

MINUTES

HEADING: JSE EQUITY TRADING ADVISORY COMMITTEE MEETING

Date: 04 February 2016
Time: 10:00am – 12:00pm
Venue: JSE, Serengeti Boardroom - 9th Floor

Present:

- Ms Donna Oosthuyse (Chairman, JSE)
- Ms Valdene Reddy (Business Owner, JSE)
- Mr Gregori Nicola (JSE)
- Ms Adele Hattingh (JSE)
- Ms Maryke Vreulink (JSE)
- Ms Pumelele Sibisi (JSE)
- Mr Merlin Rajah (JSE)
- Mr Peter Redman (JSE)
- Mr Brett Kotze (JSE)
- Ms Soraya Seedat (JSE)
- Mr Earl Owen (JPM Chase)
- Mr Alphonso Raats (Stanlib)
- Mr Peter Coutromanos (Avior)
- Mr Alec Schoeman (Citi)
- Mr Carlyle Whittaker (Investec)
- Ms Erica Bruce (Navigare)
- Mr Sandile Sibanyoni (FSB)
- Mr Warren Chapman (Peregrine)
- Mr John Slettevold (UBS)
- Mr Corrie De Bruyn (PSG)
- Mr Mark Randall (JSE)
- Mr Tshwantsho Matsena (JSE), standing in for Leanne Parsons
- Ms Adriana Weilbach (Credit-Suisse), standing in for Derek Hompes
- Mr Shiran Samuels (Absa Capital), standing in for Chris Edwards
- Mr La'Eeq van Heerden (Rencap), standing in for Cameron Macklin
- Mr Gareth Jasson (Deutsche Bank), standing in for Muneer Ismail (Dial in)

Ms Sunette Mulder (Dial in)

Mr Rudolph Botha (Dial in)

Ms Jackie Tetlow (Dial in)

Mr Harry Ioannou (Dial in)

Mr Neil Cohen (Dial in)

Mr James Stewart (Dial in)

Mr Tristyn Naidoo (Dial in)

Mr Matthew Rattray (Dial in)

Apologies: Ms Leanne Parsons (JSE)
Mr Philip van der Merwe (Coronation)

Resignation Mr Ryan Wibberley from Investec has resigned from TAC due to change in jobs

Distribution: Equity Trading Advisory Committee

1. WELCOME, APOLOGIES & NEW MEMBERS

Donna Oosthuysen welcomed everyone to the first Equity Trading Advisory Committee meeting for 2016.

2. CONFIRMATION OF PREVIOUS MINUTES

The minutes of the TAC meeting held on 2 October 2015 were confirmed and accepted.

3. TAC RECONSTITUTION

There are currently 30 seats on the committee and feedback from the members was not to make this bigger and a suggestion was that new candidates should only be allowed as someone leaves and then should be nominated and voted on by committee. The current make-up are 9 Local Member firms, 9 International Member Firms, the Buy-side has dropped to 4 from 5, post Ryan Wibberley's resignation from Investec Asset Management, 1 from the FSB, 1 from ASISA, and 5 permanent places from JSE.

The committee supported the view of maintaining a 5th buy-side voice and Lana Stacey from Abax was nominated to join the committee.

The nomination for Adam Bunkell (Sanlam Capital Markets), who has been on the waiting list, to bring in an ETF expertise was also supported by the committee.

If the above 2 nominations are accepted, it will then see the committee up to 31 members but no further additions thereafter.

4. MATTERS ARISING

4.1. NEW/ENHANCED ORDER FUNCTIONALITY

During the last TAC meeting, the JSE expressed the desire to introduce additional equity market functionality. The JSE has now finalized a range of additional functionality that will assist with the execution of larger on-book transactions. The functionality is described in detail as follows:

The JSE has seen a continuous increase in activity in the CPX session since its launch in November 2013. This functionality currently only exists in ZA01 and had received interest from the market for this to be rolled out into the other segments. After conducting research and consultation, the JSE is pleased to announce that it will be extending the CPX session to ZA02 and ZA03 with the ITAC 1a deployment.

The JSE will be launching a Volume Auction uncrossing period coinciding with the changes scheduled for the ITAC 1a release towards the end of this year. This auction will be a non-visible uncrossing, meaning that information will not be disseminated during the uncrossing. A new time in force validity named "GDX" will be introduced and only compatible with Limit and Market orders. To ensure that only large orders will participate in this auction the Minimum Reserve Size (MRS) will be applicable. The TAC committee agreed that GDX orders should retain time priority and not size priority. It was also agreed that the volume uncrossing should be an actual auction and duration should be 5 minutes long. The committee also agreed that GDX orders must be large in size and MRS must be validated.

Following consultation with the JSE's technology provider we can confirm that eligible pegged orders will be injected into the GDX container at the start of the CPX session. Time priority will be maintained and the volume auction will be a new session with duration of approximately 5 minutes.

In addition to the introduction of a Volume Auction and extending the CPX session to ZA02 and ZA03, the JSE will also be introducing a Central Order Book Cross. This functionality will only be enabled for the Native Trading Gateway and will only be accessible during continuous trading hours. This new traded type "XT" will be a single sided cross only i.e. same member on either side of trade. The order price must be within the visible best bid and best order price. The COB Cross order message will have both buy and sell order details, may only be limit orders with time in force (TIF) validity of DAY. The COB Cross orders cannot be hidden orders and in addition will be published via the Market Data Gateways and the Post Trade Gateways as they are intended to execute immediately.

Following discussions in TAC it was decided that statistic messages would be enhanced so as to distinguish normal on-book AT and UT statistics from XTs. Extended statistics messages will include the following statistics for ATs and UTs only i.e. number of trades, value and volume executed and high/low price of the day.

Lastly another set of enhanced order functionality includes the introduction of non-visible pegged orders. The new order may be pegged to either the mid-point of the visible best bid and best offer, the best bid or the best offer. Executions will occur within the spread and price improvement will be applicable for pegged orders that are pegged to the best bid or best offer. In addition, the minimum execution size (MES) must be specified and must be either equal or greater than the MRS. Hard limits can be assigned to a pegged order. When the hard limit is reached, the order will become inactive and will not be eligible for execution however the order will retain its priority in the order book. Excluding Hidden Limit (EHL) orders will not match with pegged orders.

When a pegged order is the incoming/aggressing order the trading system will:

- First check whether the pegged order will be in an active/inactive state
- Aggress the pegged order book
- Evaluate the MES criteria for each pegged order in the book
- Passive pegged orders will be stepped over if the MES requirement is not satisfied
- Trade price is determined by the passive order price

When a visible order is the incoming/ aggressing order and its order price is better than the best bid (offer):

- The visible order will first traverse the contra side of the pegged order book
- MES criteria has to be satisfied for each possible execution
- Once the visible order has traverse the pegged order book, any remaining quantity will:
- Move to the central order book and continue with executions
- Be added to the central order book if no executions are possible
- Expire, based on the order type or time in force validity

Detailed information on the Equity Market Enhancements can be found in the following document [TWG Working Group - ITAC and Equity Market Enhancements](#)

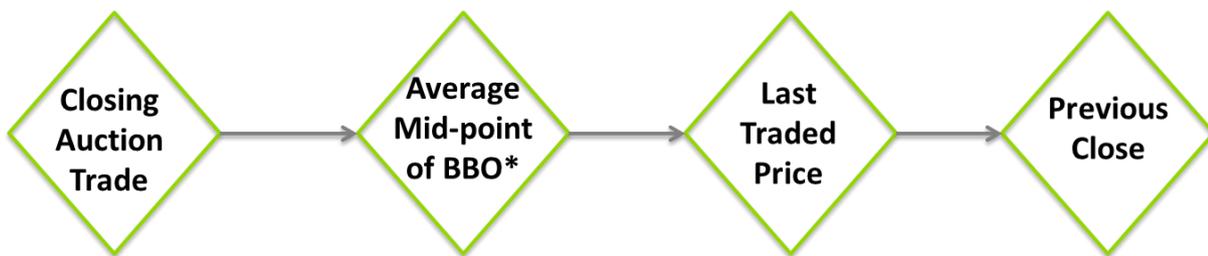
4.2. ZA04 & ZA06 CLOSING PRICE METHODOLOGY

Process of finding an ideal solution to the closing price methodologies for ZA04 and ZA06 has been challenging. The JSE did initially consider using the NAV price or indicative NAV price for ZA06 products from market makers to assist with determining a closing price however following consultation with an accounting body; this was not supported due to the fact that the prices were not calculated independently. Instead, another short term solution has been sought.

This would be to include introducing iterations over a short period of time so as to avoid incorrect prices being used due to someone not being on market in the last second of Continuous Trading. For ZA04, the closing price methodology would include a snapshot of the order book every minute, for 10 minutes, during the last 10 minutes of continuous trading to determine the average mid-point of BBO. If no such price is determined, the last traded price is selected and if no such price exists, the previous closing price will be selected.



Regarding ZA06, the same process will be followed however; firstly the closing auction trade price will be utilized. If not available it will be followed by the average mid-point of BBO, if no such price exists, the last trade price is used and if this price doesn't exist either, the previous close will take preference.



Implementation is expected during Oct/Nov 2016 during ITAC Phase 1a.

5. EXTENDED EQUITY MARKET TRADING HOURS

Donna raised the point that the JSE has received a request for extended equity market trading hours in that especially during daylight savings, there is a short overlap with the US markets.

Concerns were aired regarding implications of T+3, processes, costs, capacity, SLA agreements and all other associated processes.

Ongoing around the room to ask the committee their views, there was consensus support to extend trading hours as it would make sense to align with other markets and it would generate better liquidity and volumes.

In conclusion, there was support to extend market hours by an hour at end of day i.e. from 5pm to 6pm; however the suggestion would be to re-visit this post T+3 go-live. There would need to be serious consideration in processes, end of day operations, capital commitments, SLAs etc. but extended hours definitely seems to be the direction of travel the market wishes to adopt, which the JSE would need to explore further.

6. JSE PROJECTS UPDATE

6.1. T+3

Brett announced that SIT cycle 4 of testing has just been closed. Only 2 CSDPs are having issues at the moment. The JSE remains on-track to make the go-live period between 25 June and 23 July.

User readiness training has started and is well attended. Compulsory user testing for all brokers will begin in March under UAT Cycle 1. With respect to market readiness, last year August 65% of trades were committed to by the end of day T+1 compared to the latest extract of 84% so there definitely a vast improvement thanks to the actions taken by JSE, Brokers and CSDPs. 4% of the transactions are being committed to on T at the moment and 92% is being committed to by the end of T+2. The majority of the commit issues are originating from foreign based clients.

The JSE has created various automation within BDA to assist with taking pressure off the brokers' back office services. In the future environment a broker's capital adequacy will only apply to trades on T and margining will kick in at the end of the day on T+1. Brett mentioned that there is a tendency for the market to recall their shares around dividend payment dates and corporate actions and his team is working on educating the market to alleviate this perceived risk.

Action Points:

- It was raised that the JSE should approach the FSB to encourage the PIC to make their scrip available for securities lending and borrowing.
- The JSE will set up a working group consisting of member firms to discuss securities lending and borrowing in a T+3 environment.

6.2. ITAC

ITAC remains on track and the API specification for project 1a will be published by end of February. The worst case for the 1a go-live date would be the end of November 2016.

7. STATISTICS UPDATE AND DISCUSSION

Nicola Comninos presented an update of colocation statistical growth trends to the committee. Value traded and number of trades has increased from 20% after a year to 30% of the overall market-share. Nicola further stated some of the reasons for this growth.

A request from members to display the member ranking report with just Agency trades was also tabled.

Should data be categorized into Total Market, Agency Trades and Principal Trades, the impact thereof would be as follows:

- 4 of top 5 remain top 5 in Agency ranking – all 5 remain in top 10
- 4 of top 5 remains top 5 in Principal ranking – 4 of the 5 remain in top 10
- 2 new additions in agency ranking & another 2 new additions in principal ranking

TOP 10 Trading Service Providers by VALUE of instruments traded

Central Order Book Trades

Total Market			Agency			Principal		
Rank	Service Provider	Value Traded	Service Provider	Value Traded	Rank	Service Provider	Value Traded	Rank
1	Member A	109,479,680,198	Member B	50,330,622,883	1	Member A	70,862,754,725	1
2	Member B	76,471,744,916	Member C	43,256,583,154	2	Member D	35,395,194,642	2
3	Member C	74,028,954,098	Member E	42,824,545,770	3	Member H	34,309,723,014	3
4	Member D	54,538,097,073	Member F	41,306,893,988	4	Member C	30,772,370,944	4
5	Member E	50,717,703,253	Member A	38,616,925,473	5	Member B	26,141,122,033	5
6	Member F	48,600,083,433	Member G	25,783,138,893	6	Member I	25,016,327,993	6
7	Member G	48,168,531,839	Member K	19,720,210,354	7	Member M	23,123,609,373	7
8	Member H	46,039,471,634	Member D	19,142,902,431	8	Member G	22,385,392,946	8
9	Member I	32,489,992,184	Member L	17,978,486,405	9	Member J	21,365,783,129	9
10	Member J	30,883,460,452	Member H	11,729,748,620	10	Member N	11,791,892,859	10
Total Market		374,779,747,369	Total Market		204,700,046,187	Total Market		170,079,701,182

After much discussion, it was agreed that there is no need to differentiate between the trades and to continue with the current practice of reporting, due to the manner in which brokers' book their trades and the JSE wouldn't be able to validate the data.

8. FTSE/JSE INDEX CONSTRUCTION

Mark Randall provided the committee with an update on the broad changes to the FTSE/JSE Africa Index Series which is intended to improve its quality for both benchmark and trading purposes.

The first broad change deals with the way that the All Share benchmark is constructed, and the proposal includes:

- Review the All Share Index constituents semi-annually instead of annually. Use selection buffers for additions and deletions to manage turnover.
- Apply the minimum liquidity rule to all constituents in the Index Series, including Fledgling and AltX.
- Replace the minimum free float requirement with a minimum weight requirement.
- Remove the 160 minimum number of constituents for the All Share Index. The index selection will be based solely on the target 99% market representation level and may thus include fewer constituents.
- Introduce a new Large & Mid Cap Index targeting 95% market representation. The All Share Index will thus be divided into two capitalization-based sub-indices, namely the Large & Mid Cap Index and the Small Cap Index.

The second change focuses primarily on the Top 40 and Mid Cap tradable indices. The Top 40 Index is currently designed as a "Large Cap" index and selects constituents based solely on company size with no direct selection on investability. The proposed change is that the focus of the Top 40 moves from a Top 40 "largest company" index to a Top 40 "most investable company" index. Under the proposal, the constituents for both the Top 40 Index and the Mid Cap Index will be selected based on net market capitalization, which is adjusted for free float.

To reflect the shift in objective, the name for the Mid Cap Index will change to the Mid 60 Index.

A request was made that the JSE should provide at least two or three quarters for the market to adjust to the index changes. Mark responded that the indication was that the size of the once-off change due to the rules implementation

would be broadly in line with the turnover at a typical quarterly review. He agreed that if the change was significantly larger than usual than a longer notice period would be considered.

Donna Oosthuysen thanked everyone for their commitment and for attending the meeting.

Meeting closed at 12pm