



**NSE Indices Limited**

(Formerly known as India Index Services & Products Limited-IISL)

# **Nifty Financial Services 25/50 Index**

## **Methodology Document**

May 2020

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## Introduction

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NSE Indices Limited (formerly known as India Index Services & Products Limited- IISL), a NSE group company provides a variety of indices and index related services and products for the Indian capital markets.

Nifty Financial Services 25/50 is a new capped version of Nifty Financial Services index, where 25 refers to the maximum value for the % weight of a single stock and 50 refers to maximum value for the aggregate % weight for all stocks with individual weight more than 5%.

## Highlights

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- The index has a base date of January 01, 2004, with a base value of 1000
- Nifty Financial Services is the base index for this index where all stocks forming part of Nifty Financial Services shall form part of this index
- Weight of stocks in the index is based on free-float market capitalization method subject to following weight caps
- Weight of stocks within this index are capped to achieve the following:
  - Weight of the individual stock should not exceed 25%
  - Aggregate weight of all the stocks with individual weight above 5% should not exceed 50%
- Index is rebalanced quarterly.

## Methodology

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### Stock Selection criteria

- Stocks that form part of Nifty Financial Services index also form part of this index at all points in time

### Constituent Weights and Capping:

- Weight of stocks within this index are capped to achieve the following:
  - Weight of the individual stock should not exceed 25%
  - Aggregate weight of all the stocks with individual weight above 5% should not exceed 50%
- A buffer of 10% of the value of each cap limit is used in order to reduce the probability of passive breach of above mentioned capping limits due to stock price movements between two quarterly rebalancing.

- Accordingly, at the time of quarterly rebalancing of Nifty Financial Services 25/50 Index,
  - Weight of each stock is capped at 22.5%
  - Sum of the top 3 stocks is capped at 45% subject to individual stock floored at 4.6%
  - Stocks below top 3 are individually capped at 4.5%#
- Capping will be done quarterly, considering the closing prices of the index constituents 5 working days prior to the effective date. As a result of which the weight of the index constituents may be greater than their capping limits as on the effective date.

### **Reconstitution**

- The index will follow the composition of Nifty Financial Services Index at every point in time.
- Apart from the scheduled semi-annual review, additional ad-hoc reconstitution and rebalancing of the index shall be initiated in case any of the index constituents undergoes suspension or delisting or scheme of arrangement

### **Calculation Frequency:**

The index is calculated on an end of day basis for all days National Stock Exchange of India is open for trading in equity shares.

*#Prior to April 02, 2018, the weight of stock capped at 22.5% and sum of the top 3 stocks is capped at 45% and stocks apart from top 3 are capped at 4.9%, as the number of stocks in the index were 15.*

## Corporate Actions:

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Maintaining the index include monitoring and completing the adjustments for company additions and deletions, stock splits, stock dividends etc. Some corporate actions, such as stock splits and stock dividends, require changes only in the stock prices and shares of the companies in the index. Other corporate actions, such as special dividend and rights issue of shares require a divisor adjustment to prevent the value of the index from changing.

Adjusting the divisor for a change in market value leaves the value of the index unaffected by the corporate action. This helps keep the value of the index accurate as a barometer of stock market performance, and ensures that the movement of the index does not reflect the corporate actions of the companies in it. Divisor adjustments are made after the close of trading and after the calculation of the closing value of the index.

## Index Governance:

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A professional team at NSE Indices Limited manages the index. NSE Indices Limited has constituted the Index Advisory Committee (Equity), which provides guidance on macro issues pertaining to equity indices. The Index Maintenance Sub-committee makes all decisions on additions and deletions of companies in equity indices and Index Advisory Committee (Debt) provides guidance on macro issues pertaining to fixed income indices. The Committees comprises of representatives from financial market such as Asset Management Company, insurance company, rating agency etc. In order to maintain transparency, the names of the committee member are publicly displayed on the website. None of the member in the above committee except the exchange representative(s) (who co-ordinates between the Index Advisory Committee - Equity and IMSC) represent more than one committee and thereby the independence of each of the committees is maintained.

## Index Policy

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The NIFTY family of indices uses transparent, researched and publicly documented rules for index maintenance. These rules are applied regularly to manage changes to the index. Index reviews are carried out semi-annually to ensure that each security in the index fulfils eligibility criteria.

### **Announcements:**

All index-related announcements are posted on the websites of NSE Indices Limited and NSE. Changes impacting the constituent list are also posted on the Web site.

Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

**Holiday Schedule:**

For the calculation of indices, the NSE Indices Limited follows the official holiday schedule. A complete holiday schedule for the year is available on the NSE Indices Limited and NSE website. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

**Data Source**

Prices of index constituents are sourced from NSE

**Index Recalculations**

All NIFTY family of indices are recalculated whenever errors occur. Users of the NIFTY indices are notified through appropriate channel of communication.

**Market Feedback & Index Methodology Review**

NSE Indices Limited is committed to ensure that all NIFTY indices are relevant for the market participants. In order to ensure this, NSE Indices Limited on an on-going basis interacts with the stakeholders inviting the feedback through various channels of communication. The feedback received from the market participants forms a key input for all index related aspects.

Review of methodology of NIFTY indices is carried out on an annual basis. Additionally, NSE Indices Limited also considers any feedback that it may receive with regards to index methodology as part of on-going market interactions. Any changes to the index methodology is approved by the Committee and the same is announced through a press release.

**Other**

In case of a market stress or disruption, NSE Indices Limited will review and deal with the situation on consultative basis with the National Stock Exchange of India Ltd. (NSE) as NSE is source for price data for computation of equity indices.

All indices are expected to reflect the performance of a basket of stocks selected based on the defined guidelines and theme. Every index user is advised to evaluate the benefits of index and take an informed decision before using the index for self or creation of index-linked products. NSE Indices Limited does not accept any liability for any losses, claims, expenses etc. that may be incurred by any person as a result of usage of NIFTY family of indices as a result of reliance of the ground rules, any errors or inaccuracies.

**Web site:**

Daily index values, index constituents, methodology, and press releases are available on [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

## About Us

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### **About National Stock Exchange of India Limited (NSE):**

National Stock Exchange of India Ltd. (NSE) is the leading stock exchange in India and the second largest in the world by nos. of trades in equity shares from January to December 2018, according to World Federation of Exchanges (WFE) report. NSE was the first exchange in India to implement electronic or screen-based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.

For more information, please visit: [www.nseindia.com](http://www.nseindia.com)

### **About NSE Indices Limited:**

(Formerly known as India Index Services & Products Limited-IISL)

NSE Indices Limited (formerly known as India Index Services & Products Ltd. - IISL), a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. The company focuses on the index as a core product. The company owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. NIFTY equity indices comprises of broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. NSE Indices Limited also maintains fixed income indices based on Government of India securities, corporate bonds, money market instruments and hybrid indices. Many investment products based on NIFTY indices have been developed within India and abroad. These include index based derivatives traded on NSE, NSE IFSC and Singapore Exchange Ltd. (SGX) and a number of index funds and exchange traded funds. The flagship 'NIFTY 50' index is widely tracked and traded as the benchmark for Indian Capital Markets.

For more information, please visit: [www.niftyindices.com](http://www.niftyindices.com)

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