

## MINUTES

**HEADING: JSE EQUITY TRADING ADVISORY COMMITTEE MEETING**

Date: 01 March 2017

Time: 15:00 to 17:00

Venue: JSE, Serengeti Boardroom - 9th Floor

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Present:

- Ms Donna Nemer (Chairman, JSE) (DN)
- Ms Valdene Reddy (Business Owner, JSE) (VR)
- Ms Pumelele Sibisi (PS)
- Mr Peter Redman (PR)
- Mr Jacob Shayi (JS)
- Mr Brett Kotze (BK)
- Ms Leanne Parsons (LP)
- Mr Godfrey Matjuda (GM)
- Mr Chris Grove (CG)
- Mr Martin Koch (MK)
- Ms Shameela Soobramoney (SS)
- Ms Karina Lourens (KL)
- Mr Cameron Macklin
- Mr Neil Cohen
- Mr Alphonso Raats
- Mr Alec Schoeman
- Mr James Stewart
- Mr Mike Ray
- Mr Ockie Raubenheimer
- Ms Erica Bruce
- Mr Matthey Rattray
- Ms Adriana Weilbach
- Mr Rudolph Botha (Dial in)
- Mr Dharmesh Gangaram , standing in for John Slettevold (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 Earl Owen (Dial in )

Mr Harry Ioannou (Dial in)

Mr Sandile Sibanyoni

Apologies: Mr Warren Chapman

Distribution: Equity Trading Advisory Committee

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#### **1. WELCOME, APOLOGIES & NEW MEMBERS**

DN welcomed everyone to the first Equity Trading Advisory Committee meeting for 2017.

#### **2. CONFIRMATION OF PREVIOUS MINUTES**

The minutes of the previous TAC meeting were confirmed and accepted as correct.

#### **3. NON-RESIDENT STATISTICS**

The JSE has been working with SARB's balance of payments team in trying to match STRATE's register movements with positive and negative movements in BDA transactions. These numbers did not match up as there are number of transactions that are not related to the JSE. This prompted questions regarding the validity of the JSE's data and thus a recon was done on the SAB deal that ended with a conclusion that JSE trading statistics cannot be used for inflows and outflows of foreign investments.

Going forward, additional disclaimers will be added to the statistics released as well as sending out a market notice relating to the information published. There is a question as to who will be best to calculate these statistics; SARB will also be publishing their own numbers in the quarterly bulletin based on data provided by the JSE. Statistics published by the JSE have been calculated as per market participant's requests. The statistics are mostly aligned to existing international standards and will be charged for by the JSE. They are therefore calculated and published with the intention of benefiting the market.

#### **4. STATISTICS REPORTING**

CG provided the committee with a brief overview of the issue to be addressed which consisted of three questions:

1. Do we in principle want to include any backdating into our statistics?
2. If yes, what period should we allow the backdating for?
3. If yes, do we republish statistics to the market?

The committee concluded answers to all three questions, answers being:

1. Yes
2. A T3 settlement cycle as a base (best period solution)
3. A 5% threshold, if that doesn't work try 10% threshold (proposal of 5% to be taken to SARB).

## 5. EQUITY RISK MODEL

KL advised the committee to that the JSE is looking to enhance the current risk model for two reasons:

1. The current model may not provide sufficient protection should we have a default in an extreme event
2. Is not currently aligned to international best practice

KL mentioned that she and the team have been mainly engaging with the clearing and settlement advisory committee, whom they have met with three times in the last quarter to agree what risks exist in the market and have identified the below.

1. Insufficient pre-funded resources should a default occur
2. No "defaulter pays" model – risk carried by trading members and the exchange
3. Post-default lines of defence heavily reliant on the JSE's balance sheet, which could exacerbate systemic risk
4. Reliance on a system that some deem inefficient (BDA)
5. Settlement assurance backed by mitigates funds that might not be available at the time of default:
  - i. Member capital monitored (CAPAD) is not legally pledged to the JSE
  - ii. CSDP commits can be revoked

A subsequent meeting was held early Feb to agree the proposed solutions which are currently on-going and have identified that any proposed solution should ultimately achieve the following:

- A. Participants should obtain the maximum efficiencies in clearing, achieved through:
  - a. An efficient membership framework and account structure
  - b. An optimised initial margin methodology - taking full account of any potential netting benefits
  - c. An economical collateral management framework – allowing participants to make the best possible use of their inventory
- B. Participants will have certainty that the JSE's risk model will offer protection in the most severe circumstances - namely the default of a participant

KL mentioned that they are working towards having a detailed operational design by the end of this year with implementation in 2019.

## 6. CASH EQUITIES POST-TRADE STATISTICS

BK provided the committee with a brief overview of the efficiencies that have been realized from the move to a T3 settlement cycle. Average allocations and trade dates sit at 55% to 65% and the JSE has seen peaks where they sit at 85% to 90% on certain trade dates. In addition, commits for non-controlled clients taking place at the end of T1 are reaching 98-99%. BK then added that failed trades management has been a great achievement for the market. The JSE initially projected 5% failed trades and has experienced 0% failed trades since T3 go-live. South Africa is one of only a few countries that have gone to a shorter settlement cycle without experiencing any failed trades.

An additional efficiency that has been realized by a T3 settlement cycle is the reduction of margin requirements. BK then explained that in terms of reverse substitution as well as securities lending and borrowing; the settlement authority is doing much less in terms of lending and borrowing on a daily basis as lender of last resort.

The T3 project has been very successful, with the only glitch taking place in October 2016 where the Equities clearing system was down for 2 days. The JSE however had a market Business Continuity Plan prepared for the go-live of T+3 which was implemented during that period. A more recent issue involved a certain Fund Manager's administrator's back-office operations that had systems issues and as a result, were not able to send instructions to their CSDP. That caused an issue throughout the market as transactions could not be committed and margins starting picking up and the JSE has no authority to reverse the margins. However post that issue, the JSE has gone back to the Fund Manager administrator to request that they put a business continuity plan together in order to mitigate such risk from occurring again. This will also be discussed with the market in due course. DN then thanked all market participants for their valuable contribution in making the T3 project a success.

## 7. ITAC UPDATE

MK let the committee know that we have numerous vendors on our test environment testing their systems. He advised that the trading functionality for equity derivatives and currency derivatives is currently available on our Equity platform, waiting to be switched on. We are now getting the vendors and clients ready.

The latency aspect will become more consistent and reduce substantially. This will also increase the stability of the system. We will also be providing full depth multicast data. The committee was advised that the JSE is currently vetting the new JSA agreements with our legal team. There is a planned workshop to take the market through the updates in March.

BK advised that the JSE will no longer allow members to take a turn. Members would need to apply a commission structures. A new margining methodology will allow for securities collateral. The JSE is not prepared to take 100% of security collateral and is currently testing the ability to cater for this. There are some amendments to the insolvency act that may need to be made. On the Forex collateral, non-residents have highlighted that every time they want to pass money for collateral, they have to convert into Rands and when they close a position they need to convert their cash back into their local currency. The JSE is in discussions with the SARB and National Treasury to allow for currency collateral. The views at the moment seem to be only for non-residents. The JSE is also creating facilities for intra-day risk monitoring.

## 8. EXTENDED EQUITY MARKET HOURS

In response to a request made by a few market participants, PS tabled to the committee the request to extend the trading hours for the Equity Market. These market participants requested that the JSE investigate the possibility of either starting the continuous trading hour session an hour earlier in order to overlap with the Asian markets or to end the session an hour later in order to overlap with the UK and US markets. PS then explained that average daily trading statistics indicated that trading volumes generally increase when the London markets open and also peaks when the US market opens. She further added that other international exchanges implemented extended hours, such as TSX, whilst others such as GPW felt that a potential increase in trading volumes would not be sufficient enough to cover disproportionately higher additional costs that their exchange members would have to bear.

After much deliberation, the committee agreed that the costs associated with an extension in trading hours would not be justified and added that they did not foresee an incremental increase in liquidity.

## 9. UPDATE ON THE JSE ED PROGRAMME

PS provided an update to the committee on JSE's Black Stockbroker Enterprise Development Programme that was launched in May 2016. The programme was launched in order to provide financial assistance to black stockbroking firms to support them in the sustainable growth of their businesses. In doing so the JSE demonstrated its continued commitment to the transformation of South Africa's capital markets.

Through the programme, the JSE made cash disbursements to black stockbroking firms on a quarterly basis. The disbursements are calculated with reference to the equity market trading and membership fees that the black stockbroking firms paid to the JSE during that quarter, and are pegged at 33% of these fees.

### Highlights of the 2016 Programme

- 14 black stockbrokers participated in the 2016 programme
- The programme was extremely well received by all participants
- Approximately R6m was disbursed in 2016 and the black stockbrokers used these funds in order to grow their businesses.

## 10. GENERAL

### Net Promoter Score (NPS) survey feedback

DN informed the committee that the results of the recently performed Net Promoter Score (NPS) survey had been published and that the JSE has since had a meeting with all survey participants. She then shared a few areas that were highlighted in the survey results:

#### 1. Treatment of SAB/ AB InBEV merger

BK explained to the committee that a concern was raised around the treatment of the SAB & AB InBEV merger. LDT took place on the 29<sup>th</sup> September, with the conversion of the rate only taking place on the 10<sup>th</sup>

of October and the payment then taking place on the 14<sup>th</sup> of October. The timeline was driven by the SARB as there was a lot of foreign currency coming into the South African market and the SARB did not want a huge impact to the market.

The issue around this timeline was where certain individuals, who were tracking the Top40 index, were not sure of the new weightings of the index as a result of SAB being excluded from the index.

Another area was with the Equity Derivatives side, where, as per normal the JSE closed positions at LDT +1 based on fair value of what the JSE believed the conversion rate would be on the 10<sup>th</sup> of October. The JSE returned initial margin to participants and when the conversion rate was declared on the 10<sup>th</sup> of October, the JSE then performed journal entries to adjust participants' positions and cash entries accordingly. This however resulted in certain clients withholding money that was paid out to them when they were requested to return a certain portion of that money for initial margin.

As a result the JSE will treat such corporate actions differently, i.e., the JSE will no longer close positions and it will keep initial margin.

BK suggested that a working group be formed when complex corporate actions such as these take place and the working group will discuss as to how the corporate action should be managed.

## 2. Reducing cost of trading and creativity around billing model

A request was then made that the billing models be predictable, so that members are able to bill their clients accordingly.

## 3. Enhanced Order Functionality pricing

The JSE does not have a report only market, either than a few exceptions such as ODs etc. and DN emphasized that the JSE does not want to pull liquidity from central order. She then added that the new functionality was in response to requests from buy-side institutions who wanted a safe haven where they could execute large orders and were willing to receive this functionality at a premium.

DN however mentioned that the JSE will review its pricing model at a later stage and added that she is willing to hear further concerns

DN concluded by telling the committee that the JSE is also reviewing block trade sizes in conjunction with its Regulation division.

A suggestion was made that the JSE should investigate extending the window period for executing XT trades.

## **Breakfast Meeting**

DN was asked by a number of larger brokers to meet to discuss certain pertinent issues, such as BASEL 3 type issues around liquidity, funding etc. No market sensitive information was discussed at this breakfast meeting such as pricing etc. But rather the meeting participants discussed their views around competition, their dissatisfactions around the pricing of the JSE's enhanced order functionality.

DN emphasized to the committee that no separate committee was being formed outside of the current TAC committee. She further stated that just as the JSE had fruitful engagements with the Black broker forum ; she feels

that it is valuable for the JSE to meet with all its members. When the JSE's members succeed; the JSE also succeeds, and the JSE is therefore willing to meet with any of its participants.

### **JSE's response to competition**

The JSE has always taken a stance that it welcomes competition and the JSE already operates in a competitive environment against other international exchanges and the OTC market. When the application for 4AX and ZARX' exchange licenses were issued, the JSE objected. The JSE engaged with 4AX on its concerns and 4AX responded; as a result; the JSE withdrew its objection. In the case of ZARX, the JSE furthered its appeal with the FSB and DN added that this is not unusual in the regulated industries. The FSB appeal board's decision was based on whether the granting of the new exchange licenses would further the interest of the Financial Markets Act and further competition in the financial markets. The JSE is not in objection with this stance as it does agree that there should be new licensed players in the market. The JSE however, had concerns around the following four points:

- When the JSE was given an opportunity to comment on the new application, the JSE was only given scanned documents /evidence and no supporting information detailing the workings of the exchanges. 4AX provided that further required documentation and hence the JSE withdrew its objection. In the case of ZARX, the JSE did not receive a response until the eve of the hearing.
- ZARX's financial report was 2 years old and was not independently verified. The JSE therefore needed assurance that the entity was financially sound as we would all have infrastructures in the market which we are interdependent on at some point in time.
- The JSE's understanding was that ZARX would absorb the JSE's members with no surveillance thereafter. Therefore if the JSE's regulatory standards are being used as the approval mechanism and yet with no supervision; the JSE wouldn't have a view if that entity is still sound; e.g. the members' CapAd could be diluted etc.
- Lastly , rules could be waived for individual members

The response from appeal did not address the abovementioned concerns; however the JSE decided that is doesn't have an argument with the appeal board as to whether this furthers the interest of the market. The JSE will however take its concerns offline where the market can give a view.

**DN thanked everyone for their commitment and for attending the meeting.**

**Meeting closed at 5pm**