

To: Market Participants  
 From: JSE Indices Department  
 Date: 26 January 2018  
 Subject: Notes from the JSE Fixed Income Index Series Advisory Committee Meeting held on Friday, 19 January 2018

## 1. Background

The JSE Fixed Income Index Series Advisory Committee (AC) met on Friday, 19 January 2018 to review the first 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 were no constituent changes made to both the ALBI and CILI indices. There were four constituent changes in the Credit Fixed Top 30 and 11 in the Credit Floating Top 30. The AC noted the Reconstitution changes and the Index Reconstitution papers were distributed to the market.

| Index  | Additions | Deletions | Weight changes since January 2018 Reweighting |
|--------|-----------|-----------|---|
| ALBI   | No Change |           | 14  |
| CILI   | No Change |           | 3   |
| CFIX30 | AIR02     | AIR01     | 17  |
|        | COJG01    | E170      |   |
|        | NBK21A    | SBS38     |   |
|        | TN30      | FRX30     |   |
| CFLO30 | SBK17     | FRJ19     | 10  |
|        | IBL85     | FRB12     |   |
|        | MBF053    | NBK33B    |   |
|        | MBF057    | NED16     |   |
|        | NGL01     | MBF049    |   |
|        | ABFN26    | OML08     |   |
|        | FRJ22     | SBS40     |   |
|        | FRJ25     | FRB16     |   |
|        | BGT01     | ABKS1     |   |
|        | SBS55     | SSN047    |   |
|        | SBT102    | FRB22     |   |

### **3. Implementation of Index Buffers**

Some market participants have raised concerns about the recurring movement of the same bonds into and out of the index at subsequent reconstitutions, which creates unnecessary churn in the index. The AC discussed the possible implementation of buffers in the GOVI and ALBI indices, and asked the JSE to investigate possible solutions, such as:

- Inclusion of entry/deletion buffers
- Review of the liquidity ranking metric to exclude switch auctions and buybacks

### **4. Treatment of Suspensions in the Index Series**

The AC discussed the possible suspension of Eskom issued bonds and the resultant impact on the indices. Currently the treatment of suspended bonds is not explicitly set out in the Ground Rules of the Index Series.

In the event that the Eskom bonds are suspended, the JSE will follow the approach set out below for the daily valuations of the Composite All Bond Index (ALBI) and the ALBI sub-indices, including the GOVI index.

- The Eskom bonds will remain in the ALBI and ALBI sub-indices
- The indices will be priced daily using the JSE published settlement price for each bond
- There will be no amendments made to the February 2018 Reconstitution of the JSE Fixed Income Index Series that was published on 15 January 2018.
- The AC will convene monthly to monitor the situation and any additional information published in the market, to determine whether any extra-ordinary action is required, as set out in Section 6 of the Ground Rules, which refers to Special Events.

Should the Eskom bonds not be reinstated for trading, no traded volumes will be reported on the JSE. It is therefore expected that the suspended bonds will be deleted from the Index Series at the relevant Reconstitution as a result of the dual ranking methodology, which incorporates a one year value traded metric for index selection purposes.

Should the deletion of the suspended Eskom bonds become necessary, the AC recommends that it would not be appropriate to delete the bonds from the indices at a zero price.

### **5. JSE and FTSE Russell Partnership Extension**

The AC took note of the JSE and FTSE Russell partnership to provide a range of co-branded Fixed Income indices. The partnership provides investors with access to internationally recognised benchmarking standards and should strengthen the development and growth of the local fixed income market.

The partnership will combine the regional expertise of the JSE in Africa and the exchange's market standard bond prices with the FTSE Russell's global distribution network and capabilities in fixed income research, analytics and transparent investment benchmarks.

For further information please contact the JSE Indices Team

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