

## MINUTES

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

Date: 12 June 2018  
Time: 10:00 to 12:00  
Venue: JSE, Serengeti Boardroom – 9<sup>th</sup> Floor

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Ms Donna Nemer (Chairman, JSE) (DN)

Mr Langa Manqele (LM)

Mr Merlin Rajah (MR)

Mr TJ Matsena

Mr Mark Randall

Ms Carike Palmer (CP)

Mr Cameron Macklin

Mr Alphonso Raats

Mr Warren Chapman (Dial in)

Mr Will Ridge

Mr Ockie Raubenheimer

Present: Ms Erica Bruce

Mr Dharmesh Gangaram

Mr Shiran Samuel

Mr Ved Somara

Mr Rudolph Botha (Dial in)

Ms Jackie Tetlow (Dial in)

Mr Matthias Kempgen (MK)

Ms Anne Clayton

Mr James Stewart (Dial in)

Mr Mike Ray

Ms Sunette Mulder (Dial in)

Mr Alec Schoeman

Apologies: Mr Harry Ioannou

Distribution: Equity Trading Advisory Committee

### 1. WELCOME, APOLOGIES & NEW MEMBERS

DN welcomed everyone to the first Equity Trading Advisory Committee meeting for 2018.

### 2. CONFIRMATION OF PREVIOUS MINUTES

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

### 3. OLD MUTUAL CORPORATE ACTION

The outline information relating to the Old Mutual corporate actions flow and related ratios was as follows:

#### ▪ Suspension of Old Mutual (OML) and Listing of Quilter plc (QLT) on Monday, 25 June 2018

Demerger and Listing of Quilter PLC (formerly Old Mutual Wealth)

(Primary listing = LSE; Secondary = JSE)

- Alpha code: QLT
- Ratio: 1 QLT for every 3 OML held as at LDT

#### ▪ Listing of Old Mutual Limited (OMU) on the Tuesday, 26 June 2018

Listing of Old Mutual Limited (The new holding company of Old Mutual plc)

(Primary listing = JSE; Standard = LSEG; Secondary = MSE, NSX, ZSE)

- Alpha code: OMU
- Ratio: 1 OMU for every 1 OML held as at LDT

The treatment of Old Mutual on listed JSE Equity Indices was summarised as follows:

Event	Date
Informative Notice Published	Friday, 25 May 2018 (EOD)
Capital reduction applied to OML based on estimated price Quilter added to all indices where OML is a constituent <i>Free float inherited from OML, shares based on offer terms</i>	Monday, 25 June 2018 (SOD)
Evaluation of Quilter opening price vs. index estimated price <i>10% hurdle vs. estimated price</i>	Monday, 25 June 2018 (i/day)
OML included at stale price: previous close less capital reduction Re-ranking of indices with a fixed number of constituents <i>SWIX Free Float considered for Quilter</i>	Monday, 25 June 2018 (EOD)
Replacement of OML with OMU in all indices	Tuesday, 26 June 2018 (SOD)
Removal of lowest ranking constituents Quilter free float adjustment	Wednesday, 27 June 2018 (SOD)

On 25 June 2018, when QLT lists and OML is suspended at the JSE the following actions will be taken:

Create a basket OMAQ with the basket future receiving 1 OML and 1/3 QLT booked at a zero price

- List new Single Stock and Dividend Future and Options to be created QLTO, QLTF and QLTS

On the 26th June 2018, when OMU lists at the JSE, the following will be implemented:

- Create a basket OMUQ with the basket future receiving 1 OMU and 1/3 QLT booked at a zero price
- List new Single Stock and Dividend Future and Options to be created OMUQ, OMUF and OMUS

With regards to CFD, the new OMU and QLT CFD's are to be created with the same base rate effective the 25 June 2018 and 26 June 2018 respectively. As result, position transfers will be as follows: for every 3 CFD contract the new CFD's would have received 3 OML (OMU) and 1 QLT.

#### **4. REGULATORY UPDATE: MIFID II, TWIN PEAKS, FINANCIAL SECTOR LEVIES BILL**

Equivalence:

AC recently met with the head of department for Equivalence at the European Commission; the JSE has been assessed as an equivalent regulated market. The delegated act is currently being translated into multiple languages and thereafter the JSE will receive notification of the EC's positive determination. The JSE will have a similar equivalence to Hong Kong. There is no impact to any other securities listed on the JSE only the shares dual-listed in Europe.

Financial Sector Levies Bill:

AC provided the committee with a brief overview of the current Financial Sectors Levies Bill. She noted that the JSE had a call with the TAC in mid-May during which the JSE's concerns were highlighted. The JSE met with National Treasury, FSCA, Prudential Authority and SARB, during which the Prudential Authority indicated how the new levies will be spent.

The JSE's comments have been submitted to National Treasury and will be distributed to the committee. The JSE received a commitment from the Prudential Authority that it would understand the concerns of the market before implementing changes. The JSE was asked to comment on an alternative method for calculating the levies and what it believes the quantum should be across the two authorities. In the response, the JSE proposed a new model for consideration, which does not include the gross value of a trade; this model is still very high level and needs refinement but was proposed as an example to encourage discussion. The JSE also recommended that OTC levies should be separated from the fees levied in the listed market. The JSE is now awaiting feedback.

There is a short timeframe before this bill is tabled in Parliament; they are currently in a constituency period until the 14th of August. From approximately the 8<sup>th</sup> of October to the end of December it is expected that the Levies Bill will be processed through the Standing Committee of Finance, to ensure that National Treasury is able to implement the Bill by 1st of April 2019.

DN mentioned that there seems to be an issue of how the quantum would be allocated across the markets and what would be allocated to certain budgets. The amounts are so significant that it could reduce all the good work of the committee in trying to reduce end to end costs. AC noted that we still don't have a detailed view of how both supervisory authorities will be using these funds. By the end of September both authorities are required to publish their supervisory strategies which should include details of their supervisory programmes. However, there is a timing mismatch, as it is likely that the Bill will already be in the parliamentary process. AC noted that it is possible that the authorities and/or National Treasury will provide much more detail before the Bill is tabled in Parliament.

A number of members of the committee mentioned that their understanding is the same as the JSE's and SAIS have commented about also not understanding the quantum and what the two authorities will do with the levies. Another member raised that without the actual levies you cannot work out the friction cost of the industry. If the costs are too high we won't have a saving culture. There is also no board oversight and we would see each supervisory department pushing for a levy bill which would have been toned down if there was a board in place. Another member of the committee also mentioned that a view from his side is that they see an overlap of regulation from the JSE and FSCA in the current framework. He believes that there will be a lot of duplication and replication of costs and as an industry he believes that the prudential regulation should be done in one place and not in two.

AC mentioned that she has put out a market notice in respect of a request from SARB, FSCA, and National Treasury regarding a Joint Standard for margining on non-centrally cleared OTC derivatives to enable the authorities and National Treasury to determine the impact of the introduction of the Standard.

## 5. CLOSING AUCTION: REVIEW AND DISCUSSION

VR mentioned that post the cancellation of the Mondi trade in the closing auction, the JSE Equities team was tasked to look into functionality that could make the auction more robust and also relook at end of day process to limit market impact. The JSE teams investigated many Exchanges and found the Hong Kong Exchange a good benchmark to review in terms of 'safe guard' functionality and which has prudency metrics. Hong Kong has split up their auction into 4 periods.

1. Reference price fixing period (Random snapshots to assist in fixing bands for order input period)
2. Order input period (2 minute window period where orders cannot be outside the price bands)
3. No cancellation period (You can place orders however cannot remove orders)
4. Random closing period (Auction to close randomly to prevent gaming)

New York Stock Exchange does not allow any trade cancellations at all, and if there is a mistake, the client has to bear the consequences however this will be a very restrictive measure.

A committee member mentioned that there are two separate issues because the issue with Mondi was post the auction which needs to be addressed whilst the proposal above looks into order entry pre-trade and these two should be handled separately.

DN mentioned that the above proposal was just to help build better markets. A question was posed the committee if it believes that the auction process is fine as it, and that no intervention is needed?

A member mentioned that the Hong Kong market is very sophisticated and much more volume goes through their auctions than ours. During rebalancing it would become difficult to create reference prices for stocks that have not traded in over a week. This would be the case for stocks that are outside the JSE's top 60. These stocks do not have enough volume for these kinds of references.

Another member mentioned that they believe members should not be able to cancel trades in auction. This goes further into regulatory issues and believes the period is long enough to ensure you trade correctly. Members should still have the ability to cancel trades but not trades.

VR mentioned that volatility auction bands are set to 6% even though the trade cancellation rule is 5%, which she suggested will need to be aligned to remove confusion and conflicting decision processes when it comes to auction trades. This will give the trader additional time to trade out should he/she realise that the uncrossing price would negatively impact them.

A committee mentioned that if we align the bands then there may be no need to add the no cancellation trade rule.

It is believed by members that the uncrossing of the Mondri trades was very bad for the market. For reasons mentioned above the no cancellation of orders would not be positive for the market. Instead looking into further randomization of the closing price in the last minute might be one to think of. We should look for simplicity and look at markets that are more similar.

If there is a clear erroneous trade and you cannot cancel a trade then that could cause systemic risk. The ability to cancel trades should be available.

VR and team committed to contact the members one on one to receive their guidance on what they believe would be the best way forward.

## **6. ITAC PROJECT UPDATE**

There have been 3 dress rehearsals to date where members have had the opportunity to test their systems. The next dress rehearsal is scheduled for the 14<sup>th</sup> of July 2018 and is mandatory for all market participants. The JSE will be starting the 1<sup>st</sup> cycle of End to End (ETE) testing on the 26<sup>th</sup> of June allowing members to test their systems in an environment similar to production.

## ITaC Key Dates

Date	Milestone
11 Jun – 22 Jun 2018	Clearing Member & Software Provider Testing in ETE environment
26 Jun 2018	Start of End to End Testing in ETE environment
<b>26 Jun – 5 Jul 2018</b>	<b>ETE Testing – Cycle 1 Structured</b>
9 Jul – 13 Jul 2018	Prep for MMDR; data clean up and full position take on
<b>14 Jul 2018</b>	<b>Mandatory Market Dress Rehearsal (MMDR)</b>
<b>16 Jul – 26 Jul 2018</b>	<b>ETE Testing – Cycle 2 Structured</b>
<b>30 Jul – 10 Aug 2018</b>	<b>ETE Testing – Cycle 3 Scripted</b>
13 Aug – 17 Aug 2018	Prep for Dress Rehearsal; data clean up and full position take on
<b>18 Aug 2018</b>	<b>ETE Dress Rehearsal – mandatory for all clients</b>
<b>20 Aug – 4 Sep 2018</b>	<b>ETE Testing – Cycle 4 Scripted</b>
<b>15 Sep 2018</b>	<b>Go-Live Ready Dress Rehearsal – mandatory for all clients</b> JSE will take RTC live into production
<b>8 Oct 2018</b>	<b>Targeted Go-Live Date (could also use 15 Oct 2018)</b>
12 Nov 2018	Contingency Go-Live Date

**PLEASE NOTE:**  
Mandatory for CMs and those TMs & live Information subscribers that have not passed two dress rehearsals

**PLEASE NOTE:**  
Mandatory for all clients

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### 7. TIERED BILLING MODEL

The tiered billing model will be going live as of 30<sup>th</sup> of July which is the beginning of the BDA month. It will be based on the below tiers.

Tiers are based on Value Traded by a Broker per Month				
Tiers	Lower Bound	Upper Bound	BPs Discount*	BPs
1	0	R 1 000 000 000	9.43%	0.48
2	R 1 000 000 000	R 3 000 000 000	11.32%	0.47
3	R 3 000 000 000	R 10 000 000 000	13.21%	0.46
4	R 10 000 000 000	R 50 000 000 000	15.09%	0.45
5	R 50 000 000 000	R 100 000 000 000	20.75%	0.42
6	R 100 000 000 000	R 999 000 000 000	30.19%	0.37

There is a suite of products that is called the Complex suite that will cater for large and dark orders that will be billed as follows:

Complex Order Suite		
Trade Type	Trade Fee	Trade Cap
XT VT Pegged Hidden Order BT OP	0.53 bps	R 3 000

The model is designed for members to be benefiting from the onset as the 1<sup>st</sup> tier basis point has been reduced to 0.48.

#### 8. FUTURE FUNCTIONALITY: NEEDS: DISCUSSION

#### 9. GENERAL

The JSE will consult with the market on the closing auctions and solutions as well as:

- Future functionality, needs and,
- Liquidity Provider Schemes

#### **BDA Bill**

An issue was raised regarding complexity of the BDA costs structure as it makes it difficult for members to make allocations.

The JSE will come back to the committee on how to simplify the BDA statements.

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

**Meeting closed at 12 pm**