

Market Consultation

To: Market Participants
From: Indices Department
Date: 20 December 2016
Subject: **FTSE Russell Market Consultation: Integrating Industry Classification Structures**

1. Introduction

FTSE/JSE would like to make market participants aware of the FTSE Russell Client Consultation that was published regarding the integration of the industry classification structures. It is important to take note of the consultation, because the classification structure is used to classify all JSE listed companies and in addition to this the FTSE/JSE sector indices are derived from the structure.

The purpose of the consultation is to solicit client feedback on the proposed changes to the Industry Classification Benchmark (ICB) and Russell Global Sectors (RGS). FTSE Russell has reviewed the methodologies and taxonomies of the current industry classification systems in order to propose a unified classification structure that leverages the best of both systems, reflects the evolution across industries, and accommodates future enhancements.

FTSE/JSE would like to gather feedback on the proposed unified classification structure, seven structural changes and the implementation timeline. The proposals set out in this consultation document are included in order to gather feedback and may or may not result in changes to the ICB or RGS. The FTSE Russell client consultation document is available at the link below:

[View the FTSE Russell Consultation](#)

2. Summary of Proposed Changes

Please see below an extract from the FTSE Russell Client Consultation for Integrating Industry Classification Structures document (for full details of the changes refer to the consultation document on the FTSE Russell website):

The proposed unified classification structure will be based on the ICB framework: Industry (Level 1), Supersector (Level 2), Sector (Level 3), Subsector (Level 4). As ICB and RGS currently use different nomenclature across the existing structures, we will refer to Levels 1-4 throughout this consultation to add clarification.

The proposed structural changes for which we would like to gather client feedback include:

- a) **Consumer Goods and Consumer Services:** Transition ICB from a Consumer Goods/Consumer Services Industry (Level 1) framework to a Consumer Staples/Consumer Discretionary Industry (Level 1) framework.
- b) **Real Estate:** Carve Real Estate out of the ICB Financials Industry (Level 1) and RGS Financial Sector (Level 1) to create a new Real Estate Industry (Level 1). Mortgage REITs remain in the Mortgage Finance Subsector (Level 4) within Financials.
- c) **REITs:** Maintain distinct Sectors (Level 3) for REIT and non-REIT Real Estate and add granularity to REIT Subsectors (Level 4). Feedback is also requested as to whether a company's REIT status should continue to influence its identification within an industrial classification framework.
- d) **Telecommunications:** Merge ICB Telecommunications Industry (Level 1) with Utilities Industry (Level 1) and adapt ICB's differentiation between Fixed Line and Mobile Telecommunications Subsectors (Level 4).
- e) **Energy:** Rename the ICB Oil & Gas Industry (Level 1) to Energy, create new Renewable and Non-Renewable Energy Sectors (Level 3), and move ICB Coal Subsector (Level 4) from Basic Materials to Energy as a Coal Subsector (Level 4).
- f) **Airlines:** Group airline companies into an Airlines Subsector (Level 4) within Industrials alongside other transportation-related companies.
- g) **Consumer Digital Services:** Create a new Consumer Digital Services Subsector (Level 4) within Consumer Discretionary to classify companies involved in digital platforms that generate revenues from advertising, content delivery and other virtual products related to consumers. Discontinue the ICB Internet Subsector (Level 4) and reclassify internet-related companies as Consumer Digital Services Subsector (Level 4).

3. Responding to the consultation

FTSE/JSE would like to obtain the view of local market participants on the integration of the two Industry Classification Structures, ICB and RGS, in the Index Series. Market participants can respond to the consultation by contributing to the JSE's consolidated feedback to FTSE Russell, or alternatively market participants can respond directly to the FTSE Russell Consultation. Market participants are welcome to participate in both processes simultaneously.

3.1 Responding to the JSE Consolidated Feedback

It is important to FTSE/JSE to be aware of the impact to local market participants' usage of the ICB structure for both index and individual equity purposes, and in particular any negative consequences of the proposal. Therefore, FTSE/JSE requests comments regarding the possible impact of the change and any concerns regarding the change. These comments will be combined into a consolidated JSE Feedback submission to FTSE Russell.

Please provide us with your comments and suggestions by Friday, 10 February 2017 to the following email address: indices@jse.co.za

All feedback received by 10 February 2017 will be carefully considered, presented to the FTSE/JSE Advisory Committee Meeting in March 2017 and presented to FTSE Russell.

3.2 Responding directly to the FTSE Russell Consultation

The FTSE Russell consultation will close on 3 March 2017. The proposals set out in the consultation document are included in order to gather feedback and may or may not result in changes to the ICB or RGS. **Please submit your response to the questions included in the FTSE Russell consultation online before Friday, 3 March 2017, by clicking on the link below:**

[Provide your response directly to FTSE Russell](#)

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

Yours Sincerely,
Indices Department