



# ZSE INDEX RULES

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# Section 1

## Introduction

### 1.0 Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the ZSE Indices.
- 1.2 The ZSE indices are designed to represent the performance of Zimbabwean companies, providing investors with a comprehensive set of indices, which measure the performance of the major capital and industry segments of the Zimbabwean market.
- 1.3 ZSE hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of ZSE, may necessitate changes to, or the cessation of, the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.
- 1.4 Index users who choose to follow this index series or to buy products that claim to follow this index series should assess the merits of the index series rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by ZSE for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules, and/or
  - any errors or inaccuracies in these Ground Rules, and/or
  - any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
  - any errors or inaccuracies in the compilation of the index series or any constituent data.
- 1.5 There are different categories under the ZSE Indices. The Indices may be grouped into the following categories:
- 1.5.1 **Headline Indices**
- There are Four indices making up the headline series (the ZSE All Share Index, the ZSE Industrial, the ZSE Mining and the ZSE Top 10).

### Statement of Principles for ZSE Market Capitalisation Weighted Equity Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Rules do not fully cover a specific event or development, ZSE will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying ZSE's approach to index construction.

# Section 2

## Status of Indices

### 2.0 Status of Indices

2.1 The ZSE Indices are calculated in real time and may exist in the following states:

#### 2.2 Firm

The indices are calculated on actual trades generated by the ZSE trading system during the trading hours of the ZSE.

The Official Closing Index is the last index value calculated at the end of the firm period using the closing price from the ZSE.

#### 2.3 Closed

The indices have ceased all calculations for the day. The message 'CLOSE' will be displayed against the index value calculated by ZSE.

#### 2.4 Halt

During Official ZSE Market Hours, an index has exceeded pre-set operating parameters and the calculation has been suspended pending resolution of the problem. The message 'HALT' will be displayed against the last index value calculated by ZSE.

#### 2.5 Indicative

If there is a system problem or situation in the market that is judged to affect the quality of the constituent prices at any time when an index is being calculated, the index will be declared indicative (e.g. normally where a 'fast market' exists in the equity market). The message 'IND' will be displayed against the index value calculated by ZSE.

2.6 The official opening and closing hours of the ZSE Indices are in line with the trading hours on the ZSE Trading system. Variations to the official hours of the Indices are published by ZSE as appropriate.

2.7 The ZSE Indices are calculated on all days when the ZSE is open for trading.

# Section 3

## Management of the Indices

### 3.0 Management of the Indices

#### 3.1 ZSE Responsibilities

3.1.1 ZSE is responsible for the daily calculation and production of the index series and will:

- calculate all the Indices in the ZSE Indices and will maintain records of the index weightings of all constituents and reserve companies.
- following consultations, the ZSE will make changes to the constituents and their weightings in accordance with the Ground Rules;
- ZSE is responsible for monitoring the performance of the ZSE Indices throughout the day and will determine whether the status of each index should be 'firm', 'indicative', 'Halt' or 'closed'.

3.1.2 The ZSE is responsible for the operation of the ZSE Index Series.

- The ZSE will monitor and advise all changes to index and constituent data.
- The ZSE will carry out the quarterly review of the ZSE indices and advise on implementing the resulting constituent changes as required by the Ground Rules.

#### 3.2 ZSE Index Committee

##### 3.2.1 Committee Responsibilities

The purpose of the Committee is to consider and advise on matters relating to and proposed amendments to the Ground Rules governing the management of the ZSE indices and to ensure that best practice is used in the construction and ongoing management of the Indices.

In particular the Committee will:

- ensure that global standards are applied in the Ground Rules
- advise on how to reconstruct or replace the existing index methodology
- oversee the ongoing management of the Indices, corporate actions and changes to Ground Rules
- advise on the construction and methodology of new indices.

##### 3.2.2 Committee Membership

The ZSE appoints the Chairman, Deputy Chairman and members of the ZSE Indices. The Chairman, or in his absence Deputy Chairman, will chair meetings of the Committee and will represent that Committee outside meetings.

No member of the Committee is on the Committee to represent that member's employer but rather is there because of that person's specific expertise and to represent the interests of the industry generally.

### 3.2.3 Committee Secretary

A Secretary to the ZSE Indices Committee is appointed by the ZSE to support the work of the Committee.

### 3.3 Recalculations

3.3.1 The ZSE Indices are recalculated whenever errors or distortions occur that are deemed to be significant. Users of the ZSE Indices are notified through appropriate media.

### 3.4 Index Policy in the Event Clients are Unable to Trade a Market

3.4.1 External events can on occasion make it difficult or even impossible for ZSE clients to trade securities on certain markets. Such events include the temporary closure of a stock exchange, government, central bank or monetary authority imposed restrictions on the repatriation of foreign capital, and the imposition of sanctions preventing new investment in a country.

# Section 4

## Management of the Ground Rules

### 4.0 Management of the Ground Rules

#### 4.1 Amendments and Exceptions

- 4.1.1 These Ground Rules shall be subject to regular review (at least once a year) to ensure that they continue to meet the current and future requirements of investors and other index users. Any changes will normally be proposed by the ZSE Committee or any of those responsible for the operation and administration of the ZSE Index Series and may be authorised only by the ZSE.
- 4.1.2 Where ZSE or the ZSE Index Committee determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles as provided for in Rule 1.10. After making any such determination, ZSE shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but ZSE will consider whether the Rules should subsequently be updated to provide greater clarity.
- 4.1.3 An exception to the Ground Rules may be authorised by the ZSE under Rule 1.10. Where an exception is granted to the Ground Rules under this rule, ZSE shall advise the market at the earliest opportunity. Any exception shall not be deemed to create a precedent for future decisions by ZSE or the ZSE Index Committee.

# Section 5

## Queries, Complaints and Appeals

### 5.0 Queries, Complaints and Appeals

A constituent or prospective constituent company (or professional advisor acting on behalf of the company), a national organisation or a group of no fewer than ten users of the Indices from different organisations acting in their professional capacity may appeal against decisions taken by ZSE.

# Section 6

## Index Construction

### 6.0 Index Construction

#### 6.1 Eligible Securities

- 6.1.1 All classes of listed ordinary shares in issue are eligible for inclusion in the ZSE Indices subject to conforming to all other rules of eligibility.
- 6.1.2 Companies that have a full listing on the main board of the ZSE are eligible for inclusion in the ZSE Indices. Companies listed on secondary boards (markets) may be included in the category for secondary markets, but will not be included in any other indices on the main board.
- 6.1.3 For the purposes of the ZSE Indices, where a security is listed on the ZSE and is traded on the ZSE trading system, that security will be considered as Zimbabwean for the purposes of nationality and therefore eligible for the ZSE Indices, subject to conforming to all other eligibility criteria.
- 6.1.4 Convertible preference shares and loan stocks are excluded until converted.
- 6.1.5 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) will be eligible for inclusion.
- 6.1.6 Exchange Traded Funds (ETFs) and funds whose prices are a direct derivation of underlying holdings (e.g. Unit Trusts, Mutual Funds) are not eligible for inclusion.

#### 6.2 Secondary Lines

- 6.2.1 Where there are multiple lines of equity capital in a company, all are included and priced separately, provided that they pass index eligibility screens in their own right.
- All partly-paid classes of equity are priced on a fully-paid basis if the calls are fixed and are payable at known future dates. Those where future calls are uncertain in either respect are priced on a partly- paid basis.
- 6.2.2 For the purposes of the ZSE Indices, companies with an approved dual listed structure are treated as secondary lines of a single entity.
- 6.2.3 There are no considerations for liquidity and free float on the ZSE Indices.

#### 6.3 Index Qualification Criteria

##### 6.3.1 ZSE All Share Index

The ZSE All Share Index will represent 100% of the full market capital value i.e. before the application of any investability weightings, of all ordinary securities listed on the main board of the ZSE.

### **6.3.2 ZSE Industrial Index**

The ZSE Industrial Index will represent 100% of all the companies in all other sectors excluding the mining sector of the full market capital value i.e. before the application of any investability weightings, of all ordinary securities listed on the main board of the ZSE.

### **6.3.3 ZSE Mining Index**

The ZSE Mining Index will represent 100% of all the companies in the mining sector of the full market capital value i.e. before the application of any investability weightings, of all ordinary securities listed on the main board of the ZSE.

### **6.3.4 ZSE Top 10 Index**

The ZSE Top 10 Index will represent 65%-80% of the full market capital value i.e. before the application of any investability weightings, of all ordinary securities listed on the main board of the ZSE.

Eligibility criteria

The ZSE Top 10 Index consists of the 10 largest companies ranked by investable market capitalisation, as at the date of the review in the all the sectors. The number of constituents in this index is maintained at a constant level. Buffers will be applied at each quarterly review to provide stability. The following upper and lower buffers will be used:

- Non-constituents will be eligible for index inclusion if they are ranked on the 9th position or above by investable market capitalisation.
- Current constituents will be removed from the index if they are ranked on the 12th position or below by investable market capitalisation.

### **6.3.5 Other Categories**

Other categories may be developed or considered and should be governed by the same Rules.

# Section 7

## Periodic Review of Constituent Companies

### 7.0 Periodic Review of Constituent Companies

#### 7.1 Review Dates

7.1.1 The ZSE Indices are reviewed on a quarterly basis in March, June, September and December. The index reviews will be based on data for the purpose of determining full and investable market capitalisation as at the close of business on the Monday 4 weeks prior to the review effective date.

Any constituent changes will be implemented after the close of business on the third Friday of the review month (i.e. effective Monday).

7.1.2 Details of the outcome of the review and the dates, on which any changes are to be implemented, will be published by ZSE .

#### 7.2 Responsibilities and Reporting

7.2.1 ZSE is responsible for conducting the quarterly review of constituents for the ZSE Indices.

7.2.2 ZSE is responsible for publishing the outcome of the quarterly review.

#### 7.3 Rules for Insertion and Deletion at the Quarterly Review

7.3.1 The rules for inserting and deleting companies at the quarterly review are designed to provide stability in the selection of constituents of the ZSE Indices while ensuring that the Index continues to be representative of the market by including or excluding those companies which have risen or fallen significantly.

7.3.2 A security will be inserted into the ZSE Top 10 Index at the periodic review if it rises to position 9th or above when the eligible securities for each index are ranked by investable market capitalisation.

7.3.3 A security will be deleted from the ZSE Top 10 Index at the periodic review if it falls to position 11 or below when the eligible securities for each index are ranked by investable market capitalisation.

7.3.4 A constant number of constituents will be maintained for the ZSE Top 10. Where a greater number of companies qualify to be inserted in an index than those qualifying to be deleted, the lowest ranking constituents presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted, the securities of the highest ranking companies which are presently not included in the index will be inserted to match the number of companies being deleted at the periodic review.

7.3.5 A constant number of constituents will not be maintained for the ZSE All Share Index, ZSE Industrial Index and ZSE Mining since they do not have a fixed number of constituents. Stocks, which fall out of the above Indices due to suspension, takeover, etc. will not be replaced, nor will a constituent of these Indices be removed to accommodate new issues or new companies arising from restructuring of constituents, etc.

7.3.6 Any new issue that is listed will automatically be added to ZSE All shares Index and will be considered for other indices.

7.3.7 Where a company is deleted after review changes have been published, but before the periodic changes have been implemented, the highest ranking company from the new Reserve List, excluding current index constituents, will replace the deleted company.

#### 7.4 **Monitoring of Eligible Companies**

7.4.1 The market capitalisation of companies eligible for inclusion in the ZSE Indices is monitored by ZSE . All listed ordinary securities on the ZSE will be used to conduct the periodic reviews.

#### 7.5 **Reserve Lists**

7.5.1 ZSE will be responsible for publishing the five highest ranking non-constituents of the ZSE Top 10. The appropriate Reserve List will be used in the event that one or more constituents are deleted from the ZSE Top 10 during the period up to the next quarterly review.

# Section 8

## Changes to Constituent Companies

### 8.0 Changes to Constituent Companies

#### 8.1 Corporate Actions and Events

Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

<http://www.zse.co.zw/corporate-announcements/>

A Corporate 'Action' is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- Scrip issues (Capitalisation or Bonus Issue)

A Corporate 'Event' is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index.

Where an index adjustment is required ZSE will provide notice advising of the timing of the change.

#### 8.2 Removal and Replacement

8.2.1 If a constituent is de-listed from the ZSE, or ceases to have a firm quotation, or is subject to a take-over or has, in the opinion of the Chairman and Deputy Chairman of the ZSE Index Committee (or their nominated deputies), ceased to be a viable constituent as defined by the Ground Rules, it will be removed from the list of constituents and replaced by the highest ranking company by market capitalisation eligible on the Reserve List as at the close of the index calculation two days prior to the deletion where applicable.

8.2.2 Where the company to be removed is a constituent of the ZSE Top 10, the replacement company will be taken from the highest ranking company, by investable market capitalisation, on the ZSE Top 10 Reserve List as calculated at the time of the replacement.

8.2.3 The removal and replacement are effected simultaneously, before the start of the index calculation on the second day following the day on which the event justifying removal was announced. Announcements made after the close of the index calculation are normally deemed to be made on the following business day.

#### 8.3 Mergers, Restructuring and Complex Takeovers

8.3.1 If the effect of a merger or takeover is that one constituent in the ZSE Top 10 is absorbed by another constituent, the resulting company will remain a constituent of the appropriate index,

and a vacancy will be created. This vacancy will be filled by selecting the highest ranking security in the appropriate Reserve as at the close of the index calculation two days prior to the deletion and related Indices adjusted in accordance with Rule 8.2.

- 8.3.2 If a constituent company in the ZSE Top 10 is taken over by a non-constituent company, the original constituent will be removed and replaced by the highest ranking non-constituent on the appropriate Reserve List. Any eligible company resulting from the take-over will be eligible to become the replacement company if it is ranked higher than any company on the Reserve List.
- 8.3.3 If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents in the appropriate ZSE Indices based on their respective full market capitalisations
- 8.3.4 In case of an unbundling the new constituents will be added to all the Indices that the original company belonged to for a period of 2 days. Index constituent changes resulting from the split will be determined based on the market values at close on day one of trading and applied using market values at close on day two of trading, following the date that the split becomes effective. Consequently the Top 10 may have an extra company for 2 days. If one of the unbundled entities in the unbundling process is ineligible it will be deleted from the index, the remaining constituent will take the sum weight of the two unbundled entities.
- 8.3.5 If the effect of a merger or takeover is that one constituent is absorbed by another constituent in any other index with a fixed number of constituents, the resulting company will remain a constituent of the index and a vacancy will be created. This vacancy will be filled by selecting the highest ranking non constituent in the relevant industry as at the close of the index calculation two days prior to the deletion.
- 8.3.6 If a constituent of any other index with a fixed number of constituents is taken over by a non-constituent company, the original constituent will be removed and replaced by the highest ranking non-constituent in the relevant industry(ies). Any eligible company resulting from the takeover will be eligible to become the replacement company if it is the highest ranking non constituent company as at the close of the index calculation two days prior to the completion of the acquisition based on the combined value of the company after the merger.
- 8.3.7 If a constituent of any other index with a fixed number of constituents is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents in the relevant index based on their respective investable market capitalisations, and if they qualify in all other respects. If a constituent of any other index with a fixed number of constituents splits into two companies, one or both of these companies may remain in the relevant index. Where both of the new companies remain in the relevant index, the smallest constituent will be deleted from the relevant index.

#### 8.4 **New Issues**

- 8.4.1 Where a company, whether an existing constituent or not, undertakes an Initial Public Offering of a new equity security, that security will be eligible for fast entry inclusion to the ZSE Indices. ZSE All Share Index, before the application of individual constituent investability weightings ZSE will normally decide to include the new security as a constituent of the ZSE indices that it qualifies for after the close of business on the fifth day of official trading. In all cases, advance notification confirming the timing of the inclusion of the new constituent will be given accordingly. The fast entry rule is not applicable to the ZSE Top 10 and any index with a fixed number of constituents and also not to any share that is classified as foreign, for index

purposes. In the event of the fifth day of trading being in close proximity to an index review, ZSE may use its discretion to include a fast entrant at the index review date following advance notice.

- 8.4.2 For the purpose of this rule, a company which is relisted following suspension or is reorganised or renamed or which arises from a demerger or complex reorganisation of another company which is not an existing constituent, shall not be considered to be a new issue. However, an Initial Public Offering (IPO) which arises from a demerger shall be considered as a new issue.
- 8.4.3 New issues, including demutualisations, which do not qualify as early entrants to the ZSE Indices as defined under Rule 8.4.1 will become eligible for inclusion at the next quarterly review of constituents providing they have, since the commencement of official non-conditional trading, a minimum trading record of at least 20 trading days.
- 8.4.4 The inclusion of early entries as defined under Rule 8.4.1, excluding demutualisations, will not require a minimum trading record.

## 8.5 **Suspension of Dealing\***

- 8.5.1 In the event that a constituent of a ZSE Industrial, ZSE Mining , ZSE All Share, other than the ZSE Top 10 Index, is suspended, the constituent may remain in the ZSE indices, at the price at which it is suspended, for up to the time when the constituent is removed from listing or suspension is lifted, whilst a suspended constituent of the ZSE Top 10 Index may remain in the Index for up to twenty business days. During this time ZSE may delete the constituent immediately at zero value in cases it is expected that the constituent will not recommence trading.
- If a constituent is declared bankrupt, placed under curatorship, business rescue or placed in provisional liquidation, the last traded price will be adjusted down to zero value and it will subsequently be removed from the index with T+3 notice.
  - In all other cases, if the company is a constituent of the Top 10 index, the constituent will continue to be included in the index for a period of 20 business days, If the constituent continues to be suspended at the end of that period, it will be removed from the index with T+3 notice at the last traded price.
  - In all other cases, the constituent will continue to be included in the index for a period of up to 20 business days at its last traded price.
  - If the constituent continues to be suspended at the end of that period, it will be subject to review and a decision will be taken to either allow the constituent to remain in the index for a further period of up to 20 business days or to remove it at zero value. In making this determination, ZSE will take into account the stated reasons for the suspension. These reasons may include announcements made by the company regarding a pending acquisition or restructuring, and any stated intentions regarding a date for the resumption of trading.
  - This procedure will be repeated at successive 20 business day intervals thereafter until either trading recommences or the suspension period reaches 80 business days.
  - If the suspension period reaches 80 business ZSE will provide notice that the constituent will be removed at zero value at the index review immediately following the expiry of a minimum 40 business day notice period.

In certain limited circumstances where the index weight of the constituent is significant and ZSE determines that a market-related value can be established for the suspended constituent, for example because similar company securities continue to trade, deletion may take place at the market-related value instead. In such circumstances, ZSE will set out its rationale for the proposed treatment of the constituent at the end of the 80 business day period.

- If following the end of the 80 business day period, a suspended constituent resumes trading before the Wednesday before the first Friday of March, June, September or December, the deletion notice will be rescinded and the constituent will be retained in the index. If the constituent resumes trading after these dates but before the review effective date, the constituent continue to be removed from the index as previously announced but in these circumstances the deletion may instead be implemented at market value.
- If a constituent has been removed from the index and trading is subsequently restored, the constituent will only be re-considered for inclusion after a period of 12 months from its deletion. For the purposes of index eligibility it will be treated as a new issue.
- \*The Suspended Companies policy also applies to constituents which have a price that ZSE considers to be unreliable.

# Section 9

## Industry Classification Benchmark

### **9.0 Industry Classification Benchmark**

#### **9.1 Classification of Constituents within Industry and Sectors**

- 9.1.1 The classification of a constituent may change from time to time. The reassessment of the industry and sector to which a constituent belongs will be made by the ZSE.
- 9.1.2 The constituents of the corresponding Industry Indices, Sector Indices and the Specialist Indices based on a particular Subsector will be affected when the classification of a company changes.

#### **9.2 Changes to Industry Classification of Constituents**

- 9.2.1 Where a constituent is the subject of a merger, restructuring, or complex take-over which results in a constituent, or part of a constituent, being absorbed by another, the industry sector classification of the resulting constituent(s) will be determined by the ZSE.
- 9.2.2 Any adjustment resulting from a change in a company's classification will be implemented at the same time that any relevant constituent changes are implemented in the Index.
- 9.2.3 Periodic changes to the industry classification of a company will be agreed and announced by the ZSE.

#### **9.3 ZSE Index Committee**

- 9.3.1 The ZSE is responsible for the industry classification of constituents of the ZSE Indices within the Industry Classification Benchmark System. The ZSE may approve changes to the Industry Classification Benchmark System and Management Rules.
- 9.3.2 The classification of securities within industry is undertaken by the ZSE.

# Section 10

## Index Calculation

### 10.0 Index Calculation

#### 10.1 Index Algorithm

10.1.1 All indices within the ZSE will be displayed to two decimal point.

10.1.2 The ZSE Index Series is calculated using the following formula:

$$\sum_{i=1}^N \frac{(p_i \times s_i \omega_i)}{d}$$

Where,

•  $j=1, 2, \dots, N$

•  $N$  is the number of securities in the Index.

•  $p_i$  is the latest trade price of the component security (or the price at the close of the Index on the previous day).

•  $s_i$  is the number of shares in issue used by ZSE for the security, as defined in these Ground Rules.

$\omega$  is the weight of number of shares in issue used by ZSE for the security, as defined in these Ground Rules.

•  $d$  is the divisor, a figure that represents the total issued share Capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share Capital of individual securities to be made without distorting the Index.

# Section 11

## Appendix A – Further Information

### 11. Appendix A – Further Information

#### 11.1 Contacting ZSE

Further information on the ZSE Indices is available from the ZSE. Enquiries should be addressed in the first instance to:

ZSE Limited Operations Department  
44 Ridgeway North , Highlands, Harare, Zimbabwe

Tel: +263 (4) 886830-5 Website: [www.zse.co.zw](http://www.zse.co.zw)

E-mail: [operations@zse.co.zw](mailto:operations@zse.co.zw), [info@zse.co.zw](mailto:info@zse.co.zw)