

Market Note

To: Market Participants
From: Indices Department
Date: 19 March 2018
Subject: **Market Note: Changes to ICB & SA Sector Indices**

1. Executive Summary

As a result of enhancements to the FTSE Russell Industry Classification Benchmark, the following changes are envisaged for the FTSE/JSE Africa Index Series:

- ICB Industry Indices: Replacement of existing 10 industry indices with 11 new indices, with codes and names representative of the enhanced structure
- ICB Sector Indices: Replacement of existing 40 sector indices with 44 new indices, with codes and names representative of the enhanced structure
- ICB Sub-Sector Indices: Decommission of 5 existing sub-sector indices
- SA Sector Indices: Definitional changes to SA Sector (Financials, Industrials, Resources), to maintain existing logical classification.

2. Introduction

The JSE currently uses the Industry Classification Benchmark (ICB) system to classify all listed companies on the JSE according to Industry, Super Sector, Sector and Sub-Sector. The FTSE/JSE All Share Index (J203) is currently split into 10 ICB Industry indices, i.e. one for each Industry, and 40 Sector indices, according to the ICB structure. The ICB structure is also used to define the FTSE/JSE SA Sector Indices (SA Resources, SA Industrials and SA Financials).

FTSE/JSE published the [FTSE Russell Client Consultation for Integrating Industry Classification Structures](#) on the JSE website, on 20 December 2016. The purpose of the consultation was to solicit client feedback on the proposed changes to the ICB and Russell Global Sector (RGS) classification structures. The FTSE Russell consultation closed on 3 March 2017 and FTSE Russell considered all feedback received from market participants up to this date.

FTSE Russell has designed an enhanced ICB classification system that still uses the four-tiered structure namely, Industry, Super Sector, Sector and Sub-Sector.

The purpose of this Note is to raise further awareness of the impact that the enhanced ICB structure will have on the FTSE/JSE Africa Index Series, specifically on the ICB Industry, Sector, Sub-sector and SA Sector Indices, and to

provide market participants the opportunity to raise any concerns as a result of the planned changes set out in this Note.

3. Enhanced ICB Structure

The ICB structure has been enhanced and expanded and will include 11 Industries (previously 10), 20 Super sectors (previously 19), 45 Sectors (previously 41) and 171 Sub-sectors (previously 114). ICB will continue to assign a company to the Sub-sector whose definition most closely coincides with the source of the company's revenue or the source of the majority of its revenue.

The new ICB structure combines the best features of the ICB and RGS classification systems, reflects the evolution across industries and accommodates future ICB expansion beyond the current coverage:

- Both ICB and RGS users will benefit from the enhanced ICB structure, which provides additional granularity from the Industry through Sub-sector levels.
- The new ICB numeric code system is robust and will accommodate future structural additions or changes.
- RGS users will shift to ICB's four-tiered system, gaining an additional interim classification level.

Key changes at the broadest headline level are the addition of Real Estate as an Industry, the expansion of the Telecommunications Industry and the adoption of Consumer Discretionary and Consumer Staples Industries to better align with global markets and industry practices.

A comparison between the enhanced ICB, current ICB and current RGS structures at the headline level is shown in Table 1 below.

ICB (11 Industries) - effective 1 January 2019	ICB (10 Industries) - current	RGS (9 Sectors) – to be discontinued on 31 December 2018
Technology	Technology	Technology
Telecommunications	Telecommunications	
Health Care	Health Care	Health Care
Financials	Financials	Financial Services
Real Estate		
Consumer Discretionary	Consumer Services	Consumer Discretionary
Consumer Staples	Consumer Goods	Consumer Staples
Industrials	Industrials	Producer Durables
Basic Materials	Basic Materials	Materials and Processing
Energy	Oil and Gas	Energy
Utilities	Utilities	Utilities

Table 1: Comparison of the enhanced ICB, current ICB and current RGS classification structures

The full ICB/RGS Structural Conversion Map and Methodology Overview can be found at the following links:

[ICB RGS Structural Conversion Map](#)

[ICB Methodology Overview](#)

4. ICB All Share Indices

4.1 Background

The ICB classification system was implemented on 1 January 2006 on the JSE. Prior to this the FTSE Global Classification System (GCS) was used to classify companies on the exchange. FTSE/JSE introduced ten ICB Industry Indices and 38 ICB Sector Indices on 3 January 2006. In November 2009, the number of ICB Sector Indices in the FTSE/JSE Africa Index Series was increased to 40. This was due to an Alternative Energy sector being added to the Oil & Gas Industry, as well as the replacement of the Real Estate sector by the Real Estate Investment & Services sector and Real Estate Investment Trusts sector in 2009.

FTSE/JSE has also introduced Shareholder Weighted (SWIX) variants for all the ICB Industry and Sector Indices on 22 September 2014.

Table 2 below provides a list of the current ICB Industry Indices in the FTSE/JSE Africa Index Series.

Index Code	Index Name	No of Constituents
J500	Oil & Gas	1
J510	Basic Materials	26
J520	Industrials	20
J530	Consumer Goods	15
J540	Health Care	7
J550	Consumer Services	24
J560	Telecommunication	4
J570	Utilities	0
J580	Financials	65
J590	Technology	3

Table 2: Current Industry Indices

4.2 Upcoming ICB Industry and Sector Indices Changes

FTSE Russell has concluded an enhanced ICB structure that will replace the current ICB classification system on 1 January 2019. FTSE/JSE will continue to offer separate industry indices for each ICB Industry. Due to Real Estate being carved out of the Financial Industry in the enhanced ICB classification system, there will now be 11 ICB indices in the index series.

FTSE/JSE will introduce both SWIX and non-SWIX variants for each of the 11 Industry Indices as well as for each of the Sector Indices, with the exclusion of the Non-equity Investment Instrument Sector. This is due to companies classified as Non-equity Investment Instruments failing the eligibility criteria for the universe of the FTSE/JSE Africa Index Series.

FTSE/JSE will discontinue the current ICB Industry and Sector indices due to structure, name and code changes under the enhanced ICB structure and simultaneously launch the new ICB Industry and Sector indices with new names and index codes that correspond to the new ICB structure. Due to the nature of this enhancement, the current ICB Industry and Sector Indices would not be comparable to the new ICB Industry and Sector Indices across the entire structure, although many elements are directly comparable. The history of these indices will not be restated as a result of this change.

A two-way turnover impact from current ICB Industries to enhanced ICB Industries for FTSE/JSE All Share constituents are shown in section 4.4 using data taken on 1 February 2018.

4.3 ICB Sub-Sector Indices

There are currently five ICB Sub-sector indices under the current Mining Sector, namely:

- FTSE/JSE Gold Mining Index (J150)
- FTSE/JSE Coal Mining Index (J151)
- FTSE/JSE Diamonds & Gemstones Index (J152)
- FTSE/JSE Platinum & Precious Metals (J153)
- FTSE/JSE General Mining (J154)

With the introduction of the enhanced ICB structure, Coal has been classified under the Energy Industry and not under the Basic Materials Industry as per the current ICB structure. Furthermore, the five sub-sectors mentioned above forms part of the Mining Sector under the current ICB structure, however in the enhanced ICB structure the General Mining Sub-sector will fall under the Industrial Metals & Mining Sector and the Diamonds & Gemstones, Gold Mining and Platinum & Precious Metals Sub-sectors will fall under the Precious Metals & Mining Sector. Due to these sub-sectors not forming part of one sector anymore, FTSE/JSE will decommission the five abovementioned ICB Sub-sector Indices following the implementation of the enhanced ICB structure.

4.4 Impact Analysis ICB Industry Indices

	Current ICB Industry								
New ICB Industry	Basic Materials	Consumer Goods	Consumer Services	Financials	Health Care	Industrials	Technology	Telecommunications	New ICB Grand Total
Basic Materials	20.89%								20.89%
Consumer Discretionary		8.04%	22.79%						30.83%
Consumer Staples		5.01%	4.14%						9.15%
Energy	0.49%								0.49%
Financials				19.52%		0.02%			19.54%
Health Care					2.81%				2.81%
Industrials						5.13%			5.13%
Real Estate				6.17%					6.17%
Technology							0.22%		0.22%
Telecommunications								4.75%	4.75%
Current ICB Grand Total	21.39%	13.05%	26.92%	25.69%	2.81%	5.15%	0.22%	4.75%	100%

Table 3: Indicative index weighting changes: two-way turnover impact from current ICB to enhanced ICB – FTSE/JSE All Share Index

5. SA Sector

5.1 Background

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.

The SA Sector classification is mapped directly to the current global ICB methodology as follows:

- SA Resources ICB Industries Oil & Gas (0001) and Basic Materials (1000)
- SA Financials ICB Industry Financials (8000)
- SA Industrials All remaining companies.

The FTSE/JSE Africa Index Series contains the following SA Sector Indices:

Index Code	Index Name
J257	SA Industrials
J258	SA Resources
J580	Financials
J250	SA Financials and Industrials
J210	Resource 10
J211	Industrial 25
J212	Financial 15
J213	Financial and Industrial 30
J310	Capped Resource 10
J311	Capped Industrial 25
J3EQ	Equally Weighted Resource 10
J4EQ	Equally Weighted Financial 15
J5EQ	Equally Weighted Industrial 25

Table 4: SA Sector Indices

There are also SWIX versions of the above SA Sector Indices with the exception of the J310 and J311 indices.

5.2 Upcoming SA Sector Indices Changes

The SA Sector classification will be mapped to the enhanced ICB structure as follows:

- SA Resources ICB Industries Basic Materials (55) and Energy (60)
- SA Financials ICB Industries Financials (30) and Real Estate (35)
- SA Industrials All remaining companies.

By implementing the aforementioned SA Sector classification mapping, none of the SA Sector Indices will be decommissioned and all of these SA Sector Indices will remain with the current index codes and index names, with the exception of the J580 index. The reason for this is due to the fact that the current SA Financials Index and the Financials ICB Industry Index currently being one and the same index. However due to the ICB Financials Industry changing to exclude Real Estate the same index cannot be used for both the SA Financials and Financials Industry anymore. Therefore we would need to distinguish between the FTSE/JSE SA Financials

Index and the FTSE/JSE Financials Industry Index. Thus the name of the FTSE/JSE Financials Index (J580) will change to the FTSE/JSE SA Financials Index with the index code, J580, remaining unchanged.

The reason that the impact on the SA Sector Indices will be minimal is due to the SA Resources definition adopting both the Financials and Real Estate Industries under the enhanced ICB structure, as Real Estate companies automatically forms part of the current Financials Industry under the current ICB structure.

The SA Sector Indices will also continue to be comparable after implementation of the new SA Sector classification definition and the impact regarding mandates will be minimal, if any.

6. Raising Concerns

FTSE/JSE has carefully considered the changes to the FTSE/JSE Africa Index Series as a result of the implementation of the enhanced ICB classification in January 2019.

Should any of the changes to the FTSE/JSE Africa Index Series, that have been presented in this Note, have a material impact on your business, please provide us with your comments or concerns by Monday, 16 April 2018 to the following email address: indices@jse.co.za

All feedback received by 16 April 2018 will be carefully considered before making any final decisions, and presented to the FTSE/JSE Advisory Committee Meeting in June 2018. Should any market participant prefer to have a discussion around the upcoming enhancements to the ICB Industry, Sector, Sub-sector and SA Sector Indices, please contact indices@jse.co.za directly to arrange a meeting.

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

Yours Sincerely,
Indices Department