20120618 Notes from the June 2012 Advisory Committee

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| Memorandum |  |
| **To:** | Market Participants |
| **From:** | FTSE/JSE |
| **Date:** | 12 June 2012 |
| **Subject:** | **Notes from the FTSE/JSE Advisory Committee Meeting held on Wednesday, 6 June 2012** |
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## Background

The FTSE/JSE Advisory Committee (AC) met on Wednesday 6 June 2012 to approve the quarterly review changes to the FTSE/JSE Africa Index Series and to discuss matters relating to the indices. The items listed below were discussed during the meeting.

## Feedback on the FTSE/JSE Africa Index Series

* Five total return indices (TRI), calculated on a net basis, namely JN00, JN0U, JNX4, JNS4 and JNR4, were launched on 16 April 2012.
* Four dividends subject to Dividend Withholding Tax (DWT) were treated as STC in the Index Series. These companies (BTI, AGL, MND & MNP) had a final declaration date after the ex-date, but the dividends were subject to DWT. FTES/JSE believed this anomaly was handled in the best manner at the time, given the information available. It is highly unlikely that this issue would arise again.
* The All Share Index (J203) reached an all time high of 34,482.43 on 2 May 2012.
* The rebasing of the General Industrial Index (J272) was implemented successfully.

## Lonmin (LON) Free Float

The AC agreed to increase the LON free float to 100% at the June 2012 review.

## Market Consultation Feedback on the SWIX Free Float Methodology

On 16 April 2012 a market consultation proposing that all SWIX constituents should be down-weighted using the total STRATE Register was distributed to market participants.

However, the process of investigating the proposed methodology exposed a few prviously unforeseen consequences which would impact the SWIX indices, one being the treatment of Depository Receipts (DRs). The current SWIX methodology excludes DRs from the SWIX indices due to their foreign ownership. However, the SWIX methodology proposed in the market consultation would include DRs in the SWIX indices. It is difficult to obtain accurate, timely data on companies with DR programs.

The large rebalance cost associated with the proposed change was another consideration. Fund managers would need to trade over 10% of their portfolio for the implementation of the proposed change. It is concerning that a subtle change to the index methodology for philosophical reasons, but minimum performance gain, will result in a substantial cost to investors.

The AC decided that the SWIX methodology would remain unchanged.

The AC decided that the SWIX index purpose and methodology should be better defined to create more clarity in the market.

## Constituent Liquidity Screening

The AC considered the outcome of various liquidity screens that were tested for the FTSE/JSE Africa Index Series. The AC concluded that the current liquidity screening method would remain unchanged. Additional index specific hurdles for tradable indices would be investigated.

## Dividend Plus Index: Change to Review Date and Liquidity Investigation

The AC decided to change the dates for the semi-annual review of the Dividend Plus (J259) index. The index is currently reviewed in June and December. In future the index will be reviewed in March and September. The index will be reviewed as part of the June 2012 Index Series Review. The next review for the Dividend Plus index will take place in March 2013.

## Liquidity of previous Inward Foreign Listings (IFLs)

FTSE/JSE presented a paper examining the trading statistics and SA holding patterns of previous IFLs since their inclusion at the December Review.

**Next AC meeting will be held on Wednesday, 12 September 2012**

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