

To: Market Participants
 From: JSE Indices Department
 Date: 21 October 2014
 Subject: Notes from the JSE Fixed Income Index Series Advisory Committee Meeting held on Wednesday, 8 October 2014

1. Background

The JSE Fixed Income Index Series Advisory Committee (AC) met on Wednesday, 8 October 2014 to approve the fourth quarter Reconstitution changes to the JSE Fixed Income Index Series and to discuss matters relating to the indices. The items listed below were discussed during the meeting.

2. Index Reconstitution

There was one constituent change in the ALBI and two constituent changes in the CILI. In both the Credit Fixed Top 30 and Credit Floating Top 30 indices there were three constituent changes. The AC noted and approved the Reconstitution changes and the Index Reconstitution papers were distributed to the market.

Index	Additions	Deletions	Weight changes since October 2014 Reweighting
ALBI	R2032	DV22	8
CILI	EL30	EL29	5
	SBSI12	FRBI23	
CFIX30	FRX26	DV21	15
	SBK9	NBK3A	
	MTN04	SBS20	
CFLO30	ABFN11	FRJ16	16
	BCJ06	IV022	
	NEDH1B	LBK03	

3. Fixed Income Index Series Ground Rules Changes

With the introduction of the Credit Indices it was found that there were discrepancies between the rules introduced for Credit Indices and the existing rules for the ALBI. The JSE proposed changes to the JSE Fixed Income Ground Rules in order to align the rules of the various indices. The Ground Rule changes listed below were accepted by the AC:

- The Ground Rules do not stipulate a minimum duration for which a bond must be listed before it is eligible for inclusion into the Index Series. The AC agreed that a bond must be listed for at least two months on the cut date to be eligible for inclusion in a replicable index.

- Liquidity in the Index Series will be calculated as the median of the monthly traded values over the Averaging Period to calculate a Median Monthly Turnover per bond.
- The definition of the GOVI index will be clarified to state that the GOVI contains those bonds ranked 1-10 which are issued by the government of the Republic of South Africa at the quarterly Reconstitution.
- The Interest Yield Index and the Average Yield Index would be renamed to Coupon Yield and Average Yield respectively.

4. Analysis of the Top 30 Credit Indices

The JSE Credit Indices are a new addition to the JSE Fixed Income Index Series, joining the existing ALBI and CILI indices, and are designed to capture bonds that do not have an explicit government guarantee. There are four composite indices:

	Fixed Rate Coupon	Floating Rate Coupon
Representative Index	CFIX95	CFLO95
Replicable Index	CFIX30	CFLO30

The Representative Indices are designed to capture 95% of all issuers in the credit market, based on clean market capitalisation (i.e. Issued Amount x Clean Price). Since the indices are cap-weighted, the exclusion of the smallest 5% of issuers has a minimal impact on index valuation while simplifying the universe of index constituents. These indices do not have any liquidity screen and may thus include individual bonds with little or no secondary market liquidity.

The Replicable Indices are designed to capture the largest and most liquid portion of the credit market. These indices select the top 30 bonds based on a dual ranking methodology that incorporates both issue size and historic liquidity. In order to prevent a single issuer “crowding out” other issuers in the Top 30 index, a hard limit of 6 bonds per individual issuer is applied. In addition, the aggregate weight of each issuer in the index is capped at 15% each month.

For each composite index, a range of sub-indices is also calculated to meet specific requirements. The first range of sub-indices is based on Issuer Class Split, where each index constituent is split out into a Financials, Non-Financials, State Owned Enterprise or Asset Backed Security sub-index. The second range of sub-indices is based on outstanding term and again each composite index is divided into four term split sub-indices.

Next Meeting Dates:

Wednesday, 7 January 2015

Wednesday, 8 April 2015

Wednesday, 8 July 2015

Wednesday, 7 October 2015

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