

MINUTES

HEADING: JSE EQUITY TRADING ADVISORY COMMITTEE MEETING

Date: 12 September 2018

Time: 11:00 to 12:30

Venue: JSE, Serengeti Boardroom – 9th Floor

Ms Donna Nemer (Chairman, JSE) (DN)

Mr Langa Manqele (LM)

Ms Valdene Reddy

Mr Godfrey Matjuda

Mr Jacob Shayi

Ms Kim Pillay

Mr Cameron Macklin

Mr Alphonso Raats

Mr Warren Chapman (Dial in)

Mr Ockie Raubenheimer

Ms Erica Bruce

Mr Dharmesh Gangaram

Present: Mr Shiran Samuel

Mr Ved Somara

Mr Rudolph Botha (Dial in)

Ms Jackie Tetlow (Dial in)

Ms Anne Clayton

Mr Matthew Rattray

Mr Alec Schoeman

Mr Andries Potgieter

Mr Philip van Der Merwe

Mr Shaun Davies

Mr Peter Coutromanos

Mr Harry Ioannou (Dial in)

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. ITAC UPDATE

Mandatory ITAC Dress Rehearsal testing 8 will be conducted on the 15th of September, where it will be a full multi market dress rehearsal with the equities market included. There has been some push back from the Equity trading firms.

The JSE has advised that the dress rehearsal will serve 3 key points:

- JSE needs to ensure that in a simulated production environment all markets are working together simultaneously and in parallel.
- Market participants need to test their systems and be comfortable that they work in the tested environment seamlessly and simultaneously.
- Indication of market governance to ensure that everything works prior to go live.

The EDM and FXM markets participants are expected to test during the dress rehearsal and meet the minimum requirements for testing. Once the member firm has passed 2 dress rehearsals they would have met the requirements for go live.

There are some points that need to be clarified with the market prior to go live

- Market orders to be disabled
- The narrowing of current circuit breakers.

Concerns on the readiness of some members around the issue of:

- Trade cancellations
- Commissions

The concerns raised by clearing members have mostly been around the software and not about configuration to ITAC. The current derivatives market systems have not had any configurations updates in 15 years either than software updates. There is some work that still needs to be done from a clearing member perspective.

There will be an ITAC Market Steering Committee on the 3rd of October 2018 where the committee will be giving their input with regards to market readiness.

It is essential to ensure that all market participants are onboard for go live. The focus is to ensure that all clearing members are ready and comfortable to go live. We will not go live with ITAC if the market is not ready.

The JSE is working with ASISA in ensuring that the Asset Managers are also on board for going live. At current the JSE has been engaging with the software providers who will be servicing them.

We have been in contact with consumers of non-live market and are comfortable with the current status of engagements.

4. GENERAL UPDATE ON REGULATION PAPERS

Anne Clayton (AC) took the committee through the policy and regulatory open consultations and policy and regulatory proposals on the horizon. The JSE will be responding to all of the items; however some may not have a direct impact on our member firms. A committee member requested that AC provide the list to the committee. AC will distribute the list and her notes to all members.

The TAC will consider setting up a working group to discuss the use of LEIs in South Africa once the draft consultation paper is published.

5. MARKET QUALITY & LIQUIDITY

The JSE is dedicated to building better market and improving the quality of our markets. It has entered into an arrangement with CMCRC a non-profit organisation which is doing research on liquidity on various markets.

The intention of looking into market quality is to ascertain the quantum of liquidity, how much liquidity is available for brokers to interact with and what are the drivers of liquidity?

There has been a change in liquidity in the South African markets since the fourth quarter in 2017. Market activity increased in Q4 2017 and Q1 2018. Second quarter 2018 the value traded started to decline and has been decreasing to date. The average deal size has also decreased since Q4 2018.

The JSE's value traded through the closing auction is around 17%, which means that investors have less flow available to interact with during continuous trading hours.

A committee member commented that the closing auction activity and stats might be skewed by the activity in one stock like Naspers. The also raised that activity during index and MSCI rebalances would also skew the activity in auctions.

Another member mentioned that the reduced liquidity is not really a function of the market structure or the JSE but driven more by political events and macro-economic circumstances. The liquidity will pick up with an uptick in emerging markets. Another comment was made that on days where the value traded is over 20 billion they have more flow to interact with. On days where it is less than 15 billion there seems to be less available to interact with.

DN mentioned that we would like to raise awareness of the market quality and how we as an ecosystem can help improve the liquidity of the markets. The intraday volatility has increased on the JSE; this is most evident when there is limited liquidity. When there is increased liquidity the intraday volatility is lower. The order to trade ratio on the JSE has also increased with the activity of HFT increasing. The JSE will look to share more

information on order to trade once available. The presence of liquidity providers has increased the amount of orders but not the number of executions from those orders.

A committee member requested that the JSE continue to do changes that make the market relevant to foreign investors as they engage with our markets. We need to be in line with global standards. Applications of these regulation papers should not be a hindrance as they will make it more difficult to trade. A suggestion to host a working group was made.

A comment was made that the JSE is a platform provider and should let the market take care of itself. Activity on the exchange is mandate driven, we should be cautious in introducing new products. Intraday volatility contracts and expands over a period of time.

6. CLOSING AUCTION: FEEDBACK AND WAY FORWARD

VR thanked the committee for their one on one feedback. Majority of the responses were aligned in a number of aspects:

- Set the random uncross period from 30 seconds to 60 Seconds
- Tighten the volatility triggers to assist in capturing erroneous orders
- This will then mean no cancellation of closing auction trades unless in very adhoc and exceptional circumstances i.e. market integrity etc.

For the Top 40, it was suggested the volatility band be brought down from 6% to 2%. The team will look into ZA02 to provide the committee with a closer metric to align. The committee agreed that we can continue with this proposal however, more work needed to be done with market regulation on the no trade cancellation framework. Once agreed, we will send out communication on both ZA01 and ZA02 changes.

7. GENERAL

The JSE will setup a follow up call to discuss the remainder of the Agenda items

- CAPAD Update
- Late trade rules
- JSE Spire awards

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

Meeting closed at 12:30 pm