

## MINUTES

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

Date: 16 May 2019  
Time: 10:30 to 12:30  
Venue: JSE, Conference Room Ubuntu –1<sup>st</sup> Floor

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Present:

- Ms Donna Nemer (Chairman, JSE) (DN)
- Mr Langa Manqele (LM)
- Ms Valdene Reddy (Dial-in)
- Mr Godfrey Matjuda
- Ms Kim Pillay
- Mr Alphonso Raats
- Ms Erica Bruce
- Mr Dharmesh Gangaram
- Mr Ved Somara
- Mr Rudolph Botha (Dial in)
- Ms Anne Clayton
- Mr Matthew Rattray (Dial in)
- Mr Adam Bunkell
- Mr Matthew Rattray
- Ms Adele Hattingh
- Mr Shiran Samuels
- Mr Mzwandile Riba
- Mr Will Ridge
- Mr Mike Ray
- Ms Elinor Bodinger
- Mr Luke Middlewick (Dial-in)
- Ms Jackie Tetlow (Dial-in)

Apologies: Peter Coutromanos

Distribution: Equity Trading Advisory Committee

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### 1. WELCOME AND APOLOGIES

DN welcomed all the attendees to the second quarter Equity Trading Advisory Committee (TAC) meeting for 2019.

### 2. CONFIRMATION OF PREVIOUS MINUTES

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

### 3. POST ITAC GO-LIVE UPDATE

Leanne Parsons advised that this would be her last advisory committee sitting. Upon the implementation of ITAC there were a few issues that were experienced;

- There was an issue experienced that involved the decommissioning of systems. Clearing members experienced an issue with decommissioning with the common element being the software in use. The problem was identified as a potential residual risk as it could only be tested and conducted upon actual decommissioning. This resulted in a delay on IRC market on go live.
- STT picked up that incorrect vol surfaces were in use, which would affect margining. They were using the indicative intraday prices instead of the end of day prices. In resolving the issue, processes ran over midnight where it was discovered that the vendor deletes all trades from the previous day. Balancing was only archived on Tuesday morning
- On Tuesday morning RTC was not available due to the late balancing thus resulting in the markets starting late on Tuesday 30 April.

Once the above issues were resolved the JSE has been able to meet all SLA's barring a few related to balancing. The issues relating to trading members have been due to education and frontend functionality challenges. The JSE has provided the below link for Conceptual training as a reference guide to some of the changes in ITAC.

If the JSE creates a base instrument, it will only be available on the hour on the trading engine. Instruments created by members are available on the trading engine immediately. JSE created instruments need to be created an hour before the end of trading or reporting period to ensure they are available for trading on the day. User created instruments do not have a cut off.

<https://www.jse.co.za/content/JSEPresentationItems/ITaC%20Trading%20and%20Clearing%20Conceptual%20Training.pdf>

The JSE lifted the enablement freeze one week earlier than anticipated which has now given members the opportunity to addin more clients or get into colocation.

**Stakeholder**

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|---|---|---|--|---|--|
| <p><b>65</b></p> <p><b>Trading Members</b></p> <p>A few members have challenges with:</p> <ol style="list-style-type: none"> <li>1) commissions processes;</li> <li>2) front end functionality for instrument creation and option stats</li> <li>3) trade cancellation process changes</li> </ol> <p>Distinction between trading and clearing functions</p> <p>Not all traders tested</p> | <p><b>8</b></p> <p><b>Clearing Members</b></p> <p>Challenges with their software provider:</p> <ol style="list-style-type: none"> <li>1) Downstream processing and balancing</li> <li>2) JSE Fees and own fee recons</li> <li>3) Software robustness (has required several system restarts)</li> </ol> <p>Lack of understanding of new software and processes</p> <p>Distinction between trading and clearing functions</p> | <p><b>7</b></p> <p><b>Live Market Data Subscribers</b></p> <p>Large data providers all comfortable with new real time market data services</p> <p>Some trading and clearing members had initial challenges with processing live market data</p> | <p><b>39</b></p> <p><b>Non Live Market Data Subscribers</b></p> <p>Some key non live market data clients had initial challenges which have been resolved</p> <p>Users of information prev provided on JSE website who claim not to have known about ITaC being assisted</p> <p>JSE did have a few teething defects on some data products which impacted SLAs and content</p> | <p><b>12</b></p> <p><b>Asset Managers</b></p> <p>MTM data records: initial JSE defects</p> <p>Lack of understanding with regards to accessing early and late valuations data records</p> <p>Lack of understanding regarding changes to client codes</p> | <p><b>15</b></p> <p><b>Software Providers &amp; SIPs</b></p> <p>Config/setup errors on go live</p> <p>Learnings/training and "how to" front-end functionality e.g. user created instruments, trade reporting processes and commissions</p> <p>Incorrect use of branch code</p> <p>Lack of understanding with regards to accessing early and late valuations data records</p> |
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**Implementation- Direct Clients**

Some of the clearing member downstream process need to be finalised post implementation thus the (half yellow half green status).

With reference to non-live market data there seems to have been communication gaps within member firms. Asset managers seems to have been consuming different data records to what they were expecting, new files were temporarily created in the interim.

**Commissions**

A residual risk was recognised prior to go-live that the market will not have adjusted to the new commissions process and that there may be a number of erroneous commissions or commissions processing issues;

- This risk has materialised with certain trading members experiencing some understanding issues of their front end functionality

JSE is aware of the following issues raised since go-live

- Trading front-end bugs affecting commissions processing for certain members in certain scenarios e.g. in an accumulation scenario the commission is not feeding through to the counterparty requiring an ad-hoc commission to be booked
- Ad-hoc commissions are not reported at the deal or sub account level
- Some clients are still concerned about the risk that an erroneous ad-hoc commission is not identified and rejected on (T) Trade day and will therefore be included in settlements on T+1. The JSE is not aware of any such erroneous commissions to date
- There is some lack of understanding by members as to how VAT on commissions is handled by the trading front-ends and how it is reflected in clearing member reports
- Some lack of understanding as to roles and responsibilities e.g. with regards to who is responsible for monitoring and ensuring commissions are correct
- One client has reported that the market does not know what commission rates are being charged i.e. what is the average/typical rate of commissions in the market

### Monthly expiries

The first monthly expiries will be loaded by the JSE by end May 2019.

- First monthly expiry will be for 18 July 2019 (i.e. 3<sup>rd</sup> Thursday of each month)
- The same process used for Quarterly FCO will now be applied for the Monthly FCO
- Refer to Guidance Note:

Monthly expiries will be loaded to increase liquidity events, if the addition of monthly expiries has brings about unintended complexities the JSE will review functionality.

<https://www.jse.co.za/content/Guidance%20Notes/ITaC%20Guidance%20Note%20on%20FCO%20and%20Currency%20Expiries.pdf>

The order type (At market) will be brought to market with the enablement date to be confirmed. A market notice will be sent out to raise awareness to the market on the new order types. Software vendors and clients to ensure that there are notifications for instruments going into a volatility auction.

All queries related to ITAC should be directed to the customer support team. Escalations can be sent to Capital Market and the Clear Ops Team.

#### 4. UPDATE ON MARKET LIQUIDITY WORKSHOP

Clients had raised a concern on the current liquidity of the market. A workshop was setup as suggested at the Q1 TAC, in order to address the lack of liquidity and find ways to improve it.

The average daily value traded since 2016 shows trends related to elevated activity around closeout. From October 2018, there has been a decrease in the value traded right through to the first quarter of 2019.

The average deal size has remained relatively the same, it did however peak in 2017 which was related to the large buy side institutional investor activity, going underweight South Africa.

The order-to-trade ratio has been around 11 since 2016 and has decreased to 10.6 in January 2019. Auction activity has increased over the years from about 14% in 2016 to 18% in 2019. Trading coming from colocation has increased from around 30% through the years to 40% in 2019.

## 5. BLOCK TRADE SIZE

One of the main items raised was that, the Block Trade Size requirements was too big.

### **Current Block trade rule and requirements:**

In order for a transaction in an equity security to qualify to be submitted to the JSE Equities trading system as a Block Trade in terms of rule 6.40.2, or an Off Order Book Principal Trade in terms of rule 6.40.8, the transaction must comprise at least the following specified values, based on the segment to which the equity security is allocated:

#### **Segment Values**

- **ZA01** 30% of the average daily value or R100 million whichever is less, subject to a minimum of R10 million;
- **ZA02** 30% of the average daily value, subject to a minimum of R5 million;
- **ZA03** 30% of the average daily value, subject to a minimum of R1 million

A proposed model was discussed which is based on a notional value per tier. Levels per tier would be determined through the measure of ADV reference, although a fixed Rand notional would be set per tier. The securities within each tier would be made available by the JSE.

The proposed block trade size of Naspers was suggested to be set at R30 000 000, with Naspers in a tier of its own. This is because Naspers is an anomaly in the market. The other instruments would fall into tiers depending on their value traded in a period.

A committee member mentioned that the JSE's Block trade requirement is larger than that of MIFID.

Linked to changing Block trade size is late publication of Block trades, which is under investigation by the JSE.

A request was made by a committee member to have a level playing field with regards to the OP trade type. The JSE has committed to table the OP trade type at the next advisory.

The JSE will also conduct an adhoc follow-up call to discuss Block trade size proposal with the market

- The JSE to present on each stock's characteristics
- The Block trade size proposal in a more granular level
- To discuss the proposed tiers and their application

For a change in the current size requirement, the JSE would need to consult with FSCA in order to reduce the Block trade sizes further. The JSE regulations team has been consulted and is in support of the idea of reducing the current Block trade size.

## 6. TRADE TYPE AND PRODUCT FUNCTIONALITY

### **XT Trade type**

The JSE is looking to enhance the XT trade type. This is the functionality that allows the placement of a cross order without interaction from other orders. The current function requires the order to be placed within the best Bid and Offer in the Order book.

Feedback from clients is that, it is not practical; there should be an additional enhancement to be able to have a secondary execution method. If the XT does not meet, the requirements of best execution than it will be executed at mid-point. It is not the ideal, as the requirement was to enter a 2-minute lag when entering a

mixed trade. There was a consultation between Market Regulation and Capital Markets team with the conclusion was that it is no longer feasible to have this 2-minute lag.

The JSE has earmarked a small release in MIT for October 2019, which will include the XT functionality enhancement and the ITaC spill over items.

### **Icebergs**

Service providers currently offer the Iceberg functionality as a front end user functionality, as opposed to it sitting directly on the exchange where there will be a difference in latency. We are prioritizing this for the October release.

- Iceberg functionality :
  - Visible orders will always maintain priority on the order book.
- Replenishment of Iceberg orders:
  - Replenish and execute:
  - Replenish and end:

### **Pegged Hidden Orders**

- The JSE is to implement an enhancement to the Pegged Hidden order functionality, which will give the user the opportunity to track market movements with the ability to peg the hidden order at mid or at best bid/ best offer.
- The minimum reserve size is deemed too high from market consensus, this restricts others from participating.

## **7. REGULATIONS UPDATE AND AELP DISCUSSION**

There are currently only two papers out for comments

1. Standard for margining of non-centrally cleared OTC derivatives. This paper is not likely to impact non-banks but it's worth noting for equity derivatives members.
2. FSCA is drafting their first regulation conduct standard for banks and the JSE is reviewing the paper from an interest perspective in trying to ascertain as to whether it covers wholesale or retail.

These below are the potential legislations that will be reviewed after the national assembly has been put into place;

- Levies bill
- Draft standards on fit and proper requirements for significant owners of financial institutions
- Revised recovery plans for market infrastructure
- Resolution bill
- The standard for disclosure of short selling positions

There is an intention for the levies bill to be recirculated for comment by the market.

### **The Africa Exchanges Linkage Project(AELP)**

The African Exchanges Linkage Project (AELP) is a flagship project of the ASEA and the AFDB to facilitate cross-border trading and settlement of securities in Africa.

- To address the liquidity challenge facing African Capital Markets, the AELP aims to foster seamless investment flows amongst participating securities exchanges.
  - The Project's primary objectives are to:
  - Facilitate and stimulate cross-border securities trading through the utilization of a Sponsored Access Trading Model;
  - Enable free flow of trading information among market participants;
  - Support the creation of products and securities on the linked Exchanges and drive innovation in investment services;
  - Build capacity on cross-border trading for capital market stakeholders including regulators, central banks, central depositories, asset managers, stockbrokers, institutional investors and others; and
  - Build capacity for regulatory and policy formulation and standards harmonization for cross border securities trading and settlement.

In its initial phase, the Project aims to create linkages between seven African capital markets that represent more than 85% of Africa's market capitalization.

#### **8. ZA06 CLOSING PRICE METHODOLOGY WORKSHOP FEEDBACK**

The JSE has in the past few months done some revisions to the closing price methodology of ETFs and ETNs. On 10 September 2018 the Best Bid/Offer as well as the Zero price were removed as means for closing price determination.

With this new logic there has been some issues encountered with some prices closing at significant outliers from.

A new proposal is tabled to remove the closing price auction, as there are no market makers at closing auction.

- There are very few trades that are matched in the closing auction for ZA06.
- In the last 15 months the ETF's and ETN's closed at around mid-point, which further proves that the closing auction does not make a significant impact in determining the closing price.

The JSE has also received proposals for the removal of the opening auction as well, in ZA06.

There was no significant opposition from the committee to remove the closing auction in determining the closing price of ZA06 instruments.

#### **9. GENERAL**

DN thanked the committee and closed the meeting

**Meeting ended**