

Index Harmonisation Consultation Feedback – Informative Notice

7 February 2023

In September 2022, a **market consultation** was published to solicit feedback on the FTSE/JSE Africa Index Series harmonisation proposal detailed therein.

The consultation closed on 31 October 2022, and on 05 December 2022, an **Informative Notice** was published to relay that the feedback, indicative timelines, and proposals provided in the consultation document were under review. FTSE Russell and the JSE would like to thank respondents for submitting their valuable and constructive feedback.

Latest developments and consultation summary

The consultation responses and feedback were also discussed at the December 2022 FTSE/JSE (equity) Index Series Advisory Committee (AC) meeting. It was noted that for phase one, which consists of a methodology change to the SWIX methodology for the 'vanilla' indices, a large majority of the respondents were in favour of and understood the rationale for the harmonisation. This was largely due to the fact that the indices naturally converge as a result of the decrease in grandfathered companies. FTSE Russell and the JSE will communicate the implementation date for the phase once changes in due course, and confirm that the methodology change for the vanilla indices will not be implemented in June 2023, but at a later review.

With regard to the shift to a multi-cap environment at 10% and 15%, FTSE/JSE received varied responses. It was clear from the feedback that both the 'status quo' and the proposed enhancements present issues, which remain unresolved for many index users. Responses from the domestic index user segment regarding the concept of a default benchmark included a preference for shifting to 10%, a preference to remain at 12%, and varying degrees of ambivalence. In line with the decision not to implement the SWIX weighting methodology change for the vanilla indices in June 2023, in addition, FTSE Russell and the JSE will not implement a change to the existing 12% capping level in June 2023 (although new supporting indices with different capping levels may be considered before then). FTSE Russell and the JSE have committed to providing a six-month notice period for significant weighting changes which related to the index harmonisation project.

The final phase of the project is the termination of all SWIX based indices. A number of respondents, particularly in the OTC markets and those with long-dated positions, expressed the view that the proposed timeline of March 2024 did not provide sufficient notice. Feedback was also received regarding the administrative process determining switching benchmarks and the costs associated thereof. As such, this phase will not occur in March 2024. The next steps will be for FTSE Russell and the JSE to continue to engage with market participants and schedule a further discussion at the March 2023 Advisory Committee meeting, with feedback to be provided to the market shortly thereafter.

Other noteworthy feedback was on the Depositary Receipts (DR) adjustments proposal. The DR data are used as an input into the SWIX calculation. However, there have been challenges with obtaining this data due to the Protection of Personal Information (POPI) Act. Many respondents understood the challenge, and the index impact of excluding the DR data was forwarded to the respondents who requested this information. Confirmation is hereby provided that the DR adjustment will take place as communicated and will be implemented at the March 2023 SWIX review.

Next steps and implementation proposals

Due for imminent implementation	<ul style="list-style-type: none">- <u>SWIX weighting methodology change</u>: no change at the June 2023 review, including the application of capping.<ul style="list-style-type: none">o New indices with alternative capping levels could be launched before June 2023.o If methodology changes are made in the future, the notice period will be six months.- <u>Depository receipt adjustments</u>: implementation will occur at the March 2023 SWIX Index Review.
For future consideration and implementation	<ul style="list-style-type: none">- <u>Methodology change for the 'vanilla' indices</u>: next steps and timeline to be announced in due course- <u>Termination of SWIX indices</u>: will not occur before March 2024; further updates to follow after further discussions with the FTSE/JSE Index Series Advisory Committee.

Index users are reminded that all methodology updates are subject to review and approval by the FTSE Russell Index Governance Board and will be considered in line with [FTSE Russell's Policy for Benchmark Methodology Changes](#).

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