JOHANNESBURG STOCK EXCHANGE
Equity Derivatives

Market Notice

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JSE Market Consultation on Changing the Number of Constituents in the Resi 20

INTRODUCTION

While endeavouring to meet client needs and ensuring that we keep abreast of the market, FTSE/JSE has been investigating the current construction of the FTSE/JSE Resources 20 (Resi 20) index and whether it needs to be revised. We would therefore appreciate your feedback on the suggested change to the current Resi 20 index.

BACKGROUND

The Resi 20 index consists of the 20 largest resources companies, ranked by full market capitalisation, i.e. before the application of any investability weightings, where Resources is defined as the combination of the Mining sector (1770) and the Oil & Gas Industry (0001). The number of constituents in this index is maintained at a constant level and a buffer of three is applied at each quarterly index review to provide stability.

Prior to the introduction of the FTSE/JSE Africa index series in June 2002, index constituents were not subjected to any screening and the definition of the Resources sector was different due to the classification system used at the time. The main Resources index was made up of 103 companies, providing a larger universe for the tradable index.

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The current index constituents have to undergo eligibility screening, such as sufficient free float and a liquidity test of turning over 0.5% of their free floated shares in issue, per month in at least eight of the twelve months if currently a constituent and ten of twelve if not a constituent prior to the December annual review. This, in conjunction with the global classification system reduced the universe significantly. The universe of the Resi 20 is the companies that belong to both the All Share index (J203) and Resources Index (J258), with the latter having only 21 companies at present. The Resi 20 index and one of its universe indices, the Resources Index (J258), are literally identical. Currently, there are two products written on the Resi 20 index, the Satrix Resi ETF and a futures contract.

RATIONALE

Companies at the bottom of the Resi 20 tend to be small and illiquid in terms of trading segments, even though passing the All Share liquidity screening. FTSE/JSE has been looking at ways of improving the current index.

Liquidity Criteria

FTSE/JSE investigated various liquidity screening methods that could possibly be implemented namely:

- Addition of another layer of liquidity to exclude companies belonging to functional trading segment ZA03. ZA03 is a functional market segment for the order-driven trading of less liquid equities.

- Excluding constituents that prevent the index from trading R50 million within a trading day.

- Instead of the current liquidity requirement for the All Share whereby a company must turnover 0.5% of their shares in issue, four additional scenarios were tested i.e. 1%, 3%, 4% and 5%.

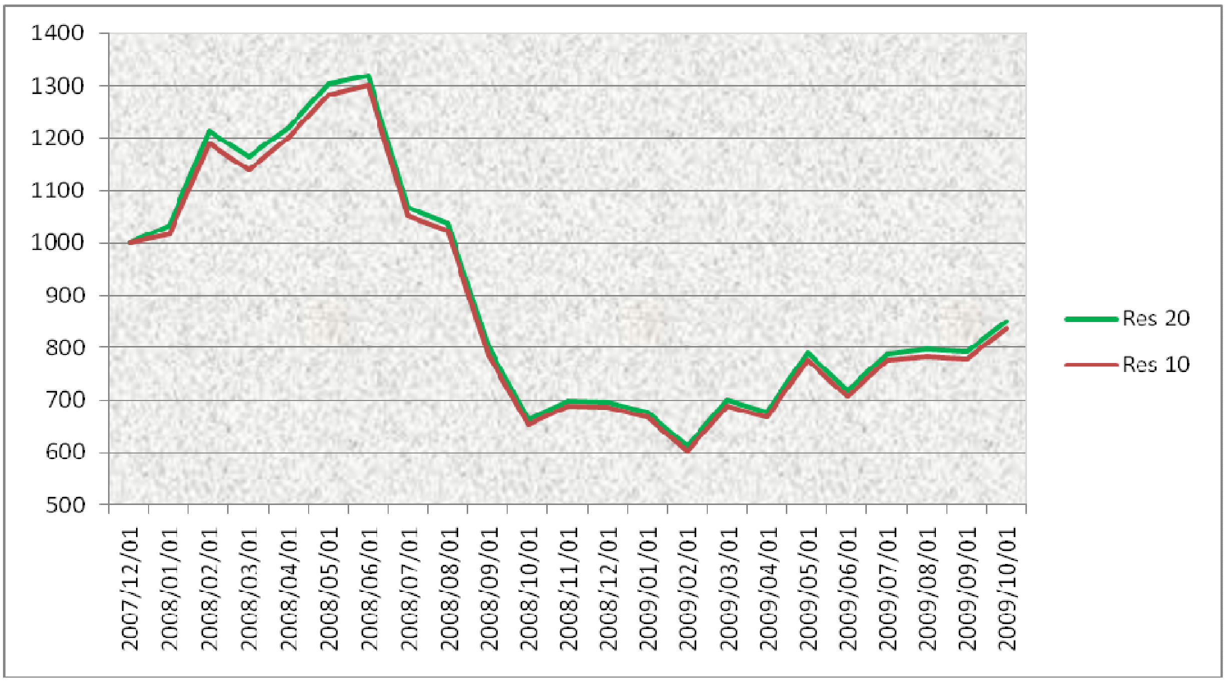
As a result of the above analysis, the FTSE/JSE Advisory Committee in conjunction with FTSE/JSE concluded that adding of another liquidity layer would not be recommended as it would add complexity to the index. Applying the R50 million per day liquidity testing rule from the Dividend Plus index, results in companies such as AGL and BIL failing this test due to their large weights in the index. The timing differences between the trading segments and the FTSE/JSE indices reviews are not in line; this would have then added complexity to the index design.

Size

FTSE/JSE investigated various ways of selecting an appropriate size. It was found that the Resi 15 constitutes about 99% of the current Resi 20 index by full market capitalisation. The Resi 10 accounts for approximately 96% of the current Resi 20 index and it also ensures that the bottom illiquid stocks are excluded from the index.

FTSE/JSE undertook to investigate and calculate the historical performance data for the Resi 10 over the past 2 years.

The Resi 20 and Resi 10 indices performance graph showed interesting similarities as depicted below:



<u>**Graph 1: Resi 20 vs. Resi 10 Indices**</u>

Conclusion

FTSE/JSE proposes to introduce the Resi 10 as a replacement for the current Resi 20. To this extent, FTSE/JSE is not proposing a new index but rather a change to the existing index. The index code will remain as J210 and the index short name will change to Resi 10. The JSE Trading and Equities Division have confirmed that there is currently no open interest in the listed Futures Contract on the Resi 20, thus they would not be negatively affected by any change made to the index.

RESPONDING TO THE CONSULTATION

FTSE/JSE would appreciate comments on the proposed change and its possible impact, particularly on Over the Counter (OTC) products.

Feedback received will be presented to the December 2010 FTSE/JSE Advisory Committee, followed by a public announcement on the final decision. An implementation date of March 2011 is anticipated, provided that all concerns have been addressed.

This document is not confidential and should be distributed as widely as possible to all stakeholders.

Please provide us with your comments and suggestions by Sunday, 31 October 2010 to the following email address: indices@jse.co.za

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