

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: 21 November 2018

Time: 10:00 to 11:30

Venue: JSE Offices: Conference Room Ubuntu 1st Floor

Present:

- Ms Donna Nemer (Chairman, JSE) (DN)
- Mr Langa Manqele
- Ms Valdene Reddy
- Mr Godfrey Matjuda
- Ms Kim Pillay
- Ms Lana Stacey
- Mr Alphonso Raats
- Mr Ockie Raubenheimer
- Ms Erica Bruce
- Mr Dharmesh Gangaram
- Ms Sunette Mulder (Dial in)
- Mr Rudolph Botha (Dial in)
- Ms Jackie Tetlow (Dial in)
- Mr Matthew Rattray
- Mr Alec Schoeman
- Mr Andries Potgieter
- Mr Philip van Der Merwe
- Mr Peter Coutromanos
- Mr Richard Bone
- Mr Adam Bunkel
- Mr Mike Ray
- Mr James Stewart (Dial in)

Apologies:

Distribution: Equity Trading Advisory Committee

1. WELCOME, APOLOGIES & NEW MEMBERS

DN welcomed everyone to the last 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

The Market Steering Committee agreed to a go live date of 8 April 2019, with all trading members noted as being ready for go-live and Clearing members doing final code testing.

A request has been made to conduct decommissioning testing to ensure that all systems work accordingly.

Post go-live, there will be a bedding down period, after which the JSE team will be working on other products related to ITAC that have been requested by clients.

The JSE has completed all internal testing and processes needed for go-live. There will be two dress rehearsals in 2019, which will afford all members the opportunity to test their systems from holistically as though they are in a normal trading day.

Dress rehearsal dates:

- 9 February 2019 – non mandatory
- 9 March 2019 - Mandatory

4. UPDATE: ZA06 CLOSING PRICE METHODOLOGY & ZA04 REVIEW

New ZA06 Closing Price Methodology

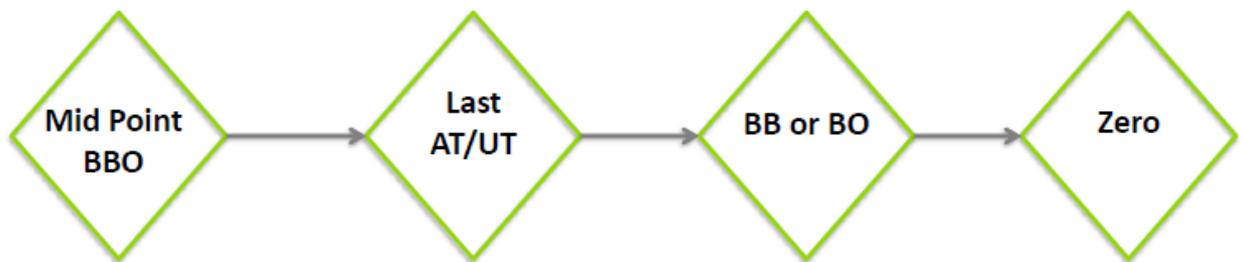
Previous Logic	New Logic
1. Closing Auction	1. Closing Auction
2. Mid BBO	2. Mid BBO
3. Last AT/UT	3. Last AT/UT
4. BB or BO	4. Previous Close
5. Zero Price	
<ul style="list-style-type: none"> • Successful implementation on 10 September • ETN with no BBO spread on the day closed out at Previous Closing Price • Majority of ETP's closed at Mid-point=+-NAV post implementation • Market maker presence still important for methodology to be effective • Current ZA04 (Warrants & Structured Products) 	



A concern was raised by a committee member that the market makers are generally not involved in the closing auction. Sometimes market makers are onscreen and then pull out their prices just before the auction.

The JSE will constantly assess the parameters set and will review the parameters if necessary.

Current ZA04 (Warrants & Structured Products) Closing Price Methodology



- Timing of last quotes for best bid and offer; not strictly adhered
- Less frequently traded instruments can result in zero priced closing prices or prices away from the market value
- Some structured product issuers choosing not to post on-book prices
- Warrant issuers are opting to keep zero as closing price option

A framework needs to be confirmed of when to override the closing price on ZA04 instruments. There is no current way to compel the issuers to put up prices on screen.

5. MARKET QUALITY & LIQUIDITY

First quarter 2018 had an average value traded of R26 billion and was ?% up compared to the year prior. After March the value traded decreased, there was an uptick in activity in Q4 at about R22 billion.

The average deal size increased in the first quarter of 2018 aligned with the increase in value traded.

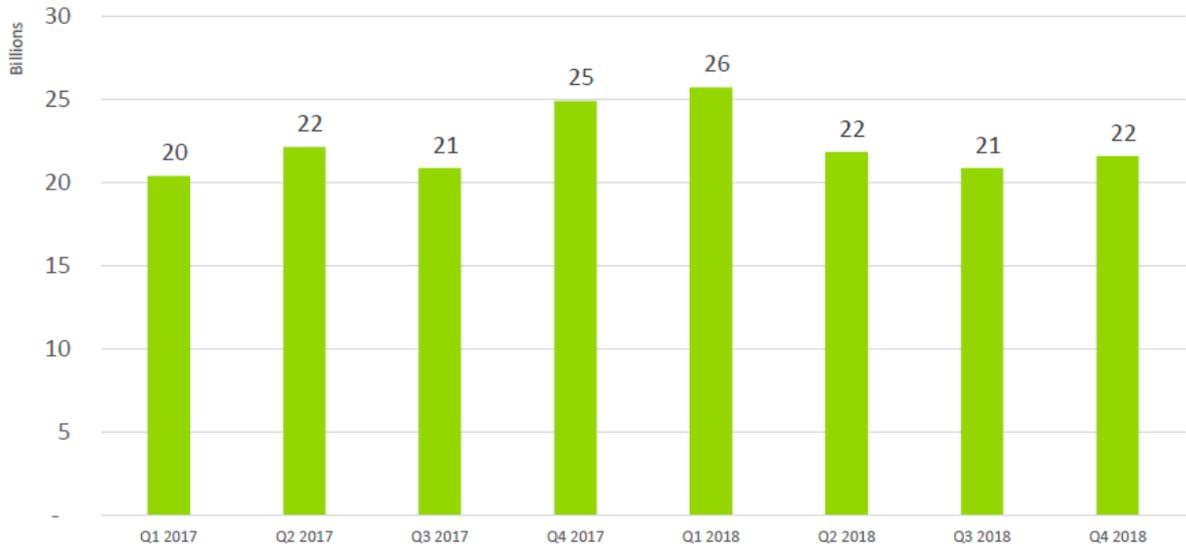
About 16% of the value traded in the day goes through the closing auction with some days going as high as 50% in some stocks due corporate actions.

The JSE will work with the market participants to assist in revitalising the activity and provide stats that strip out events. The stats will be more granular in showing month-to-month activity.

A question posed to the committee in terms of what metrics they would like to analyse in relation to market liquidity.

In the first quarter of 2019, the JSE will host a market liquidity workshop where members are requested to come up with solutions to be discussed. The objectives of the session will be for the JSE to understand the type of functionalities that the Buy-side is looking for that would offer execution flexibility.





- 2017 YTD average daily value traded 21 bn
- 2018 YTD average daily value traded 22.5 bn

A committee member commented that this is not an accurate representation given the existence of High Frequency traders (HFT) in the South Africa market.

Colocation activity has increased in 2019 although it is not a good measure of liquidity as not all the activity from colocation can be classified as HFT.

A request was made of the exchange to enhance order types that protect institutional investors.

The JSE has been looking into alternative execution types for different types of investors; this is conjunction with the MILLENIUMIT upgrade namely:

- Indication of interest (IOI)
- Iceberg orders
- Request for quotes (RFQ)

The JSE has also been investigating the idea of a dark pool, but also taking into consideration the possibility of fragmenting the market. The fragmentation in this case would occur between the onscreen and off book activity.

6. CAPAD DISCUSSION FEEDBACK

The JSE met with the Black Brokers Forum and other smaller members to discuss a conceptual paper on CAPAD. The document was an attempt to gauge the appetite for members to use a particular form of regulatory capital to assist members in meeting their capital requirements.

This is by conceptualising a prefunded guarantee that enables members to source capital from other entities either than banks. The funds would be ring fenced for use in mitigating risk in large institutional trades. They would need to be in an account which the JSE would have access to see the available funds.

Members are encouraged to engage the JSE Market Regulation if they would like to move forward with the proposal. Once members have agreed, the JSE will the engage its legal team in bedding down the documentation.

This proposal is not limited to any subset of brokers and can be used by all the members.

The JSE will not dictate to members as to which clients the guarantee can be used for. This will have to be an agreement between the member and the guarantor.

A suggestion was made to have other means of funding of cash equivalence, which the JSE is open to consider

7. JSE/FSE CONVERSATION

The JSE has a seat on the FSE council, which in the past was occupied by ASISA representing the market through a proxy vote. With further conversation with some members, the JSE would like to take on an active participation again to represent the market on the FSE council. The representation would be by strict mandate and instruction from members. The objective is for the seat to represent the broader Capital Markets as ASISA is now representing a number of bodies.

A workshop will be conducted in early 2019 to discuss high-level procedures for participation and discuss the;

- structure
- drivers
- periods of consultation
- time lines under review when a new code gets gazetted

The workshop will be aimed at understanding the processes and dictates of the mandate.

8. GENERAL

There is another draft version of the Levies bill that will be released, where the calculation for the levies has remained the same.

The below consult papers have been released and will be sent to the committee:

- LEI's
- Short Selling

Donna has taken over the role of Market Controller at the JSE.

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

Meeting closed at 11:30 pm