

## MEMORANDUM

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To: Market Participants  
From: Indices Department  
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Subject: Definition of SA Resources Sector  
Pages: 1 of 6

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### 1. EXECUTIVE SUMMARY

FTSE/JSE has received requests from market participants to expand the definition of the SA Resources sector. Under this proposal, there are companies currently defined as SA Industrials which would be reclassified as SA Resources. The current SA Resources sector incorporates companies classified in the Industry Classification Benchmark (ICB) sectors Oil & Gas Producers (0530) or Mining (1770). The proposal is to extend this to include two complete ICB Industries, namely Oil & Gas and Basic Materials. As a result, the expanded SA Resources sector would include companies classified under the sectors Chemicals, Forestry & Paper, Industrial Metals & Mining and Mining.

FTSE/JSE requests comment from market participants that are currently using the Resources / Industrial / Financial SA Sector classification applied in the FTSE/JSE indices, in order to assess the impact and viability of this proposal.

### 2. ICB CLASSIFICATION

The SA sector classification (SA Resources, SA Industrials or SA Financials) is mapped directly to the global ICB methodology (<http://www.icbenchmark.com/>). ICB is used to categorise all companies listed on the JSE, regardless of their eligibility for the FTSE/JSE Africa Index Series, and was introduced at the JSE in January 2006. Each company is allocated to one of 114 sub-sectors according to the nature of its business, measured by revenue. Each sub-sector rolls up into one of 41 sectors, which themselves roll up into 19 super sectors. At the top level of the hierarchy are 10 industries. The current ICB structure is provided in full in Appendix 1.

### 3. CURRENT SA SECTOR CLASSIFICATION

Prior to the launch of the FTSE/JSE Africa Index Series in 2002, all JSE companies were classified by SA Sector as SA Resources, SA Financials or SA Industrials. With the launch of the FTSE/JSE indices, a new classification system was introduced, namely the Global Classification System (GCS). At that point the GCS classification was mapped to the original SA Sector classification, and the two systems were run in parallel. Similarly, when ICB replaced GCS from 2006, SA Sector was redefined in terms of the ICB sectors and industries.

SA Sector company classification is currently done at an ICB Sector level, and a mapping table is used to determine the SA Sector from the ICB classification as follows:

- SA Resources ICB Sectors Oil & Gas Producers (0530) and Mining (1770)
- SA Financials ICB Industry Financials (8000)
- SA Industrials All remaining companies

#### **4. SA SECTOR INDICES**

There are currently a number of FTSE/JSE indices that are based on the SA Sector classification, and would be impacted by a change to the sector definition. Three broadly representative indices divide the FTSE/JSE All Share Index by SA Sector (i.e. SA Resources, Financials, SA Industrials), while three replicable indices capture the most liquid, tradable instruments in each sector (i.e. RESI 10, FINI 15, INDI 25). In addition, there are two variants that capture the combined set of SA Financials and SA Industrials (i.e. J213 and J250). Finally, each SA Sector Index has an alternative version in which a SWIX weighting is applied.

Based on the free float adjusted market cap calculation used in the indices, SA Resources currently account for around 12% of the All Share, SA Industrials for 64% and SA Financials for 24%. The three tradable indices RESI 10, FINI 15 and INDI 25 capture just over 86% of this universe.

#### **5. RECLASSIFICATION OF SASOL LTD AS AN INDUSTRIAL COMPANY**

In 2014, Sasol underwent an internal restructuring process whereby new operating segments were created. The new operating model had an impact on Sasol's financial statements in terms of IFRS 8 (Operating Segments) and therefore Sasol had to restate their financial statements for the years ended 30 June 2014 and 30 June 2013. Based on resulting information that Sasol published on SENS, Sasol requested that their ICB classification be reviewed, which was done independently by both the JSE Issuer Regulation team, as well as the FTSE ICB Committee. The decision was made to change Sasol's ICB sub sector from 0537-Integrated Oil & Gas to 1357-Speciality Chemicals, and this change was effective on 23 March 2015.

The largest impact of the reclassification has been in the FTSE/JSE SA Resource Top 10 index, where Sasol previously had a weighting of nearly 19%. Following Sasol's removal, the weighting of BHP Billiton has climbed further from March levels of 47% to current levels in excess of 56% of the index. This seems to have triggered a number of calls to review the SA Sector definition.

#### **6. EXPANDED SA SECTOR CLASSIFICATION**

FTSE/JSE embarked on a public market consultation in October 2013, with the proposal to expand the current SA Resource definition to include additional companies. At the time, there was very limited response and it was decided that the status quo remain in place. However, FTSE/JSE would like to re-present that proposal.

Table 1 presents a subset of the ICB Structure. The current SA Resources definition of sectors 0530 and 1770 is highlighted:

Industry	Supersector	Sector	Subsector
0001 Oil & Gas	0500 Oil & Gas	0530 Oil & Gas Producers	0533 Exploration & Production
			0537 Integrated Oil & Gas
		0570 Oil Equipment, Services & Distribution	0573 Oil Equipment & Services
			0577 Pipelines
		0580 Alternative Energy	0583 Renewable Energy Equipment
			0587 Alternative Fuels
1000 Basic Materials	1300 Chemicals	1350 Chemicals	1353 Commodity Chemicals
			1357 Specialty Chemicals
	1700 Basic Resources	1730 Forestry & Paper	1733 Forestry
			1737 Paper
		1750 Industrial Metals & Mining	1753 Aluminium
			1755 Nonferrous Metals
			1757 Iron & Steel
		1770 Mining	1771 Coal
			1773 Diamonds & Gemstones
			1775 General Mining
			1777 Gold Mining
1779 Platinum & Precious Metals			

Table 1: Current SA Resources

Following the market proposal at the time, FTSE/JSE proposes to change the basis of the classification from an ICB Sector level to an ICB Industry level. This would align with the definition of SA Financials, which maps to the ICB Industry Financials, and would classify all Sub-sectors in Table 1 as SA Resources (i.e. Both 0001-Oil & Gas and 1000-Basic Materials).

Table 2 lists all companies in the All Share Index that are classified in the highlighted Sectors in Table 1, but are not currently classified as SA Resources. There are currently 28 out of the 170 All Share constituents classified in these two Industries, with 18 of these classified as SA Resources. The remaining 10 instruments listed in Table 2 are currently classified as SA Industrials and have a combined All Share weight of 6.44%. These are the key instruments that will be impacted by this change:

Alpha	Instrument	ICB Sub-sector	Net MCAP (Rm)	All Share Weight
SOL	Sasol	Specialty Chemicals	R 239,585	3.48%
MNP	Mondi Plc	Paper	R 111,274	1.61%
MND	Mondi Ltd	Paper	R 35,966	0.52%
SAP	Sappi	Paper	R 21,904	0.32%
AFE	AECI	Specialty Chemicals	R 12,370	0.18%
OMN	Omnia Holdings Ltd	Specialty Chemicals	R 10,596	0.15%
KIO	Kumba Iron Ore	Iron & Steel	R 6,306	0.09%
ACL	ArcelorMittal South Africa Ltd	Iron & Steel	R 2,479	0.04%
AFX	African Oxygen	Specialty Chemicals	R 1,851	0.03%
HLM	Hulamin	Aluminium	R 1,262	0.02%

Table 2: All Share Constituents reclassified as SA Resources under the proposal

## 7. IMPACTED INDICES

The proposal would impact three benchmark and three tradable indices, namely:

### Benchmark:

- SA Resources (J258)
- SA Industrials (J257)
- SA Financials and Industrials (J250)

### Tradable:

- Resources 10 (J210)
- Industrial 25 (J211)
- Financial and Industrial 30 (J213)

The various weightings of all these indices would be impacted, such as equally weighted and SWIX weighted.

This proposal would have a dramatic impact on the RESI 10 tradable index, which selects the 10 largest SA Resource counters by gross market capitalisation. There will potentially be three additions to the index, namely Sasol, Mondi and Kumba Iron Ore. They will replace Northam Platinum, African Rainbow Minerals and Sibanye Gold, with an existing combined index weight of approximately 3.6%. The weight of BHP Billiton would fall to 41%.

## 8. CONCLUSION

FTSE/JSE is aware of the large number of market participants that are currently using the indices for various purposes. The expansion of the SA Resource definition to an ICB Industry level could thus impact various index users in different ways. Also, should the definition for SA Resources be amended, FTSE/JSE would not recalculate the performance history for impacted indices.

## 9. RESPONDING TO THE CONSULTATION

It is important to FTSE/JSE to be aware of the impact on clients as well as any unintended consequences of the proposed change. Therefore, FTSE/JSE requests comments regarding any concerns, as well as the possible impact.

**Please provide us with your comments and suggestions by Friday, 28 August 2015 to the following email address: [indices@jse.co.za](mailto:indices@jse.co.za)**

All feedback received by 28 August 2015 will be carefully considered before making any final decisions, and presented to the FTSE/JSE Advisory Committee (AC) Meeting. Unfortunately no late responses will be accepted, as the AC meets on 2 September 2015.

When determining the timeline for the implementation of any decision, FTSE/JSE is mindful of the broad usage of these indices in the market and the need to provide appropriate notice.

This document is not confidential and should be distributed as widely as possible to all stakeholders.

**APPENDIX 1 – COMPLETE ICB STRUCTURE**

Industry	Super Sector	Sector	Sub-Sector
0001 Oil & Gas	0500 Oil & Gas	0530 Oil & Gas Producers	0533 Exploration & Production
			0537 Integrated Oil & Gas
		0570 Oil Equipment, Services & Distribution	0573 Oil Equipment & Services
			0577 Pipelines
		0580 Alternative Energy	0583 Renewable Energy Equipment
			0587 Alternative Fuels
1000 Basic Materials	1300 Chemicals	1350 Chemicals	1353 Commodity Chemicals
			1357 Specialty Chemicals
	1700 Basic Resources	1730 Forestry & Paper	1733 Forestry
			1737 Paper
		1750 Industrial Metals & Mining	1753 Aluminum
			1755 Nonferrous Metals
			1757 Iron & Steel
		1770 Mining	1771 Coal
			1773 Diamonds & Gemstones
			1775 General Mining
1777 Gold Mining			
1779 Platinum & Precious Metals			
2000 Industrials	2300 Construction & Materials	2350 Construction & Materials	2353 Building Materials & Fixtures
			2357 Heavy Construction
	2700 Industrial Goods & Services	270 Aerospace & Defense	2713 Aerospace
			2717 Defense
		2720 General Industrials	2723 Containers & Packaging
			2727 Diversified Industrials
		2730 Electronic & Electrical Equipment	2733 Electrical Components & Equipment
			2737 Electronic Equipment
		2750 Industrial Engineering	2753 Commercial Vehicles & Trucks
			2757 Industrial Machinery
		2770 Industrial Transportation	2771 Delivery Services
			2773 Marine Transportation
	2775 Railroads		
	2777 Transportation Services		
		2779 Trucking	
	2790 Support Services	2791 Business Support Services	
		2793 Business Training & Employment Agencies	
		2795 Financial Administration	
		2797 Industrial Suppliers	
		2799 Waste & Disposal Services	
3000 Consumer Goods	3300 Automobiles & Parts	3350 Automobiles & Parts	3353 Automobiles
			3355 Auto Parts
			3357 Tires
	3500 Food & Beverage	3530 Beverages	3533 Brewers
			3535 Distillers & Vintners
			3537 Soft Drinks
		3570 Food Producers	3573 Farming , Fishing & Plantations
		3577 Food Products	
	3700 Personal & Household Goods	3720 Household Goods & Home Construction	3722 Durable Household Products
			3724 Nondurable Household Products
			3726 Furnishings
			3728 Home Construction
		3740 Leisure Goods	3743 Consumer Electronics
			3745 Recreational Products
			3747 Toys
		3760 Personal Goods	3763 Clothing & Accessories
			3765 Footwear
			3767 Personal Products
	3780 Tobacco	3785 Tobacco	



Industry	Super-Sector	Sector	Sub-Sector	
4000 Health Care	4500 Health Care	4530 Health Care Equipment & Services	4533 Health Care Providers	
			4535 Medical Equipment	
			4537 Medical Supplies	
		4570 Pharmaceuticals & Biotechnology	4573 Biotechnology	
			4577 Pharmaceuticals	
5000 Consumer Services	5300 Retail	5330 Food & Drug Retailers	5333 Drug Retailers	
			5337 Food Retailers & Wholesalers	
		5370 General Retailers	5371 Apparel Retailers	
			5373 Broadline Retailers	
			5375 Home Improvement Retailers	
			5377 Specialized Consumer Services	
	5379 Specialty Retailers			
	5500 Media	5550 Media	5553 Broadcasting & Entertainment	
			5555 Media Agencies	
			5557 Publishing	
	5700 Travel & Leisure	5750 Travel & Leisure	5751 Airlines	
			5752 Gambling	
			5753 Hotels	
5755 Recreational Services				
5757 Restaurants & Bars				
		5759 Travel & Tourism		
6000 Telecommunications	6500 Telecommunications	6530 Fixed Line Telecommunications	6535 Fixed Line Telecommunications	
		6570 Mobile Telecommunications	6575 Mobile Telecommunications	
7000 Utilities	7500 Utilities	7530 Electricity	7535 Conventional Electricity	
			7537 Alternative Electricity	
		7570 Gas, Water & Multi-utilities	7573 Gas Distribution	
			7575 Multi-utilities	
		7577 Water		
8000 Financials	8300 Banks	8350 Banks	8355 Banks	
	8500 Insurance	8530 Nonlife Insurance	8532 Full Line Insurance	
			8534 Insurance Brokers	
			8536 Property & Casualty Insurance	
			8538 Reinsurance	
		8570 Life Insurance	8575 Life Insurance	
	8600 Real Estate	8630 Real Estate Investment & Services	8633 Real Estate Holding & Development	
			8637 Real Estate Services	
			8670 Real Estate Investment Trusts	8671 Industrial & Office REITs
				8672 Retail REITs
				8673 Residential REITs
				8674 Diversified REITs
				8675 Specialty REITs
	8676 Mortgage REITs			
	8677 Hotel & Lodging REITs			
8700 Financial Services	8770 Financial Services	8771 Asset Managers		
		8773 Consumer Finance		
		8775 Specialty Finance		
		8777 Investment Services		
		8779 Mortgage Finance		
	8980 Equity Investment Instruments	8985 Equity Investment Instruments		
	8990 Non-equity Investment Instruments	8995 Non-equity Investment Instruments		
9000 Technology	9500 Technology	9530 Software & Computer Services	9533 Computer Services	
			9535 Internet	
			9537 Software	
		9570 Technology Hardware & Equipment	9572 Computer Hardware	
			9574 Electronic Office Equipment	
			9576 Semiconductors	
		9578 Telecommunications Equipment		