

Market Consultation

To: Market Participants
From: Indices Department
Date: 22 January 2018
Subject: **FTSE Russell Market Consultation: Treatment of Suspensions**

1. Introduction

FTSE/JSE would like to make market participants aware of the FTSE Russell Client Consultation that was published regarding the Treatment of Suspensions. 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 whether the rationale underlying the current suspension rule remains valid, including whether the 80 day hard suspension limit remains appropriate and whether extended notice before a stock is removed from an index is still required. In addition, the consultation takes the opportunity to solicit feedback from index users on a current topic of debate: whether to render ineligible companies that have recently been suspended for an extended period but which have recommenced trading prior to a forthcoming index review.

The FTSE Russell consultation has a strong focus on China, including the working examples provided in the consultation. However, the questions are relevant to the FTSE/JSE Africa Index Series and should a decision be taken to change the suspension rule, it might impact the FTSE/JSE Africa Index Series.

The FTSE Russell client consultation document is available at the link below:

[View the FTSE Russell Consultation](#)

2. Background

The presence of suspended constituents in an equity index can create tracking difficulties for investment firms managing passive funds and ETFs, particularly in the presence of significant cash flows. Accordingly, index providers will typically delete suspended constituents from their indexes after some specified time period. However, the timing of the deletion, and the price at which the deletion takes place, can cause problems in their own right. The difficulties are exacerbated if the investment manager is using swaps or other derivatives to obtain the requisite exposure.

3. Current FTSE/JSE Suspension Rule

The intention of the FTSE/JSE suspension policy is to remove those companies that can no longer be tracked, and to provide transparency around how long suspended companies will remain in FTSE/JSE indices and the price and date at which suspended companies will be removed.

The Suspension Rule as set out in the FTSE/JSE Ground Rules is provided below.

Suspension of Dealing*

In the event that a constituent of a FTSE/JSE Africa Index, other than the FTSE/JSE Top 40 Index, is suspended, the constituent may remain in the FTSE/JSE Africa Index, at the price at which it is suspended, for up to 20 business days, whilst a suspended constituent of the FTSE/JSE Top 40 Index may remain in the Index for up to five business days. During this time FTSE /JSE may delete the constituent immediately at zero value in cases it is expected that the constituent will not recommence trading.

- If a constituent is declared bankrupt, placed under curatorship, business rescue or placed in provisional liquidation, the last traded price will be adjusted down to zero value and it will subsequently be removed from the index with T+2 notice.
- In all other cases, if the company is a constituent of the Top 40 index, the constituent will continue to be included in the index for a period of 5 business days, If the constituent continues to be suspended at the end of that period, it will be removed from the index with T+2 notice at the last traded price.
- In all other cases, the constituent will continue to be included in the index for a period of up to 20 business days at its last traded price.
- If the constituent continues to be suspended at the end of that period, it will be subject to review and a decision will be taken to either allow the constituent to remain in the index for a further period of up to 20 business days or to remove it at zero value. In making this determination, FTSE /JSE will take into account the stated reasons for the suspension. These reasons may include announcements made by the company regarding a pending acquisition or restructuring, and any stated intentions regarding a date for the resumption of trading.
- This procedure will be repeated at successive 20 business day intervals thereafter until either trading recommences or the suspension period reaches 80 business days.
- If the suspension period reaches 80 business FTSE /JSE will provide notice that the constituent will be removed at zero value at the index review immediately following the expiry of a minimum 40 business day notice period.
- In certain limited circumstances where the index weight of the constituent is significant and FTSE/JSE determines that a market-related value can be established for the suspended constituent, for example because similar company securities continue to trade, deletion may take place at the market-related value instead. In such circumstances, FTSE/JSE will set out its rationale for the proposed treatment of the constituent at the end of the 80 business day period.
- If following the end of the 80 business day period, a suspended constituent resumes trading before the Wednesday before the first Friday of March, June, September or December, the deletion notice will be rescinded and the constituent will be retained in the index. If the constituent resumes trading after these dates but before the review effective date, the constituent continue to be removed from the index as previously announced but in these circumstances the deletion may instead be implemented at market value.
- If a constituent has been removed from the index and trading is subsequently restored, the constituent will only be re-considered for inclusion after a period of 12 months from its deletion. For the purposes of index eligibility it will be treated as a new issue.

*The Suspended Companies policy also applies to constituents which have a price that FTSE/JSE considers to be unreliable. This includes Indonesian constituents that have reached the minimum allowable trade price of IDR 50 per share.

4. Responding to the consultation

FTSE/JSE would like to obtain the view of local market participants on the possible impact that the treatment of suspensions 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 possible changes and in particular any negative consequences of the treatment. Therefore, FTSE/JSE requests comments regarding the possible impact of the treatment and any concerns regarding the treatment. These comments will be combined into a consolidated JSE Feedback submission to FTSE Russell.

Please provide us with your comments and suggestions by Monday, 12 February 2018 to the following email address: indices@jse.co.za

All feedback received by 12 February 2018 will be carefully considered, presented to the FTSE/JSE Advisory Committee Meeting in March 2018 and presented to FTSE Russell.

3.2 Responding directly to the FTSE Russell Consultation

The FTSE Russell consultation will close on 28 February 2018.

Please submit your response to the questions included in the FTSE Russell consultation online before Wednesday, 28 February 2018, 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