



Frankfurt,
8 November 2023

BVI's¹ position on the STOXX Consultation on raising the DAX capping limit from 10% to 15% and the introduction of additional DAX capping functionalities

Asset managers represent an important group of benchmark users for DAX/STOXX indices. Index funds and Exchange Traded Funds (ETFs) use benchmarks to construct portfolio baskets replicating an index. Active managers also use benchmarks to construct a portfolio and/or to measure performance against a selected index or a set of indices.

The prerequisite for the provision of services along the entire value chain in asset management – that includes research, trading, clearing, settlement, compliance, risk management, sales or reporting – is secure access to and availability of high-quality financial market data at all times, including benchmark and index data. These data are often provided by monopolies, such as stock exchanges and rating agencies as well as by companies with a dominant market position such as large index and data providers. These suppliers can determine the pricing and usage licence conditions, since their clients, e.g. fund management companies, cannot operate without the data or they will endanger their own businesses.

For years, the use of financial market data has been associated with regular, sometimes massive price increases for fund management companies. In addition, there is an obligation to subscribe for increasingly complex data licences, which are intended to cover any use and dissemination of data along the asset management value chain up to the final investors. The latest study published by a consultancy² shows that prices for financial market data, especially index data, are going up faster than ever and licence agreements remain opaque despite the fact that, for instance, the FCA currently reviews the pricing practices of financial market data.

Against the backdrop of increasing dependency on data providers and the rising cost of financial market data, we strongly welcome the introduction of an EU ticker (consolidated tape /CT) for equities/ETFs, bonds, and derivatives. It will ensure transparency and comparability of stock market prices and thus contribute to building a European market in line with the EU Commission's objectives for a Capital Markets Union. The CT should be able to offer not only raw market data but also a pan-European equity index family as a window into the EU Capital Markets Union.

We would like to make the following specific comments:

1. Are you in favour of increasing the capping limit for DAX from 10% to 15%? Please provide a rationale.
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No. Currently, we do not support the proposal to increase the capping limit for the DAX from 10% to 15%. All financial indices should be broadly diversified, enabling (active) asset managers to invest in as

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 117 members manage assets of some EUR 4 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 28%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

² [Market Data Vendors Raise Prices Aggressively in 2023 - Substantive Research](#)



many constituents of a financial index as possible. In this respect, German asset managers must comply with the investment limits as set in the German Investment Code (KAGB, section 206) as well as in the UCITS Directive.

It is doubtful that the STOXX proposal to raise the capping limit will increase the market attractiveness of the German DAX indices. An increase of the cap will generally not reflect an appropriate distribution of risk to the market, it may also reduce liquidity for smaller index participants. This cannot be in the interests of such companies. The effects of higher index weightings can be witnessed in US indices in which large technology companies dominate almost all the index movements. For example, the S&P 500 mainly shows the development of ten companies but no longer the broad market developments of the remaining 490 index participants.

The weighting of individual stocks in the DAX family can already significantly exceed the 10% capping limit between the quarterly index review dates. A historical view of the DAX also suffers from significant adjustments, such as the recent increase from 30 to 40 stocks in September 2021. Consequently, the shift from DAX30 to DAX40 led to a "withdrawal of liquidity" from the MDAX with the outcome of a halving of its market capitalisation. Raising the capping limit could potentially enhance the dominance of large companies and will therefore reduce the diversification for investors. However, the aim of the extension in September 2021 was to broaden the diversification opportunities for investors, thereby also improving the market attractiveness for issuers.

Capping furthermore may improve an index offer as evidenced by the Swiss Leader Index (SLI®) with a capping limit set at 9%. The capping limit is not only to align the index with the issuer limits as set in regulation but is expressly set to improve diversification and liquidity of the index itself: "*The SLI brings various advantages: the capping means improved title and sector diversification for investors and by meeting regulatory framework conditions in Switzerland, the EU and the USA, new markets can be opened up with the products traded on it. This in turn generates liquidity for the companies in the basket*" (https://www.six-group.com/exchanges/downloads/indexinfo/online/share_indices/sli/sli_factsheet_de.pdf).

However, we are in favor of starting a general market discussion on the objective to amend the EU fund rules and the KAGB to allow fund managers to profit from an alignment between index sponsor and supervisory investment limits.

2. Are you in favour of increasing the capping limit from 10% to 15% also for other DAX indices? Please specify for which of the following indices you are in favour of increasing the capping limit. Please provide a rationale. a. MDAX b. SDAX c. TecDAX d. DivDAX e. DAX ex Financials 30

No. Currently, we do not support the proposal to increase the capping limit for the whole DAX family from 10% to 15%. Please see our comments to question 1.

3. If you are in favour of increasing the capping limit to 15%: Are you also in favour of introducing intra-quarter capping? Please provide a rationale.

Please see our comments to question 1.



- 4. If you are in favour of introducing intra-quarter capping: Do you agree with the proposed 20% component weight threshold that shall trigger the intra-quarter capping process? Please provide a rationale.**
- 5. If you are in favour of increasing the capping limit to 15%: Are you in favour of implementing a rule that identifies a group entity, per the above definition, and apply a capping for group entities and impacted securities at the quarterly reviews?**

We have no comments.
