

To: Market Participants
 From: JSE Indices Department
 Date: 16 March 2017
 Subject: Notes from the JSE Fixed Income Index Series Advisory Committee Meeting held on Wednesday, 11 January 2017

1. Background

The JSE Fixed Income Index Series Advisory Committee (AC) met on Wednesday, 11 January 2017 to approve 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 was one constituent change made to both the ALBI and CILI indices. There were four constituent changes in the Credit Fixed Top 30 and six in the Credit Floating Top 30. The AC noted and approved the Reconstitution changes and the Index Reconstitution papers were distributed to the market.

Index	Additions	Deletions	Weight changes since January 2017 Reweighting
ALBI	DV23	ES18	10
CILI	I2029	EL28	2
CFIX30	CCT03	ECN20	18
	FRX24	ECN24	
	FRX30	SBK9	
	SBS20	SBS39	
CFLO30	NED13	ABFN07	14
	HWF09	DVF18	
	FRB12	SBK16	
	MBF053	TNF18	
	BGL12	BGL03	
	SLI4	NED19	

3. ALBI Reconstitution Incident: November 2016

There were a number of calculation issues experienced with the JSE All Bond Index (ALBI) and its sub-indices on 2 and 3 November 2016. The standard expiry date for interest rate derivatives was on 3 November, as well as the effective date for the fourth quarter index reconstitution. The AC discussed some of the failures that occurred, and reviewed specific mitigations that the JSE will implement to prevent a recurrence.

4. JSE Fixed Income Index Series Roadmap

The AC was asked to provide the JSE with a prioritisation for the roadmap list. Using the input received from the committee, as well as internal JSE and index client views, the JSE was able to complete the prioritisation exercise as follows:

#	Description	Status
1	<u>15:00 Pricing</u> Publish an index level for all indices using the 15:00 bond valuation for unit trusts	Functionality has been developed and is currently in testing. Next: Develop data products and distribution.
2	<u>Single Stock Total Return Indices</u> Create a series of total return indices at the single bond level to provide the total return for each bond, incorporating coupon reinvestment.	Functionality has been developed and tested successfully. Next: Identify bonds, create history, develop data products and distribution.
3	<u>Custom Index Service</u> Provide a custom index service	Custom indices have been successfully created in production system. Next: Develop data products and distribution.
4	<u>Daily valuation product</u> Create an end of day valuation product for all indices in a consistent format. There are currently different file formats for ALBI, CILI and the Credit Indices	
5	<u>Daily constituent product</u> Create an end of day constituent product for all indices in a consistent format. There is currently only a constituent product for the ALBI.	
6	<u>Daily tracker product</u> Create a daily end of day product that lists all known upcoming index changes, including reconstitutions, re-weightings and coupons.	
7	<u>FTP Data Product Delivery</u> Deliver all data products via FTP	
8	<u>IOSCO Principles for Financial Benchmarks</u> Determine the viability of improving compliance with the IOSCO Principles for Financial Benchmarks	
9	<u>Basic performance contribution</u> Define and publish a basic contribution calculation to allow all clients to simply verify the index returns on a bottom-up basis using the overnight returns of the individual bonds	
10	<u>Advanced performance contribution</u> Define and publish an advanced performance contribution methodology to decompose index returns in terms of broader interest rate variables, such as time decay, yield curve shifts, credit spreads etc.	

The JSE will use the feedback from the AC as well as market participants in order to allocate the resources required to deliver on these initiatives.

Next Meeting Dates:

Wednesday, 12 April 2017

Wednesday, 12 July 2017

Wednesday, 11 October 2017

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