

Capping Factor adjustment for Capped SWIX indices FTSE/JSE Africa Index Series

20 August 2021

On 6 July 2021, FTSE/JSE re-opened the consultation into the capping methodology applied in the FTSE/JSE Africa Index Series. Comments, submissions and responses were requested to be submitted to the JSE on or before 20 July 2021. FTSE/JSE is appreciative of all the responses and input received during this consultative process.

Responses to this consultation request indicate that there has been an increased convergence of opinion amongst index users around the most appropriate approach to take to the capping methodology. In particular, a significantly high proportion of index users consider Naspers and Prosus jointly when evaluating concentration risk in their portfolios. However, some arguments require further consideration before a permanent solution can be determined, as well as a careful consideration for unintended consequences.

FTSE/JSE further takes note of the announcement by Prosus on 13 August 2021 declaring their exchange offer to Naspers shareholders unconditional. Under the current capping methodology, this will see the combined weighting of Naspers and Prosus increase in the capped SWIX indices by around half their current weight. After careful consideration of all the facts, information and submissions, FTSE/JSE is of the view that it is important to avoid a temporary structural dislocation in index weightings. In these circumstances, FTSE/JSE will apply an interim adjustment from the September 2021 index review to maintain the current equilibrium.

With effect from the September 2021 index review, the capping level for the following two indices only will change from 10% to 6%:

- J433 – FTSE/JSE Capped SWIX All Share Index
- J430 – FTSE/JSE Capped SWIX Top 40 Index

This interim measure is intended to align the combined weighting of the two companies in these indices to the prevailing weights.

In order to reach a permanent solution as quickly as possible, FTSE/JSE will publish a white paper to the market in August 2021 that presents the arguments received during both consultation processes, concerns around unintended short-term consequences, and a numerical assessment of the situation. FTSE/JSE will invite discussion or written submissions from interested parties to engage on any of the white paper content.

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