

Introduction of Group Entity Capping FTSE/JSE Africa Index Series

13 May 2022

On 20 July 2021, comments on the [market consultation](#) into the capping methodology applied in the FTSE/JSE Africa Index Series closed. In August 2021 FTSE/JSE published a [white paper](#) to the market that presented the arguments received during both consultation processes, concerns around unintended short-term consequences, and a numerical assessment of the situation.

Responses to the consultation request indicated that there had 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 considered Naspers and Prosus jointly when evaluating concentration risk in their portfolios. FTSE/JSE introduced an interim capping level of 6% to the capped SWIX indices at the September 2021 review. This notice sets out the permanent capping solution, following consideration of all feedback received during the comprehensive consultation process.

1. Introduction of Group Entity Capping:

FTSE/JSE would like to introduce the concept of Group Entity Capping in the Index Series, effective from the September 2022 Index Review.

The general principle in this instance would be to consider a company whose valuation is almost exclusively dominated by its holding in another JSE-listed entity. Where an index constituent has an equity stake in another index constituent, and the market value of that stake is greater than 75% of the prevailing market capitalisation of the holding company, then the two companies shall be considered at a combined group valuation level for index capping purposes only.

The Group Entity Capping Rule will read as follows:

To meet the requirements for capping two entities together, on review cut date:

- *Both Company A and its related Company B must be listed on the JSE and be constituents, or prospective review constituents, of the All Share index*
- *Consider the gross market capitalisation of Company A and the value of its holding in Company B at prevailing market prices and the current cross-holding percentage*
- *If the market value of Company A's holding in Company B is greater than 75% of the total gross market capitalisation of Company A, then both companies should be considered as a single entity for capping purposes in all Capped Indices in which both entities are constituents*
- *If the value of Company A's holding in Company B falls below 65% of Company A's total gross market capitalisation at a subsequent quarterly review, then the two entities will no longer be capped as one entity*

Group Entity Capping will apply to all indices that have a fixed capping level based on an underlying market capitalisation weighting or SWIX weighting. It will not apply to any equally weighted indices or any non-market capitalisation weighted indices.

Please refer to the list of indices impacted by Group Entity Capping:

2. Increase in Capping Level:

FTSE/JSE intends to increase the default capping level from the current level to between 12% and 13% at the September 2022 review. This will apply to the following five indices:

Code	Index Name
J141	FTSE/JSE Capped Shariah Top 40
J300	Capped Top 40
J303	Capped All Share
J430	FTSE/JSE Capped Shareholder Weighted Top 40 Index
J433	FTSE/JSE Capped Shareholder Weighted All Share Index

The final level will be announced before the September Index Review.

3. Capped SWIX Indices – Update to Interim Capping Measure:

FTSE/JSE implemented an interim solution in the FTSE/JSE Capped SWIX All Share Index (J433) and the FTSE/JSE Capped SWIX Top 40 Index (J430), reducing the capping level from 10% to 6% for all constituents, with effect from the September 2021 Index Review. The intention of this interim measure was to align the combined weighting of the two companies in these indices to the prevailing weights at the time, given the uncertainty around the implementation of Group Entity Capping.

There will be an update to the interim solution in the Capped SWIX indices. With effect from the June 2022 Index Review, the capping level for the following two indices only will change from 6% to 8%:

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

The permanent solution will then be implemented with the September Index Review, when the capping level for these two indices will change from 8% to the new capping level to be announced before the September review, as described under paragraph 2 above.

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