

Market Consultation

To: Market Participants
From: Indices Department
Date: 1 September 2017
Subject: **FTSE Russell Market Consultation: FTSE Global Equity Index Series and Russell Global Indexes Alignment**

1. Introduction

FTSE/JSE would like to make market participants aware of the FTSE Russell Client Consultation that was published regarding the FTSE Global Equity Index Series and Russell Global Indexes alignment. It is important to take note of the consultation, because the proposed changes could impact the FTSE/JSE Africa Index Series.

The purpose of the consultation is to solicit client feedback on the proposed changes due to the alignment of the methodologies of the FTSE Global Equity Index Series (FTSE GEIS) and the Russell Global Indexes (RGI) to create a single global index family that reflects best investment practices globally. Several index construction aspects have already been aligned, such as corporate action treatment, shares and free float. This consultation outlines the complete alignment proposal and implementation timeline. FTSE Russell's objective is to conclude this project by 30 June 2018.

FTSE/JSE would like to gather feedback on the proposed changes to the Reconstitution/Review Timing, Re-Ranking of the Universe/Constituents, Alignment of Effective Dates, Liquidity Testing and Buffer Sizes. The FTSE Russell client consultation document is available at the link below:

[View the FTSE Russell Consultation](#)

2. Current FTSE/JSE All Africa Index Series Methodology

Currently the Reconstitutions of the FTSE/JSE Africa Index Series takes place semi-annually in March and September. The Index Series is reviewed in March and December. All Reconstitutions and Reviews are effective on the third Friday of the review month. The universe is ranked at the semi-annual Reconstitutions in June and September. At the semi-annual review in March and December, potential new constituents which meet the entry size thresholds and the liquidity criterion will be added. Liquidity is screened semi-annually in March and September.

3. Summary of Proposed Changes

Please see below an extract from the FTSE Global Equity Index Series and Russell Global Indexes Alignment Consultation (for full details of the changes refer to the consultation document on the FTSE Russell website):

To provide some consistency in the use of terminology in this consultation, the terms will be used as follows:

“Reconstitution” refers to the process by which all index constituents are re-selected based on the application of a ranking process (by company size) and eligibility tests (by security) of the universe of potential constituents. The ranking process may include allocation of companies to large, mid, small and micro size bands. The eligibility tests may include tests for liquidity, free float and foreign ownership restrictions, as well as testing both the type of company and its securities for eligibility.

“Review” refers to the process by which shares outstanding and free floats for existing constituents are updated. Reviews may also undertake re-ranking of some, or all, securities into large, mid, small and micro size. They may also test potential constituents that were not eligible for fast entry, and existing constituents for liquidity. Unlike a full reconstitution, reviews would not test or re-rank the entire eligible universe, only existing constituents and potential additions.

FTSE Russell intends to move the indexes to an annual reconstitution which will be supplemented by three enhanced quarterly reviews. The annual reconstitution will take place in June, effective following the close on the **fourth** Friday of the month (unless the last Friday falls on the 29th or 30th, in which case it will take effect on the previous Friday). It is proposed that the three enhanced quarterly reviews should take place in March, September and December, effective as of the close of the **third** Friday of the month.

At the annual reconstitution, the eligible universe of companies will be re-ranked and their eligible securities tested for liquidity; updates to free floats and shares outstanding will be applied without the use of buffers.

The enhanced quarterly reviews will incorporate updates to free floats and shares outstanding in the presence of buffers, and potential new constituents that failed the fast-entry test intra-quarter, but which meet the entry size thresholds and the liquidity criterion, will be added. In addition it is proposed that existing constituents will be tested for liquidity and those that fail will be deleted.

Further, it is proposed that all constituents will be re-ranked into large, mid, small and micro segments at each of the enhanced quarterly reviews, as well as at the annual reconstitution.

Because the re-ranking under this proposal would take place four times a year, rather than the current twice, it could be argued that the buffers used for the re-ranking should be wider than those currently employed. FTSE Russell proposes to use inclusion thresholds that are 1.25 times the current inclusion thresholds, and exclusion thresholds that are the current FTSE GEIS exclusion thresholds divided by 1.25.

4. Responding to the consultation

FTSE/JSE would like to obtain the view of local market participants on the possible impact that the alignment could have on the FTSE/JSE Africa 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.

4.1 Responding to the JSE Consolidated Feedback

It is important to FTSE/JSE to be aware of the possible impact to local market participants due to the proposed changes 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, 8 September 2017 to the following email address: indices@jse.co.za

All feedback received by 8 September 2017 will be carefully considered, presented to the FTSE/JSE Advisory Committee Meeting in December 2017 and presented to FTSE Russell.

3.2 Responding directly to the FTSE Russell Consultation

The FTSE Russell consultation will close on 15 September 2017.

Please submit your response to the questions included in the FTSE Russell consultation online before Friday, 15 September 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