MINUTES

Johannesburg
Stock Exchange

Tel: +27 11 520 7000
Fax:+27 11 520 8584

www.jse.co.za

HEADING:	**JSE EQUITY TRADING ADVISORY COMMITTEE MEETING**
Date:	22 June 2017
Time:	13:00 to 15:00
Venue:	JSE, Ubuntu Boardroom – 1st Floor

Present:

Ms Donna Nemer (Chairman, JSE) (DN)
Ms Valdene Reddy (Business Owner, JSE) (VR)
Ms Pumelele Sibisi (PS)
Mr Peter Redman (PR)
Ms Leanne Parsons (LP)
Mr Langa Manqele (LM)
Ms Alicia Greenwood (AG)
Mr Godfrey Matjuda (GM)
Mr Merlin Rajah (MR)
Mr Shaun Davies (SD)
Ms Nicola Comninos (NC)
Ms Shameela Soobramoney (SS)
Ms Karina Lourens (KL)
Mr Tyrone Arendse (TA)
Ms Anne Clayton (AC)
Ms Maria Dalle Ave (MdA)
Mr Neil Cohen
Mr Alphonso Raats
Mr Alec Schoeman
Mr James Stewart
Mr Adam Bunkell
Mr Warren Chapman
Mr Mike Ray
Mr Will Ridge
Mr Ockie Raubenheimer
Ms Erica Bruce

Mr Matthey Rattray

Mr Rudolph Botha (Dial in)

Mr Luke Middlewick (Dial in)

Mr Dharmesh Gangaram (Dial in), standing in for John Slettevold

Mr Ian Carton (Dial in)

Ms Sunette Mulder (Dial in)

Ms Lana Stacey (Dial in)

Mr Shiran Samuel (Dial in)

Ms Jackie Tetlow (Dial in)

Mr Sandile Sibanyoni (Dial in)

Ms Kelebogile Motjale (Dial in)

Mr Philip van der Merwe (Dial in)

Mr Laeeq van Heerden (Dial in), standing in for Cameron Macklin

Mr Harry Ioannou (Dial in)

Mr Alec Schoeman

Apologies: Mr Cameron Macklin

Distribution: Equity Trading Advisory Committee

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

DN welcomed everyone to the second 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**

LP informed the committee that the JSE, STRATE, several departments within National Treasury and SARB have started a non-residents statistics working group in order to provide SARB with consolidated market information. The SARB will then use this information in their quarterly bulletin and more importantly balance market sentiment as well as the activity of non-residents. At the first working group meeting, the JSE raised a question as to whether corrections should be backdated and the timing thereof. The initial reaction was that if a correction was made a week ago, for example, then the information would need to be corrected as oppose to only going back to the proposed T3 settlement cycle. This would be the case in particular when the JSE is issuing out information on a monthly basis. The working group felt that they did not want to

continuously interrogate the information being published. In addition, given that the JSE doesn't publish information on a granular, transactional level, it would be very difficult to pick up adjusted information.
LP concluded by letting the committee know that the matter is still under consideration and that the working group will continue with its engagements which are scheduled to take place every six to eight weeks.

4. MIFID II

DN gave an overview of Markets in Financial Instruments Directive II legislation (MIFID II) and in particular Section 23 which relates to the required equivalence status of the concerned trading venues. She mentioned that MIFID II applies primarily to the buy-side institutions in Europe and if the trading venue outside of the European territory is not deemed equivalent, counters will not be allowed to trade in those non-equivalent venue. As a result, the JSE has been working with the Financial Services Board (FSB) and is being sponsored by the Financial Conduct Authority (FCA) in the UK in order to be deemed equivalent. The JSE now awaits a response on whether it will be deemed equivalent or not.

Some of the JSE's member firms have been engaging directly with the European Union (EU) to understand the requirements prior to MIFID II implementation in January 2018. If the JSE is not deemed equivalent by December 2017 this will mean that the European investors will not be able to invest in South Africa. DN informed the committee that the JSE's Head of Public Policy, Anne Clayton and Nicky Newton-King have been engaging with both the FSB and FCA to understand the JSE's standpoint. The FCA is highly confident that the JSE will be approved as equivalent either in September 2017 or latest December 2017.

AC then provided the committee with clarity on MIFID II's Trading Obligation document and stated that it is specific only to shares and not bonds, derivatives, swaps or commodities. She highlighted that the article is written in a manner that does not have intended damaging consequences to third world countries. An exception will be made to third world countries that may be negatively affected who are still waiting in the queue by implementation date.
DN then mentioned that if the EU doesn't review the JSE's document by December 2017, then the JSE would be deemed equivalent until such a time its application is reviewed. The JSE is not aware of any outstanding issue that might lead to it being deemed non-equivalent.

AC further explained how equivalence works and stated that an authority in the EU like the FCA will normally recommend to the panel of experts on whether the Exchange or trading venue is equivalent. Currently, the FCA is confident and happy to sponsor the JSE. Should the panel of experts have questions that the FCA cannot answer; then those questions will be sent back to the JSE for a response. The JSE's application was submitted through FCA on the 1st June 2017.

A question was raised as to whether the rule of best execution would only apply to dual listed stocks that are traded in Europe and South Africa. AC responded by stating that it's not limited to dual listed stocks but for all stocks trading in any regulated Exchange and trading venue that will have to be approved as equivalent. This will mean that any European institutional investor wanting exposure to South African shares will not be able to gain exposure if our trading venue is not approved and deem as equivalent. DN informed the committee that at the moment, no Exchange or trading venue has been deemed equivalent and that certain Exchanges don't even have a sponsor as yet.

A comment was made regarding the share trading obligation of Section 23 as being applicable only to members and institution receiving orders. DN asked the committee to send questions they may have to the JSE.

5. EQUITY RISK MODEL

The JSE performs a couple of processes to ensure settlement assurance on equities and to prevent a default from occurring e.g. Central Securities Depository Participant (CSDP) commits margin. Should the mitigates fail, then the JSE has ring fenced funds that can be used to back a default.

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

A central counterparty (CCP) model is preferred to the current model for the following reasons:

- Users have more prefunded resources available immediately in the form of a margin
- Defined process with regards to chain of responsibility – waterfall model - in case of a default
- A mutualised default fund and not just depended on the JSE's balance sheet
- Portfolio netting across different markets in the CCP

The model to be used has not been finalised but is still being consulted upon. The move to an Equity CCP model has not been driven by regulation changes. There is however a regulation to have JSE Clear on the derivatives market as a completely separate entity

A move to a CCP model will bring about margin in the Equity market. Merging the Equity CCP model with other markets will allow for a reduction in margin due to offsets.
The overall impact that comes with the change from current model to CCP needs to be communicated to the community and not sugar coated. This is so that the market is prepared for what is to come.

The buy-side, in principle, are not opposed to the proposed changes to the risk model - introducing a CCP, clearing members, a default fund and initial margin.

- There are practical restrictions to the buy-side paying margins,
    I. funds' mandates restrict free cash (or script pledges)
    II. they don't pay margin in other markets

- Most Asset managers see the risk that the JSE is trying to address as having a low probability, and the outcome not too severe – many said they'd simply re-transact in the case of a default and see the "replacement cost" as a missed opportunity rather than a real loss

- There are regulatory restrictions on fund managers that would prohibit netting across funds (making an omnibus accounts structure an impractical solution for them)
- Everyone sees the value of a single independent CCP for all asset classes and trading venues in South Africa

The JSE is currently doing research on international models and will advise once completed

6. ITAC UPDATE

6.1. PROJECT UPDATE

VR informed the committee that the broader trading front-end software providers for members trading Equity Derivatives are on track and they conform to all three sets of JSE standards which are trading, deal management and clearing. Only two software providers will fully conform by end of July 2017. The JSE intends to start their internal dress rehearsal in September 2017; software providers and technicalities in October 2017 and market client dress rehearsal in November 2017. VR asked the committee to send through their questions to the JSE Equity Derivatives (EDM) team which will also be in contact with the members shortly to discuss high level ITAC requirements and updates.
A question on whether the JSE is at risk of not implementing the project on time or postponing it was raised.
DN responded that the JSE has a large IT fixed cost base and in terms of ITAC, the new proposed implementation date is in Q1 2018 which has been approved. The JSE continues to engage with software providers to ensure everyone is making progress in the right direction.

6.2. JSA UPDATE

MdA informed the committee that the JSE is in the process of implementing new solutions for the Equity and Currency Derivatives markets. She then added that the JSE is also in the processing of introducing an Electronic Trading Platform (ETP) for the Primary Dealers' of Government Bonds with a key focus on providing all clients with a robust service at all times. In line with commercial best practice and good governance principles, the JSE will provide all of its services through a standard services agreement which sets out:

- Agreed terms and conditions for the provision and the use of the services contemplated as well as the obligations for each party
- Obligation of the JSE to provide specific Services within associated Service Levels and, where applicable, offers Service Credits when certain Service Levels are not met. With the intention to expand and improve Service Levels and Service Credits incrementally.

As part of the implementation of the new services for the Derivatives and Bond ETP markets the JSE has used this opportunity to revise its existing JSE Service Agreement (JSA) taking into consideration the new services for the derivatives markets, recent and impending legislative changes, alignment to industry standards (service levels and service credits added for missing the certain production Service Levels calculated on a sliding scale) and consideration of previous comments received from customers on the existing JSA where these were able to be incorporated.

The improved JSA has a similar structure to the existing agreement consisting of a master agreement with underlying Order Forms for the various Services as elected by the Customer and includes: Duration and Termination of the Agreement, Fees, Services, General Obligations of the Customer, Liability, Service levels and Credits and General legalese.

A signed JSA and applicable Order Forms will be a prerequisite to provide member organization with access to any of the JSE testing and/or production services across all JSE markets.
In order to assist the members in completing the agreement, we will pre-populate the JSA and the applicable Order Forms with information that the JSE has on record for organizations.
The existing JSA will be phased out end 2017 and the plan for June – July 2017 will be to (1) distribute the final JSA to clients (2) existing customers will be assisted to migrate the old services to the improved 2017 JSA.

7. CHANGES TO TRADE TYPES AND SIZES

The committee was advised on a number of changes to the JSE's order and trade types.

1. Block Trade – This trade type will see a calculation change from a quantity based model to a value based model.
    - ZA01 will see a change from 6 x EMS to 30% of Average Daily Value or R100m notional (whichever is lower) and have a minimum of R10m.
    - ZA02 will see a change from 10 x EMS to 30% of Average Daily Value and have a minimum of R5m
    - ZA03 and other segments will see a change from 20 x EMS to 30% of Average Daily Value and have a minimum of R1m

2. Off Order Book Principal Trade – This will see a reduction in requirements for locals due to the decrease in requirement in Block Trades.

3. Central Order Book Cross Trade (XT) – JSE Market Regulation have agreed on a 2min time period to allow for an XT to be put through.
    - The JSE is investigating systems capability to achieve this and will provide feedback.

4. Pegged Hidden Order – This trade type will see a change from a quantity based calculation to a flat rand amount which will be calculated back to the number of shares required to be entered.
    - All orders are to be entered in quantities relating to R10m or over. Minimum reserve size (MRS) quantity to be entered will be based on a certain day's price which will be specified. The move will be to have it based on the previous day's closing price.

5. Volume Auction – This period which has not had that much take up will see a size reduction requirement as its entry criteria is based on MRS as well.

8. MARKET QUALITY

NC presented market quality statistics which were based on an analysis which was conducted until the 31 may 2017. The analysis was done for five different sets with each set being a yearlong.

Set 1: 1 June 2012 to 31 May 2013
Set 2: 1 June 2013 to 31 May 2014
Set 3: 1 June 2014 to 31 May 2015
Set 4: 1 June 2015 to 31 May 2016
Set 5: 1 June 2016 to 31 May 2017

The first two sets are pre-colocation and the last three sets are post colocation; focusing on spreads, value, and volume traded, order to trade ratios as per the attached presentation.

9. GENERAL

VR made the committee aware that a suggestion was made at the Financial Derivatives Advisory committee (FDAC) to take all stocks on auction on close-out days as oppose to the current setup of only taking the top40 stocks. This is in order to ensure that the JSE does not miss any stocks especially the illiquid stocks. VR then stated that the FDAC committee did not object to the suggestion and after VR tabled the suggestion to the TAC committee, the committee did not object to the suggestion.

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

Meeting closed at 3pm