

MINUTES

HEADING: JSE EQUITY TRADING ADVISORY COMMITTEE MEETING

Date: 17 October 2017

Time: 10:00 to 12:00

Venue: JSE, Serengeti Boardroom – 9th Floor

Present:

- Ms Donna Nemer (Chairman, JSE) (DN)
- Ms Valdene Reddy (Business Owner, JSE) (VR)
- Mr Langa Manqele (LM)
- Ms Pumelele Sibisi (PS)
- Ms Leanne Parsons (LP)
- Mr Godfrey Matjuda (GM)
- Ms Anne Clayton (AC)
- Mr Neil Cohen
- Mr Alphonso Raats
- Mr Alec Schoeman
- Mr Warren Chapman
- Mr Mike Ray
- Mr Will Ridge
- Mr Peter Coutromanos
- Mr Ockie Raubenheimer
- Ms Erica Bruce
- Mr Matthey Rattray
- Mr Philip van der Merwe
- Mr Rudolph Botha (Dial in)
- Mr Dharmesh Gangaram (Dial in), standing in for John Slettevold
- Ms Lana Stacey (Dial in)
- Mr Shiran Samuel (Dial in)
- Ms Jackie Tetlow (Dial in)
- Mr James Stewart (Dial in)
- Mr Harry Ioannou (Dial in)

Ms Sunette Mulder

Apologies: Mr Cameron Macklin

Distribution: Equity Trading Advisory Committee

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. MATTERS ARISING: OPERATIONAL INCIDENTS

LP provided the committee with an update on the recent issues that took place in the Cash Equities, Equity Derivatives and Bond markets. She firstly detailed the issue in the processing of a large corporate action a day before futures close-out (FCO) and the resultant valuations issue. The JSE is aware of the causes of the issues but has also decided to conduct an independent review in order for it to ensure that the root causes of the issues are accurately recorded and that appropriate and effective corrective actions have been identified.

A question was then raised as to why the corporate action took place a day before close-out. LP responded by letting the committee member know that it is not within the JSE's powers to prescribe to listed companies as to when their corporate actions should take place as some are even on the back of international ones. She however went on to say that the processing of corporate actions is currently a manual process, which has in the past worked well, however the JSE will automate this process with the implementation of ITAC. A further question was raised as to whether the issue with processing the corporate action was due to the JSE losing key staff as a result of the recent retrenchments and why the issue was not picked up in time. A committee member highlighted that these issues have also been raised by their own internal risk committee, as to whether the JSE poses as risk to the market due to losing key resources which are difficult to replace. LP stated that institutional knowledge is hard to replace, however, she explained that the operational team who processed the corporate action was not the subject of any retrenchments and consists of the same staff members. The issue however was the decision to process the biggest corporate action in the history of the futures market manually, which should have been an automated process especially for such a large counter. As previously stated, the JSE will address this with ITAC and it has implemented immediate measures to ensure that it is adequately prepared for the timely processing of all corporate actions.

LP then informed the committee of the Equity Market issue where the JSE trading system did not have FCO loaded in its calendar. The JSE decided not to run FCO manually as it has never done so before in a production environment and that might have resulted in further disruptions and unintended consequences. This resulted in the trading system being restarted and therefore delayed the equity market open. The JSE

consulted with the Equity Derivatives and this Advisory Committee and it was agreed to move the close-out period from 12h00 to 14h00.

With regards to the JSE's settlement system not picking up the public holiday for 25 Sep 2017, LP explained that the JSE is still investigating the root cause of this issue. Initial investigations reflect that the JSE had identified corrective actions but is still determining why that had not achieved the desired outcome and that may have been due to the fact that DIS was also being implemented that weekend and systems may not have processed some of the instructions. There were some settlement groups that did not settle on 26 Sep 2017 and the JSE Settlement Authority decided to roll settlement for these. In addition, the JSE had to ensure that the settlement authority injected cash and/or securities in order to ensure settlements occurred. A comment was then made that the settlement authority did not inject itself as the lender of last resort. The committee member added that the JSE's systems were in fact the cause of the issues and that STRATE's systems ran as they should have. LP explained that from an Equity Market perspective, the JSE did act as the settlement authority. The JSE did so in a way that did cause out of balance issues between CSDPs and BDA but the JSE's first priority was to ensure that settlement took place and then address reconciliations thereafter. A further comment was made by a committee member that the Brokers were overdrawn from a cash perspective.

LP stated that a distinction needs to be made between the resolution of settlement for the rolled trades' incident and the knock-on consequences of rolling these when considering the role of the settlement authority. The JSE would not have acted on transactions which were affected as a result of the knock-on consequences as it would not have a way of determining this. If members asked the JSE for assistance, the Settlement Authority provided this. However, the independent review will also provide further clarity as to whether the situation was handled efficiently and areas where the JSE could have improved to align to international best practice. CG went on to explain that what was of importance to the JSE was to firstly ensure that members' positions balance as the market trades off the back of their positions and thereafter balance cash. LP then extended an offer to have the JSE's operational team to come to members' offices to conduct a line-by-line recon for those who still don't balance. A committee member made a suggestion that the above issues present systemic risk to the market and that the market cannot wait months for an independent review to be completed; therefore the JSE should create an open forum where the JSE and market participants can discuss the matter. DN noted that the independent review was being conducted to ensure that the JSE is thorough in understanding the cause of the issues and in addressing them in order to rebuild market trust. She indicated that she would take the suggestion of an open forum back internally to the JSE and stated that the success in resolving the issues was in collaboration with the market. LP added that the entity undertaking the independent review will also be contacting entities outside the JSE in order to gain an external perspective of the impact of the issues experienced.

A question was then raised as to why the JSE's processes did not highlight that there was a mismatch between JSE and STRATE. The committee member stated that the CSDPs informed the JSE and STRATE that there was a mismatch and this was not communicated to the market. The member reiterated the importance of hosting an open forum as there are differing statements as to the cause of the issues from entities involved and the forum would assist in providing clarity. A committee member also requested that a formal report be sent to the market by the JSE as well as STRATE as soon as possible. The committee also suggested that STRATE be included in the open forum discussion.

A question was then raised as to how involved Nicky Newton-King has been and her recommendation in getting the matter resolved. DN explained that Nicky is fully involved and made the decision to commission the independent review to ensure that the JSE fully understands the root causes of the issues experienced as well as the steps to be taken to ensure that the issues do not take place again.

A committee member then asked what the process is for potential interest claims. CG explained that an email can be sent to SettlementAuthority@jse.co.za as well as the Director of Post Trade Services (PTS) Alicia Greenwood: AliciaG@jse.co.za. He added that members' client should not send their claims directly to the JSE but that the members should send their claims on their behalf. A committee member raised a concern that it would be difficult for the client to claim as there are position imbalances due to trades that didn't settle. A committee member also stated that they had issues with their recons where a corporate action took place. CG stated that he would communicate the issues raised with the director of PTS.

LP then gave an overview of the settlement issues experienced in the Bond Market. Over the weekend of 23 to 25 Sep, the DIS project was implemented which included new technology at Strate for bond settlements. This resulted in a number of changed business processes and information which in turn resulted in a number of failed settlements during that week. Strate has engaged the JSE, CSDP's and market participants to refine the business processes to address the issues being experienced. A committee member stressed the importance of market collaboration when implementing projects of such a large nature and stated that the timing of DIS implementation was not ideal as it was quarter end, FCO etc. LP stated that the lessons learnt from this implementation would be taken into consideration for other projects.

A committee member asked whether the JSE has had a lot of questions from the regulator. LP stated that the JSE has kept the regulators fully informed and also communicated the JSE's decision to conduct an independent review to them.

DN went on to thank the committee for their input and suggestions. She also apologized for the inconvenienced caused by the issues and thanked market participants for their support and comradery in resolving the issues.

4. FOREIGN STATS

The JSE's foreign statistics data is correct as it reflects the movement of shares on a particular day on the trading engine. It does not represent net foreign outflows and inflows and should not be used as such.

The JSE is trying to find ways to work out the net foreign stats numbers that can be calculated, published timeously and reliably.

There will be a forum setup to assist in settling with SARB on the calculation and publication of the net foreign inflows and outflows of the country. The forum will comprise of Citi Group, Merrill Lynch, RMB, Deutsche Bank, Investec, Stanlib and Navigare.

5. EQUITY TIERED BILLING MODEL

The proposed billing model will be discussed in a separate sitting of the committee. Details of the revised tiered model will be supplied to clients and consulted on.

6. MIFID II UPDATE

The JSE's application for recognition as an equivalent regulated market for equity securities was reviewed the UK Financial Conduct Authority (FCA), as the sponsor for South Africa, before submission to the European Commission for assessment. The FCA indicated that it was comfortable with our submission and did not require any other additional information. The FCA did not anticipate any issues in supporting the application..

The European Commission has indicated that an announcement will be made in December. In the interim, the premise appears to be that jurisdictions that are in the assessment queue, and the assessment has not been completed by 3 January, will be deemed equivalent until the European Commission makes an announcement of equivalence (or non-equivalence). This is to allow European investment firms to continue trading on venues in those jurisdictions, as opposed to obliging EU investment firms to trade on EU venues and consequently not achieving best execution.

The JSE has also applied for ESMA's recognition of the JSE's Equities and Equities Derivatives markets in respect of post-trade disclosure. European investment firms are required to disclose certain details all trades conducted, including trades conducted on third country trading venues, unless the third country trading venue meets certain criteria as assessed by ESMA. A positive assessment of the JSE's Equities and Equities Derivatives markets would lessen the compliance burden on European investment institutions that trade on these two JSE markets.

7. ITAC PROJECT UPDATE

A committee member asked whether the JSE has had a look at the cost analysis from end-to-end and expressed concerns about the JSE not being inclusive. DN responded and mentioned that the JSE will be going out to see members regarding 1.) Implementation support, 2.) Market Data charges and 3.) The cost differential based on a single rate.

LP admitted that the JSE has done some cost review but the challenges are not uniform across the board because some players have built their own software and other used various software providers. LP recognized members increase in costs and informed the committee that the JSE is looking at the possibility of waiving member's connectivity fees and giving some front-end assistant that will be determined on basis of the entity's trading activity at the JSE. She emphasized the need and benefits of ITAC implementation.

A committee member commended the work done thus far and highlighted the benefits of ITAC program launch which points to robust trading system, however their concerns relates to the carry component in the downward stream system. VR informed the committee about the workshops planned by the JSE within the week on collateral management and daily life cycle of flow for both clearing and trading members. LP also reminded the committee about the forthcoming two mandatory dress rehearsals testing in the month of November for all market participants.

8. GENERAL

Due to time constraint the committee was not able to discuss the tier-billing model collectively, so the committee concluded that the JSE would then consult with the members individually.

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

Meeting closed at 12pm