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MINUTES

HEADING:	**JSE EQUITY TRADING ADVISORY COMMITTEE MEETING**
Date:	09 May 2016
Time:	13:30 to 15:30
Venue:	JSE, Serengeti Boardroom - 9th Floor

Present:

Ms Donna Nemer (Chairman, JSE)
Ms Valdene Reddy (Business Owner, JSE)
Mr Gregori Nicola (JSE)
Ms Adele Hattingh (JSE)
Ms Pumelele Sibisi (JSE)
Mr Merlin Rajah (JSE)
Mr Peter Redman (JSE)
Mr Jacob Shayi (JSE)
Mr Tshwantsho Matsena (JSE)
Mr Bradley Kirton (JSE)
Mr Brett Kotze (JSE)
Mr Cameron Macklin
Mr Alphonso Raats
Mr Carlyle Whittaker
Mr Mike Ray
Mr Adam Bunkell
Mr Alec Schoeman
Mr James Stewart
Ms Kelebogile Motjale
Mr Sandile Sibanyoni
Ms Erica Bruce
Mr Peter Koutromanos
Mr Warren Chapman
Ms Lana Stacey (Dial in)
Mr Dharmesh Gangaram , standing in for John Slettevold
Ms Janine McCann, standing in for Corrie de Bruyn

Mr Nathan Jardine (JSE) , standing in for Mark Randall

Ms Adriana Weilbach, standing in for Derek Hompes

Mr Rudolph Botha (Dial in)

Mr Muneer Ismail (Dial in)

Mr Tristyn Naidoo (Dial in)

Mr Shiran Samuel (Dial in)

Ms Jackie Tetlow (Dial in)

Mr Eduard Pieterse (Dial in), standing in for Philip van der Merwe

Mr Harry Ioannou (Dial in)

Apologies:

Mr Earl Owen (JP Morgan Chase)

Ms Leanne Parsons (JSE)

Ms Sunette Mulder (ASISA)

Distribution: Equity Trading Advisory Committee

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1. WELCOME, APOLOGIES & NEW MEMBERS

Donna Nemer welcomed everyone to the second Equity Trading Advisory Committee meeting for 2016.

2. CONFIRMATION OF PREVIOUS MINUTES

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

3. MATTERS ARISING

3.1. NEW/ENHANCED ORDER FUNCTIONALITY

TJ advised the committee that the JSE had updated the functionality in its CTS environment as per previous discussions.

The JSE had issued a market notice that go-live would be 26th September. This date is dependent on T+3 go-live. The final code drop had been received from Millennium during early May. The JSE would upgrade the test environment two weeks from then. The JSE had received a request from the software vendors and members to extend the functionality into the FIX gateway. The original plan was only to release this into the Native gateway however the JSE are going to extend it to the FIX gateway. The JSE are looking to see if this can be implemented on the same go-live date however with such a tight time frame the JSE will advise the members if this is possible.

Val mentioned that the JSE is working on what the optimal number would be for MRS. At present MRS is set to 20% of ADV on ZA01, 20% on ZA02 and 150% of ZA03. Feedback received indicates that these levels are too large on ZA01, especially for counters such as Naspers for example. There is a large disparity in terms of these volumes within the top 40. Reducing the number will still show a disparity, with the top 5 names appearing to be the issue. The JSE is therefore considering adding a Rand value per segment. Val and Donna asked if any of the committee members have any feedback to please send that through to the team.

4. JSE PROJECTS UPDATE

4.1. T+3

Brett Kotze (BK) reported that at the last advisory committee it was requested that a new sub-committee be set up to advise and investigate securities lending and borrowing. The mandate was to facilitate liquidity of South African equities within a T+ 3 settlement environment through additional securities lending. The sub-committee had their first meeting a week prior to this TAC meeting. Three key items were discussed at this meeting:

- The drafting of a paper explaining the T + 3 settlement cycle and liquidity requirements which will be signed and approved by the JSE and the SAIS and sent to National Treasury, PIC, FSB, JSE Market Regulation, selected life companies, selected asset consultants and managers, SASLA, CSDPs , transfer secretaries and issuers.
- Set up a meeting with the PIC and along with the JSE, SAIS, and potentially ASISA to discuss liquidity issues related to lending and borrowing within a T + 3 world with a key focus on settlement related lending and borrowing, versus strategic lending and borrowing.
- Last item discussed was to meet with certain assets managers whose mandates don't allow them to lend out securities for clients, to explain the settlement related lending and borrowing and see if there is a way to facilitate lending and borrowing from these asset managers. Further meetings will be scheduled with the working group and various other parties in the market.

Brett mentioned that T + 3 settlements testing is going well and they are finalizing the UAT cycle 1 which finishes on the following Wednesday. He highlighted that the UAT cycle 2 is on 18 May 2016.

Regarding margining and commits; commits are sitting at 92% as at the end of T+1. The JSE will be meeting with the smaller and BEE brokers regarding the margin impact within a T+3 environment. Brokers do however currently receive a weekly breakdown of the current margin requirement. Brett advised that JSE will be setting up meetings with all brokers to discuss margin related issues.

4.2. ITAC

TJ provided an update to the committee on the work that has been done so far on the ITAC project:

- The initial plan is to upgrade the Equity Derivatives Market followed by the Currency Derivatives Market
- Technical integration has been completed, however slightly behind schedule
- Systems integration testing will commence towards the end of May
- JSE has received the final code drop for trading software from MIT which is being tested. Additional work is however required on the clearing side but the JSE is comfortable that things are on track.
- JSE has issued the final trading specifications which are modified from time to time due to feedback received from clients and software providers. The clearing specification (API spec) will be issued during the month of May.
- The trading test environment will be issued from the end of July with clearing to follow 2 months later.

5. UPDATE OF MARKET QUALITY STATISTICS

Adele provided an update on the Market Quality report following the last update in September.

The analysis consisted of four data sets spanning over a period of eight years namely May 2008 to April 2016 which included data before and after the implementation of colocation. During this time the JSE had implemented two new pricing methodologies. It is also important to note that the trends identified post the implementation of colocation may have been a result of a combination of factors. It is therefore difficult to assume that the identified trends were solely attributed to the implementation of colocation.

The report reflected the following observations:

- All Share and Top 40 Index stocks spreads have narrowed since 2008
- Top 40 Index stocks volatility of spreads decreased
- All Share Index stocks volatility of spreads increased – increased trading activity of less liquid stocks
- The volume and value per order at the top of the order book has increased since the implementation of colocation
- The daily turnover and volatility of daily turnover of Top 40 Index stocks increased
- Average value per transaction has decreased since the implementation of colocation
- Average value per order at the top of the order book has increased

6. JSE CLIENT SERVICE FEEDBACK

The JSE recently sent out an NPS survey with the main purpose of determining whether our clients would refer the JSE and its services. The objective is to enhance the JSE's service and build better relationships.

The survey was sent out at random. The JSE would like to thank everyone who have participated and thank those in advance who have not as yet received the survey

One of the key issues that were raised is on BDA. Please note that the JSE is reviewing BDA and its future within the company. However, pricing in general remains a key feedback point. On pricing regarding trading, the JSE reviewed the Option Delta (OD) pricing and originally assessed where a duplication in fees were being paid. The JSE's view was to move to zero-feeing ODs and did so in a phased approach, with initially zero-feeing one leg of the OD transaction. As of 4 April 2016 the JSE zeroed both legs of ODs; however the clearing and settlement fees related to ODs are still applicable. The JSE has created a document detailing the OD billing changes, which is available on the JSE website.

The JSE also recently changed the billing of Give Up trades, following discussions with some of the members who were assisting some BEE brokers with their algo trading. The assistance provided to these BEE brokers was however not economically viable and the JSE decided to zero fees both legs of Give Up trades that are transacted with BEE brokers to support the initiative.

The JSE's Equity Market billing model is also being reviewed. The JSE believes in its value based model, however one of the models that the JSE is looking at, is a tiered billing model. The model will hopefully look to provide benefit for the additional value that is traded and manage sensitivities so that smaller members are not disadvantaged.

The JSE is open to suggestions about what types of billing models will work best for this market. The JSE will engage the committee at the next sitting as to share thoughts on a suggested billing model.

7. JSE ENTERPRISE DEVELOPMENT PROGRAMME

Donna informed the committee that the JSE has introduced an Enterprise Development Programme aimed at assisting black brokers to develop their businesses. The JSE has been in consultation with the Black Broker Forum regarding viable avenues as to how the JSE can assist. Donna introduced Equity and Equity Derivatives specialist Pumelele Sibisi who provided information about the programme.

Pumelele mentioned that the JSE will adopt the Financial Sector Charter (FSC) definition as opposed to the JSE formulating its own definition or making any adjustments to the definition.

The existing Financial Sector Code states that companies that are Exempt Micro Enterprises (having a turnover of less than R5 million per annum) and Qualifying Small Enterprises (having a turnover of between R5 million and R35 million per annum) and that have Black ownership of greater than 50%, qualify to receive Enterprise Development contributions.

The JSE is aware that a Revised Financial Sector Code (RFSC) definition has been approved by the Financial Sector Council and is undergoing final approval. The JSE will adopt the revised definition once the code has been published. The RFSC defines a black stockbroker as a juristic person (including a trust) that has a shareholding or similar member interests, in which black participants enjoy more than 51% ownership rights, measured using the flow-through principle; and have a turnover below R100 million.

The JSE will provide support to black brokers by way of an Enterprise Development initiative that provides similar economic benefit, but not through fee reductions:

- Cash disbursements equal to 33% of fees paid will be paid out to the black brokers on a quarterly basis, in arrears. The cash disbursements will only be applicable for Equity Trading fees and Membership fees.
- The black brokers will enter into an agreement with the JSE which will hold the brokers accountable for how the funds provided will be utilized. The funds provided to the black brokers should be solely used to develop their businesses. The JSE will assess the application of the funds on a yearly basis.
- Members qualifying as black brokers will be reviewed on a yearly basis to ensure that they are still complaint with the Financial Sector Code. The aforementioned members will therefore be required to submit their BEE certificates and sworn affidavits annually to the JSE's Head of Governance and Transformation, Krishna Govender.

Comments were made by the committee that the programme is a step in the right direction. The JSE is the members' biggest supplier and as a result the JSE's scorecard is important to their businesses as well. A further comment was also made that the JSE should have been more aggressive and given black brokers a higher percentage of cash disbursement in order to speed up development and then only scale it down over time.

Donna thanked the committee for their support of the programme and stated that further public awareness would be made.

8. **FTSE/JSE INDEX CONSTRUCTION**

The JSE are planning some significant changes to the FTSE/JSE index series. The first of which is to align the treatment of inward listed securities with other index constituents' minimum free float requirements. At the moment it is particularly more difficult for constituents such as South 32 etc. to be included in the JSE's indices.

The intention is to keep to the spirit of the restrictions but to make it as easy for inward listed securities to be part of an index.

The second major change involves changing the way in which the JSE selects its Top 40 Index. At the moment constituents are selected based on gross company size however the JSE wants to rather select these constituents based on investable size i.e. free float adjusted market cap. Therefore a company such as BTI which is currently ranked based on a 100% of its global market cap, will now be ranked based on 15%, being its locally available number, relative to other companies.

Lastly changes will also be made in the benchmark space i.e. All Share, also with the introduction of a Large and Mid-Cap index.

Based on feedback from the market the JSE has drafted and updated its proposed rules changes. The market appears to be happy with the principles at hand, however a few suggestions were made regarding implementation. These changes have been approved internally by the JSE as well as by the JSE's external Index Advisory Committee, and by FTSE Russell, the JSE's index partners. Mark mentioned that the inclusion of some of the JSE's member firms to the Advisory committee could be considered. The committee does consist of a number of index experts, however having a market representative could provide additional insight as to the types of index products that the market desires.

Two streams are running to get the changes in place. The first stream is the technical stream, as there is an impact to existing indices in terms of systems. The second stream involves the detailed rule wording which is being drafted and will be presented to various governance entities e.g. FTSE Russell and JSE.

The JSE would want to apply these changes to a quarterly index review. To accommodate a change in June, the JSE would've needed to give a month's notice however missed the deadline. The JSE did however provide a notice to the market that no changes would be made in June. The next potential implementation date is September, following a notification of the changes towards the end of July. However, the JSE is looking to provide notice further in advance.

Valdene enquired from Mark regarding the introduction of a capped SWIX index. Mark mentioned the index was approved internally and are considering an implementation timeline sometime in the year. A capped SWIX and capped Top 40 index will be introduced.

A concern was raised regarding dividend assumptions pertaining to far and near contracts and asked that notice be given well in advance, particularly if there is large open interest on the relevant contract e.g. Sep 16. Mark mentioned that changes to the Top 40 would estimate to roughly 1.5% of the index, which is fairly in line with any other quarterly review.

A concern was also raised that if a counter's free float changes significantly, which implies a change in its weighting, it could lead to increased volatility in that index which leads to additional costs. Mark replied that any weighting change would be an average over the last three months and that the JSE would have to see the market buying up scrip before up weighting the counter.

Another concern raised was around scrip lending and the fungibility from one register to another, especially as the market moves from a T+5 to T+3 settlement cycle. It was asked whether the market would have the ability to move scrip quicker and whether this wouldn't have margin and cost implications, which could mean that foreigners trade the counter less. Donna mentioned that this item should be added to the T+3 working group agenda to be discussed further.

The JSE has seen a drop in the share register of SABMiller held by STRATE as this was at 15% and has now decreased to 12%. Local investors seem to be gradually decreasing their holdings of SABMiller.

The deal between AB Inbev and SAB is about R180 million based on SAB's local share register and the value per share that is being offered.

As this is a cash deal, SABMiller will be replaced in the index by the largest ranking Mid Cap company at that point in time. If it was a shares offer the JSE would have replaced SABMiller on a like- for-like basis.

If the deal goes through before September AB Inbev will not be in the any index as the current rules are clear that a company has to have 5% of their shares listed on the exchange.

As the JSE we would like to include Glencore and AB InBev in the All Share index, further information will be provided in the months of June or July. The risk in giving incomplete information would be that investors will invest in AB InBev hoping that it will be in the index and come September it is not there. More information will be provided once available.

9. CSC UPDATE

Client Services Centre (CSC) at the JSE comprises of three core areas, the first and second is the call

centre which includes switchboard and reception. This is where the JSE addresses general queries from the public and mails coming into the info@jse.co.za mailbox.

The third area of the CSC consists of customer support which handles trading and post-trade support. This area operates 24/7 throughout the year where the JSE serves as 1st level support to all JSE clients across all markets. The JSE uses highly skilled consultants or analysts who are knowledgeable across different markets. There is a current drive to upskill the teams in the areas where improvement is required, such as derivatives. As a result the JSE has sent a number of the teams on courses and in-house training to enhance their knowledge.

The JSE receives queries via email and telephone, and offer value-add visits to its clients and training. There are video calling facilities in our Cape Town office that allows the JSE the ability to offer dedicated in depth sessions for services that need attention such as services related to BDA or margin related queries. Video conferencing in general, is able to assist the JSE especially when staff are unable able to able to physically visit the clients. We have on-site support Monday to Friday 6:30-19:00, there's always someone on standby for afterhours, weekends and public holidays.

The JSE have made some improvements to our client service offering. The CSC has introduced an auto call distributor which offers various topic options instead of being transferred to multiple people. Clients are now able to select option 1 for password resets, 2 for post trade support and 3 for technical trade support queries. Clients have indicated that the system has helped elevate some of the pressure.

In April the JSE introduced a MS Dynamics CRM tool that allows the JSE to have a single view of all our clients. This allows the JSE to capture information from client visits, telephone calls or any other interactions with clients. At any point in time anyone dealing with a specific client is able to see anything related to a specific client which enables the JSE to be more proactive. The tool will also be used to reduce turnaround times on queries logged by clients and improving our customer service. There is a concentrated drive to "strike right chord" with our clients.

Communications regarding the changes to the CSC department has been made known via the JSE market communication sessions as well as through the JSE website.

The JSE will not be changing the operating hours for T+3; instead the JSE will possibly add an additional person on standby. The JSE will also look at aligning the operating times after evaluating the impact of T+3.

The JSE could not previously bucket themes of queries that consistently arise. The JSE hopes to be able to pull out such information from the new CRM system as it has more functionality. The JSE have been running the new system for a month and can look to provide statistics in the next sitting of the common themes that have been logged.

10. **GENERAL**

A question was raised regarding the JSE's stance on foreign membership. The current requirement states that members are required have a physical presence within the country and therefore at the moment not allow for remote membership. Remote membership is allowed in certain other JSE markets, apart from the Equity Market, as the JSE's risk management processes entail holding capital locally. Should the JSE's business model change then remote membership could become a possibility. There is a member view though that local JSE members have a great deal more vested interest in the country in terms of capital outlay, paying tax, employing people and being part of transformation. If foreigners wish to engage the market they can do so through a local member, or operate under the same requirements as any of the local JSE members.

When market infrastructure changes and the possibility of a CCP and other risk management models implemented, the situation appears trickier. Emotionally and philosophically there is a desire to keep the market free from remote membership influences. However markets are evolving and changing very quickly. South Africa's financial sector is greatly respected and admired, largely due to the regulatory framework that is in place. It therefore remains an interesting discussion point.

Another question was raised regarding the possibility of holding foreign currency in terms of capital adequacy. At the moment the JSE's Settlement Authority requires local capital. International entities have dispensation to hold margin in foreign currency, but not certain that this extends to capital. It was suggested that feedback possibly be provided on non-cash collateral and any other items related to capital at the next TAC.

The JSE is committed to be as supportive of the business that its members engage in. As more companies seek capital, it becomes imperative to enable foreign currency capital raising especially when the Rand is so volatile and therefore expensive to hedge effectively. South Africa would have a competitive advantage in being able to offer this type of capability. South Africa has R9 trillion in non-bank assets that could buy into raising foreign capital in South Africa.

A committee member mentioned that there is a view that the reason behind the financial crises was linked to too much hot and short-term capital and not enough static and sticky investment in the country. If it becomes too easy for hot capital to flow in and out of the country, the negative consequences in a short term down turn are much more severe than the ability to bring in lots of foreign capital, not deploy it and gear up and when it gets removed leaves a large vacuum. Quantitative easing and the like are all about preventing this type of behavior. Remote membership, where capital can flow in out of the market cannot be good for the market.

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

Meeting closed at 3:30pm