

SET Index Base Value Adjustment: Cases Exceeding 1-Year Suspension of Stock Trading

Background

Financial restructuring has become a crucial issue, especially after the recent economic crisis. Companies have tried to survive by seeking new strategic partners, decreasing capital (shares or par value reduction) or mobilizing new capital. In the past few years many companies listed on the Stock Exchange of Thailand (SET) have been undergoing long periods of capital restructuring processes either through the Bank of Thailand's orders or through bankruptcy court filings. In line with its regulations, the SET has suspended stocks undergoing a capital restructuring process from trading until their restructuring is completed. Up to the present, 40 companies have been affected by the above, and, consequently, have been under trading suspension for more than one year.

Problem

At present, suspended stocks are still counted as constituents of the SET index, by using their market value from their prices prior to suspension. After a company completes its capital restructuring and resumes trading, the SET will adjust the base index value, as is the case for a normal increase or decrease. The difference in the number of shares between capital before suspension and current capital will be adjusted using the last price prior to the suspension as a base value adjustment price on the first day of trading resumption.

However, we have found that the movement of the SET index is drastic on the first day when this type of stock resumes trading, resulting from the significant change in its price. When the stock is allowed to trade after a long suspension, the market price has a tendency to change tremendously from its prior price. The price change of the stock is then determined by comparing the prior suspension price and its first day market price. Subsequently, as the index calculation method reflects the price change of all listed stocks, the enormous price change in the suspended stock will impact heavily on index movement. Specifically, the price change in the stock with high market capitalization will severely affect the SET index.

Rationale of Revision

To prevent the distortion of the SET index that may occur from the resumed trading of long-suspended stocks, the SET has revised the base index value adjusting method for these cases. The rationale behind this revision stems from the fact that the price of the stock prior to the trading suspension cannot reflect its current fundamental factors. Therefore, using the price before suspension, as a benchmark for the base adjustment value may not properly reflect the actual movement value of that stock. Moreover, when the restructuring companies have a major change in capital and shareholder structure, these companies should be viewed in the same way that new companies are. Therefore, it is more suitable to adjust the base index value by considering it as a newly-listed company rather than the normal capital adjustment case.

Additionally, during the suspension period, the prices of shares remain constant. Thus, the movement of the index is not fully reflected the market condition because it is loaded by the weight of these stocks under suspension. Therefore, the stocks that are suspended from trading in excess of one year should be excluded from the index calculation, while their listing status will remain the same.

SET Implementation

From July 1, 2001 onward, the SET will implement this new index base value adjustment approach for long-term suspended stocks as follows:-

- 1.) Exclude stocks that have been suspended exceeding one year from the index immediately, in order to allow the index to reflect the actual moment of tradable securities.
- 2.) If the company wishes to apply to resume trading, the proportion of its minor shareholder must be greater than 10 percent of the paid up shares. This will enhance market efficiency by encouraging affected companies to distribute its shares widely to the public.
- 3.) The ceiling and floor limits will be temporarily lifted on the first day of trading for this particular type of stock, to allow market mechanisms to determine the suitable market price freely.
- 4.) On the first trading day for this particular types of stock, the SET will treat it as if it were a newly-listed stock. Thus, its market value on the first day will not be included in the index calculation. After the market is closed, its closing price will be used as the base price to adjust the base index value for further index calculation.

Should you any further questions or comments concerning this issue, please contact:

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