

## **Amendments to the JSE Listings Requirements (the “Requirements”)**

**June 2024**

### **Market Segmentation**

#### **Introduction**

In May 2022, as part of its ongoing efforts to ensure that the bourse is fair, efficient, transparent and competitive, the JSE released a consultation paper, requesting stakeholders to comment on a raft of proposals. One such proposal was the Market Segmentation Project for which overwhelming support was received.

The JSE currently has a two-tiered equities market, namely: the Main Board and AltX. Considering recent international benchmarking, the JSE proposes to reposition the JSE’s Main Board into two segments. The proposed segmentation of the Main Board aims to provide an effective and appropriate level of regulation depending on the size and liquidity of Main Board issuers, whilst also maintaining investor confidence in disclosure and the status of existing listed Main Board companies.

In support of transparency, the Issuer Regulation Division appointed a third-party service provider to undertake a targeted survey during June 2023, to engage directly with all Main Board issuers, sponsors and selected investors on the proposed project. The aim of the survey was to obtain more granular level input on proposed segmentation indicators.

Considering the above engagements, the JSE is proposing the following Market Segmentation Framework.

## Market Segmentation Framework

- The naming convention for Market Segmentation, is being proposed as Main Board Prime and Main Board General;
- Market Segmentation will only be available for Main Board primary issuers;
- The default position for all Main Board listed issuers is classification in the Main Board Prime Segment;
- Issuers must apply to the JSE to seek classification in the Main Board General Segment, subject to the proposed segmentation threshold below;
- As you will note from the Survey Results, the segmentation threshold was proposed at issuers with a market capitalisation of R3B and below. When looking at the segmentation threshold, we were of the view that a more stable segmentation threshold would be required other than market capitalisation to allow certainty for both issuers and the JSE, considering market volatility. For that reason, it is being proposed that the FTSE/JSE All Share Index serves as the segmentation threshold, which is well known and established market index. The FTSE/JSE All Share Index is designed to represent 99% of the full market capitalization of all eligible companies listed on the Main Board of the JSE;
- The following is presented for illustrative purposes, in relation to the segmentation threshold:

<b>Total Listed Issuers</b>	284
<b>Main Board Primary</b>	220
<b>Total Main Board Issuers in the All Share</b>	125 <ul style="list-style-type: none"><li>• 104 primary listed</li><li>• 21 secondary listed</li></ul>
<b>Eligible Main Board Issuers for Segmentation</b>	116 Issuers of 220 (52.7%)

- *Largest issuer outside the All Share is at a R8B market cap, and the second largest at R5B, then reduces fairly quickly.*
- *Conclusion: Rare for an issuer with a R3B market cap to be in the All Share.*

- An issuer in the Main Board General Segment will be reclassified in the Main Board Prime Segment after being a constituent of the FTSE/JSE All Share Index for a period of twelve consecutive months. This approach supports consistency in regulation and the notion that there must be meaningful change in the life of the issuer to fall outside the Main Board General Segment.
- We are of the view, that the reforms being proposed for the Main Board General Segment are flexible and that it will be fairly easy for an issuer to adjust back to Main Board Prime regulation.
- Market Segmentation will not impact the Main Board entry criteria nor any of the mandatory corporate governance provisions in Section 3 (Continuing Obligations).

### **FTSE/JSE All Share Index**

- The FTSE/JSE All Share Index is a widely used equity market benchmark in South Africa
- The rules that determine eligibility and inclusion in the FTSE/JSE Africa Index Series are published on the JSE's website and all index rules are based on data that can be obtained publicly. Additions and Deletions for the FTSE/JSE All Share Index are published quarterly on SENS
- Certain eligibility rules can exclude companies from index inclusion, such as liquidity and free float requirements. These apply regardless of the company's market capitalization.
- The FTSE/JSE All Share Index is designed to include a 99% representation of the total market capitalization of eligible companies. Constituents are ranked and selected semi-annually in the March and September index reviews.

### **Reforms**

The following key reforms are being proposed for the Main Board General Segment, subject to the MOI of the issuer and the Companies Act, as generally proposed in the Survey:

- 1 the obligation to announce results dealing with condensed financial statements or annual financial statements/summary financial statements do not apply, and will be limited to the release of the annual report within 4 months from financial year-end;
- 2 removal of fairness opinions for a specific issue of shares for cash, general authority (issue of options/convertibles), specific repurchase, related party transactions and small related party transactions provided the related party corporate action agreement is open for inspection and the corporate action is accompanied by a statement by the independent members of the board dealing with:

- a. the corporate governance processes that were followed to approve the corporate action;
- b. if applicable, that the related party and their associates will be excluded from voting; and
- c. whether the related party corporate action was concluded on an arm's length basis (including key assumptions and factors taken into account in reaching the conclusion) and is fair to shareholders;

3 a general authority to issue shares for cash does not require shareholders' approval, provided it does not exceed 10% of the issuer's issued share capital, as at the date of each annual general meeting. The validity of any existing authority provided under the prime segment must be extinguished before this provision can be applied;

The following provisions apply to this authority:

- a. the validity of any existing general authority provided under the prime segment must be extinguished before this provision can be applied; and
- b. the issuer must disclose in each notice of annual general meeting:
  - (aa) the nature and extent of the rolling general authority; and
  - (bb) the number of shares issued under this authority during the previous 12 months, if applicable;

4 in respect of a specific authority to repurchase securities from parties other than related parties, shareholders' approval in terms of 5.69(b) is not required provided it does not exceed 20% of the issuer's share capital in any one financial year;

5 in respect of general authority to repurchase securities, shareholders' approval is not required. The validity of any existing authority provided under the prime segment must be extinguished before this provision can be applied;

6 a pre-listing statement is only triggered for share issuances exceeding 100% (increase by 100 % currently 50%) over a three-month period;

7 two years historical financial information is required for the subject of a category 1 transaction (currently three years of audited historical information);

8 the preparation of pro forma financial information is not required for corporate actions and transactions but rather a detailed narrative must be provided on the impact of the transaction/corporate action on the financial statements which must at least include:

- a. an explanation of how the transaction/corporate action will be treated from an IFRS perspective;
- b. impact on debt and cash levels; and
- c. anticipated changes to number of shares in issue.

9 in respect of 9.20 and 9.21 shareholders' approval and a circular are not required for transactions by a subsidiary that is listed on the of the JSE;

- 10 the category 1 percentage ratio is 50% or more (increase by 20%, currently 30%);
- 11 the material shareholder definition percentage ratio is 20% (increase from 10% to 20%);
- 12 the small-related party transaction percentage ratio is less than or equal to 10%, but exceeds 3% (increase by 5% and 2.75% respectively, currently 5% and 0.25%); and
- 13 in relation to a new listing, an applicant issuer is not required to comply with 8.2(f), being historical financial information of any category 1 acquisition or disposal effected in the current or preceding financial year.

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