX. The threshold of 750 shareholders is not a barrier for companies from the time of the mass privatization, some of which have tens of thousands of shareholders. On the other hand, the requirement for 750 shareholders is extremely high based on the results of public offerings of companies in recent years, which usually involve up to 300-400 persons. This creates inequality between companies with a shorter stock exchange history and those from the time of the mass privatization.



The proposal to reduce the requirement for a minimum number of shareholders would better reflect the current situation in Bulgaria and would create a level playing field for all issuers on the stock exchange.

5. Increasing the attractiveness of the index as an opportunity to structure products on it

Increasing sectoral representation, as well as diversification within the index, would increase the attractiveness of current products on SOFIX, as well as its attractiveness for creating new products. The proposed change to increase the number of companies included in the SOFIX index base is in line with the international practice, as currently the Bulgarian main index is one of those with a relatively small number of components.

In regards with the above, **please send us your statement on the proposed changes, subject to the consultation, by May 15th 2021 to the following e-mail address: indices@bse-sofia.bg**, stating explicitly whether you want confidentiality regarding your statement.