

THE GROUND RULES FOR THE MANAGEMENT OF

# SEMSI



*(September 2015)*

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## Section 1: INTRODUCTION

- 1.1 This document, henceforth referred to as *The Ground Rules*, sets out the Rules for the composition, conception, and management of the Stock Exchange of Mauritius Ltd's (SEM) Sustainability Index ("SEMSI" or "the Index").
- 1.2 The Index is designed to represent the performance of the companies listed on The SEM (both the Official Market and the Development & Enterprise Market) which meet the Index eligibility criteria, as described in Section 3 of these Ground Rules.
- 1.3 The Index is a price index, with a starting base value of 100 on 08 September 2015.
- 1.4 The base currency for the Index is the Mauritian Rupee.
- 1.5 The Index is calculated during the continuous trading session on a real time basis and published every 15 minutes on the website of the SEM during trading hours, as specified in Appendix B of *The Ground Rules*.

### 2.1 Responsibility of the SEMSI Supervisory Committee

2.1.1 The SEMSI Supervisory Committee (the Committee) comprises representatives of the SEM, independent experts in the field of sustainability, and such other person(s) who have strong expertise and involvement in the field of Sustainability and the different pillars of Sustainability (Economy, Social, Environment and Corporate Governance).

2.1.2 The Committee, as set out in *The SEMSI Supervisory Committee Terms of Reference*, is the central decision-making body for the management and for all adjustments and changes to the Index. It is responsible, amongst other things, for:

- choosing the Sustainability Criteria, as well as the relevant weights that will be used to determine which companies will be eligible for inclusion in the Index;
- decisions regarding the calculation parameters of the Index, including periodical and operational adjustments, ensuring that the Index constituents comply with *The Ground Rules* ;
- advising on principles and operational issues regarding *The Ground Rules* and the Index, and proposing amendments thereto;
- overseeing reviews of the Index and its constituents;
- approving any addition to, or any removal of, companies from the Index;
- approving the Terms of Reference and the appointment of the Independent Sustainability Auditor

2.1.3 The Chairperson, or in his/her absence, the Deputy Chairperson, or any such person as may be unanimously appointed by the members of the Committee, chairs meetings of the Committee and represents the Committee outside meetings.

## **2.2 Responsibility of the SEM**

- 2.2.1 The SEM is responsible for the calculation, operation and monitoring of the Index on a day-to-day basis.
- 2.2.2 Changes to *The Ground Rules* will be made by the SEM, subject to Section 8 of *The Ground Rules*.
- 2.2.3 Reviews of the Index as per *The Ground Rules* will be undertaken by the SEM in conjunction with the Committee.
- 2.2.4 The SEM is responsible for informing market participants about any adjustments of the composition of the Index and/or calculation parameters, following the reviews, as soon as reasonably practicable thereafter.
- 2.2.5 The SEM will calculate the Index during the continuous trading session on a real time basis and publish the Index every 15 minutes during trading hours, on the SEM's website.
- 2.2.6 The SEM will have the responsibility of analyzing the sustainability questionnaires submitted by listed issuers and evaluating their sustainability performance.

## **2.3 Status of The Ground Rules**

- 2.3.1 *The Ground Rules* for the Index are a guide to the policies and procedures applying, as at the date of publication of the Index, to the operation and monitoring of the Index. However, these policies and procedures, and their precise application, may be subject to amendments and periodic review.
- 2.3.2 The purpose of *The Ground Rules* is to provide information about the general basis on which decisions regarding the calculation of the Index are currently made.
- 2.3.3 The SEM and the Committee (or any person involved in the preparation of *The Ground Rules*) shall not be held liable for any losses, damages, claims and expenses suffered by any person as a result of:
  - a) any reliance on errors or inaccuracies in *The Ground Rules*, and/or
  - b) any non-application or misapplication of the policies or procedures described in *The Ground Rules*, and/or
  - c) any errors or inaccuracies in data compilation or in any constituent data.

## Section 3: INDEX ELIGIBILITY REQUIREMENTS

### 3.1 Eligibility requirements for participation in the Sustainability Assessment

3.1.1 The universe of eligible constituents for participation in the Sustainability Assessment consists of the companies listed on the Official Market and the Development & Enterprise Market (DEM). Only those securities of listed companies that meet the requirements of sections 3.1.2 to 3.1.5 of *The Ground Rules* are eligible for consideration in the Sustainability Assessment.

3.1.2 Only fully-paid ordinary shares are included in the Index.

3.1.3 Additional eligibility requirements are as follows:

- Official Market: At least 25% of the class of equity securities must be in the hands of not less than 200 members of the public.
- DEM: At least 10% of the class of equity securities must be in the hands of not less than 100 members of the public.

In the case of companies having a free float percentage less than the minimum required, but which may be deemed as acceptable to the SEM, the Committee will decide whether the securities will be eligible for participation in the Sustainability Assessment.

3.1.4 Investment Funds (whether companies, trusts, partnerships or other legal structure authorized by the Financial Services Commission) whose business, in the opinion of the Committee, is to actively trade in securities are excluded from participation in the Sustainability Assessment and the Index.

3.1.5 To be eligible for inclusion in the Index, a company must be incorporated and resident for tax purposes in Mauritius. Global Business Companies are excluded from participation in the Sustainability Assessment and the Index.

### 3.2 Sustainability Assessment

3.2.1 All listed companies which meet the eligibility requirements for participation in the Sustainability Assessment, as set out in section 3.1 above and wish to be considered for inclusion in the Index must go through the Sustainability Assessment exercise and submit a duly filled sustainability questionnaire (the Questionnaire) to the SEM.

- 3.2.2 A Sustainability Assessment process, using the SEM's in-house Sustainability Assessment framework evaluates the results of the Questionnaire. The scores obtained by a potential constituent after the assessment of its response to the variables across the 4 key pillars of sustainability (Economy, Social, Environment and Corporate Governance) will be used to determine whether the company will be eligible for inclusion in the Index.
- 3.2.3 Both of the following conditions have to be met for a company to be included in the Index:
- 1st condition : A minimum pass mark of 40% must be obtained by a company in each of the four key pillars of corporate sustainability; and
  - 2nd condition : A minimum overall integrated sustainability performance pass mark of 60%. This ensures that each segment is weighted equally following the fulfillment of the first condition.
- 3.2.4 The Index eligibility screening and Sustainability Assessment set out in sections 3.1, and 3.2 will be carried out for all existing and potential Index constituents two years after the previous screening and Sustainability Assessment exercise, using data from duly-filled in Questionnaires as at date.

### **3.3 Treatment of conglomerates and holding companies**

- 3.3.1 In the event where a listed group contains more than one company that is eligible for sustainability assessment, each separately listed company will be assessed individually and on its own merit.
- 3.3.2 In the case of conglomerates and holding companies, where an assessment of the listed entity does not reflect the activities and sustainability performance of the Group, the assessment will be conducted as follows:

Generally, we would expect the sustainability assessment to be based on the subsidiary generating the largest proportion of the holding company's revenue.

However, there may be other factors which would help us to determine the best drivers of sustainability. Therefore, the concept of 'Materiality' must be applied when responding to the questions in the Questionnaire, i.e. the question must be considered in the case of the cluster where the item being assessed may be material.

'Materiality' in the context of this exercise:

(i) takes into consideration those topics that have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large; and

(ii) can substantially influence the assessments and decisions of stakeholders.

### **3.4 Adjustments to the Criteria**

3.4.1 The Criteria used in the Questionnaire and in the Sustainability Assessment are intended to be up-to-date and developed over time. Accordingly, the SEM may change or remove existing Criteria or add new Criteria, following approval from Committee, in which case the SEM will endeavour to give sufficient notice before implementing changes.

### **3.5 Independent Audit Verification**

3.5.1 Companies which are found to be eligible for inclusion in the Index following the Index eligibility screening and Sustainability Assessment set out in sections 3.1, and 3. 2 must undergo an Independent Audit Verification exercise, the terms of which, are subject to the approval of the Committee.

3.5.2 Subject to the results of the Independent Audit Verification, and the approval of the Committee, companies which are found to be eligible for inclusion in the Index following the Index eligibility screening and Sustainability Assessment set out in sections 3.1, and 3. 2 will be included in the Index.

### **3.6 Treatment of borderline companies**

3.6.1 Prior to the Independent Audit Verification, a company may be classified as borderline if, upon completion of the sustainability rating assessment, such company is, in the opinion of the Committee, sufficiently close to qualifying for inclusion the Index.

3.6.2 Subject to the results of the Independent Audit Verification, and the approval of the Committee, borderline companies may be included in the Index.

3.6.3 If a borderline company has been included in the Index and is then classified as being borderline again at the following review, that is, at the review taking place after two



years, the SEM may still include such a company provided that the company will be required to provide a formal commitment regarding expected improvements.

- 3.6.4 Should the company not be able to demonstrate improvement at the following review, that is, at the review taking place after two years, or should the company be classified as borderline a third time, the company will not be included in the Index. The company will then be required to provide such additional criteria as the SEM may deem necessary, after consultation with the Committee, which must be met by the relevant company at the next review, that is, at the review taking place after two years.

### 4.1 Review

- 4.1.1 The Index will be subject to a Review, as set out in Section 3, two years after the previous screening and Sustainability Assessment exercise.
- 4.1.2 A company which satisfies the requirements for inclusion in the Index following the Sustainability Assessment, as per Section 3 of *The Ground Rules*, will be inserted in the Index, subject to approval from the Committee. Likewise, a constituent will be removed at the Index review if it no longer meets the requirements for inclusion in the Index following the Sustainability Assessment, as per Section 3 of *The Ground Rules*.

### 4.2 Impact of Reviews

- 4.2.1 Changes decided upon by the Committee following the reviews of the Index, will be implemented and communicated to the market as soon as reasonably practicable after the completion of the respective review.
- 4.2.2 The minimum number of constituents for the Index to be operational is eight (8).
- 4.2.3 There is no limit to the number of constituents that may form part of the Index.

## Section 5: CHANGES TO CONSTITUENT COMPANIES

### 5.1 New Listings

- 5.1.1 If a new company's securities are listed, either on the Official Market or on the DEM, the company will be considered for inclusion in the Index at the next review, subject to meeting the requirements for inclusion in the Index following the Sustainability Assessment, as per section 3 of *The Ground Rules*.
- 5.1.2 If the Committee decides to include a new company as a constituent other than at the normal review, that is, at the review taking place two years following the previous review, this decision shall be communicated to the market at the earliest practicable date by the SEM.

### 5.2 Removal

- 5.2.1 If a constituent is withdrawn from the Official Market or the DEM, or has, in the opinion of the Committee, ceased to be a viable constituent, it will be removed from the Index.
- 5.2.2 If a constituent of the Index ceases to meet the requirements for inclusion in the Index, as set out in Section 3 of *The Ground Rules*, it will be removed from the Index as soon as reasonably practicable.

### 5.3 Mergers and Takeovers

- 5.3.1 If the consequence of a merger or takeover is that one constituent is absorbed by another constituent, the constituent being acquired is removed from the Index, effective as from the date of acquisition. The enlarged company will then be considered for inclusion in the Index, provided it meets the requirements for inclusion in the Index as set out in Section 3 of *The Ground Rules*.
- 5.3.2 If the consequence of a merger or takeover is that a constituent is absorbed by a non-constituent, the constituent will be removed from the Index on the date of the transaction.

## **5.4 Restructuring, Demergers and Splits**

- 5.4.1 If a constituent company undergoes a complex reorganisation or demerger, the company will remain eligible for inclusion in the Index, subject to satisfying the requirements for inclusion in the Index, as set out in Section 3 of *The Ground Rules*.
- 5.4.2 If a constituent company is split so as to form two or more companies, then the companies arising from the split may be included in the Index, subject to satisfying the requirements for inclusion in the Index, as set out in Section 3 of *The Ground Rules*.

## **5.5 Suspension of Dealings**

- 5.5.1 If a constituent is the subject of a suspension as a result of a sanction by the SEM, it may remain in the Index at the price at which it is suspended.

## **5.6 Exceptional Situations**

- 5.6.1 The Committee may, in exceptional circumstances, convene a special meeting to consider the Index eligibility of constituents following corporate actions which may affect the Index eligibility of these constituents.
- 5.6.2 The Committee may also evaluate special situations that may arise occasionally, so as to determine the need for changes in the Index eligibility as a result of such situations.
- 5.6.3 In the event of any controversy or breach of the requirements for inclusion in the Index, as set out in Section 3 of *The Ground Rules*, a company may, at the discretion of the Committee, be considered ineligible for the Index. Consequently, the said company may be removed from the Index, in which case the removal will be implemented as soon as reasonably practicable, with appropriate notice to the market.

## **5.7 Right to make representations**

- 5.7.1 The Committee will normally allow representations to be made by a constituent with respect to any decision made by the Committee in its regard, and which may be contrary to the constituents' expectations. The final decision of the Committee will be binding on the constituent.

## Section 6: INDEX CALCULATION

### **6.1 Prices**

6.1.1 The Index uses the latest traded prices of the constituents.

### **6.2 Frequency of Calculation**

6.2.1 The Index is calculated during the continuous trading session on a real time basis and published at an interval of 15 minutes on the website of the SEM during trading hours.

### **6.3 Calculation Methodology**

6.3.1 The Index calculation method and the effects of corporate actions on the Index are set out in Appendix A of *The Ground Rules*.

## Section 7: DATA ISSUES

- 7.1 Before the finalisation of the review of the Index, companies will be given the opportunity to comment and make clarifications on screening results. This process shall be repeated at each review of the Index.
- 7.2 Companies wishing to update data, or companies which feel that the data employed in the calculation of the Index is inaccurate should contact the SEM at the earliest practicable date.
- 7.3 Any company must prove sustainability compliance before it can form part of the universe of eligible constituents. Where data which is needed to demonstrate sustainability compliance is unavailable, ambiguous or unclear, no assumptions concerning the sustainability status of an entity shall be made. Fundamentally, all companies are considered non-compliant until proven otherwise.
- 7.4 In the event of any dispute arising thereof, the final decision will rest upon the Committee.

## Section 8: EXCEPTIONS AND AMENDMENTS TO THE GROUND RULES

- 8.1 The SEM may, with the approval of the Committee, consider that an exception should be made for any particular issue related to *The Ground Rules* for the management of the Index. Where the exception is subsequently granted, it shall not be deemed to create a precedent for future decisions to be made by the SEM, unless similar circumstances, which would warrant the same treatment to be applied, are present.
- 8.2 The SEM may, at any time, amend or remove existing provisions governing the Index or add new provisions thereto. Aspects relating to sustainability issues may only be changed following approval by the Committee.
- 8.3 The SEM will endeavour to announce material changes at a time appropriate to allow for comments from listed issuers and the market in general before implementing changes.

### A.1 Index Calculation Method

A.1.1 Each stock is weighted according to its proportion in the total market capitalisation. Thus, changes in the Index are dominated by changes in the prices of shares with relatively higher market capitalisation.

A.1.2 The current value of the Index is expressed in relation to a base period, with an opening index value of 100 on 08 September 2015.

### A.2 General Expression

The general expression for the index (X) is :

When time period  $i > 1$ ,

$$X_i = (M_i/B_i) \cdot 100$$

$$B_i = B_{i-1} \cdot (M'_i/M_{i-1})$$

and when  $i=1$ ,

$$X_i = 100$$

$$B_i = M_i$$

$i$  = time period

$X_i$  = index at time  $i$

$B_i$  = base value of the index. When  $i=1$  (the first period), market capitalisation = base value of the Index

$M_i$  = market capitalisation of constituents at time  $i$

$M'_i$  = adjusted market capitalisation (adjusted for stock splits, stock dividends, rights issues, new issues of shares, share cancellations and the inclusion/exclusion of constituents).



### **A.3 Market Capitalisation**

Market capitalisation ( $M_i$ ) is the sum of the market value of all shares included in the Index.

The market capitalisation ( $C_i$ ) of each share at period  $i$  is equal to:

$$C_i = P_i \cdot N_i$$

$$\text{Total Market Capitalisation } (M_i) = \sum P_i \cdot n_i$$

$P_i$  = the last transaction price for the share in period  $i$

$n_i$  = the number of shares issued and outstanding at the end of the period  $i$ .

### **A.4 Adjusted Market Capitalisation**

Adjusted market capitalisation of the Index ( $M'_i$ ) adjusts for rights issues, removal of constituents, new listing, dividend in specie and any other issues that need any changes to be made to the market capitalization.

$$M'_i = \sum (P_i \cdot n_i) - C_i + C'_i$$

$$C'_i = N'_i \cdot P_t$$

$N'_i$  = total number of shares after adjustments

$P_t$  = reference price per share after adjustments in respect of corporate actions.

### **A.5 Adjustment of to the Base Capitalisation Level**

The Base Market Capitalisation will be adjusted on the ex-date to account for the adjustment in reference prices of securities following new issues, right issues or corporate actions. The purpose of the adjustment is to neutralize the change, so that the change has no effect on the Index.

#### **New Shares**

If a constituent issued new shares in the current period which were not present in the previous period, the index algorithm subtracts newly issued capitalisation from total capitalisation in the current period. This equalises the number of shares in both periods so the Index reflects only price changes.

A cancellation of shares by a constituent is treated as a negative new issue. Shares created by the conversion of other securities are treated as new issues.

### **Rights Issues**

When shares begin trading ex-rights, the theoretical share price falls by the intrinsic value of the rights. Because the Index follows only the shares and not the rights, which may be traded separately, an adjustment is needed to prevent the index from dropping. The method is similar to that of a new issue. In both cases, the theoretical price is the weighted price of the shares at the instant after the change.

The formula for the theoretical price of a share trading ex-rights is:

$$\frac{(\text{Number of rights required to buy one new share} \times \text{Market price before the ex-date}) + \text{Subscription Price}}{\text{Number of rights required to buy one new share} + 1}$$

### **Dividend In Specie**

Dividend in specie (*in kind*) means dividends not paid in cash. Such dividends are paid out in the form of assets / securities of companies owned by the issuer and are in a given amount. On the Ex-date, the base market capitalization will be adjusted.

### **Bonus Issues, Stock Splits and Reverse Splits**

The number of shares created by the bonus issue or stock split is used to adjust the shares outstanding at the ex-bonus/split date. Similarly, a reverse split is recorded as a negative stock split while reducing the shares outstanding by the amount of the negative split.

In the case of stock splits, as prices drop by the split ratio, total capitalisation does not change at the time of the split and no adjustment to the Index is needed.

Stock dividends, also known as bonus issues, have the same effect as splits and no adjustment to the Index is therefore needed.

### **Cash Dividends**

Cash dividends can affect share prices, but the industry norm is not to make any adjustment for such dividends in the Index. Cash dividends on a per share basis are recorded at the ex-dividend date, using gross cash dividends.

## Appendix B: MARKET OPENING AND CLOSING HOURS

The Index is calculated during the continuous trading session on a real time basis.

<b>MARKET</b>	<b>OPEN</b>	<b>CLOSE</b>
Mondays to Fridays	9.00 am	1.30 pm

Notes:

1. Continuous trading session starts at 10.00 am and ends at 1.30 pm.
2. All times are Mauritius time.
3. The Index is calculated on each market day where trading takes place.

## Appendix C: CONTACTING THE SEM

For any further information about the SEMSI, enquiries may be addressed:

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