

## MINUTES

**HEADING:** BOND AND INTEREST RATE DERIVATIVES ADVISORY COMMITTEE  
MEETING

Date: 18 March 2015

Time: 10h00

Venue: Serengeti Meeting Room, JSE, Sandton

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<b>PRESENT:</b>	Warren Geers	(Chairman)
	Adre Smit	(ASISA)
	Bob Jones-Davies	(ICAP)
	Phillip Nel	(Credit Suisse)
	Jayendran Naidoo	(Nedbank Capital)
	Joe Verkuil	(TTSA Securities)
	Kelly Hattingh	(ABSA Capital)
	Ian Mackinnon	(Tullett Prebon)
	Phillip Costa	(Tullett Prebon)
	Steven Engleby	(Strate)
	Henry Collins	(RMB)
	Yeshveer Koobair	(ABSA Capital)
	Gavin Lemos	(Nedbank Capital)
	Bernard Claassens	(JSE)
	Brett Kotze	(JSE)
	Jacob Shayi	(JSE)
	Donna Oosthuysen	(JSE)
	Paul Du Preez	(JSE)
	Paul Hartzenberg	(JSE)
	Bronwyn Bower	(JSE)
	Kuziva Muganiwa	(JSE)
	Graham Smale	(JSE)
<b>APOLOGIES:</b>	Garth Klintworth	(Absa)
	Ryan Proudfoot	(RMB)
	Allan Janke	(Standard Bank)

AGENDA ITEM	MINUTES	ACTION ITEM
<b>Welcome</b>	Mr. Geers welcomed the Committee members to the first Quarterly Bonds and Interest Rate Derivatives Advisory Committee meeting of 2015 and thanked them for their attendance at this meeting.	
<b>Confirmation of Minutes</b>	The minutes of the meeting of the Interest Rate Advisory Committee held on 19 March 2014 were approved.	
<b>Billing Model Reviews:</b>	<p><b><u>Interest Rate Derivatives:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Zero Fee Process for IR Delta trades</b></li> </ul> <p>Ms Bower advised the committee of the Bonds and Bond Futures structure that was introduced mid-2012 to entice new trading. This was introduced to remove any costs if participants wanted to hedge their exposure. So if a participant is trading with a bond and hedging with a Bond future, the JSE would zero fee the hedge and vice versa. The JSE would like to discontinue with this model as there has not been uptake on this proposed strategy. There were 21 members initially and only one member has been active albeit infrequently. This was put out to the committee for any objections?</p> <ul style="list-style-type: none"> <li>• A member of the committee asked if the timing was right when this was launched.</li> <li>• What was the complexity of the Hedging?</li> </ul> <p>Mr. Geers advised the committee that the only reason why the JSE would terminate this model is because nobody is using it. Mr. Geers mentioned that he will engage with the banks and provide feedback to the Committee at the next Advisory meeting regarding the zero fees.</p> <p>Ms Bower advised the committee that the Bond Futures and Options fee have been reduced over the last 4 years and No billing model changes will take place this year. The JSE has advised that the revenue will come from Swap Futures that will be launched later this year and there will be No change on the Interest rate fees for 2015.</p>	<b>Ms. B Bower &amp; Mr. B Claassens</b>

	<ul style="list-style-type: none"> <li>• <b>Bonds &amp; Listings</b></li> </ul> <p>Mr. Claassens advised the committee of the two billing models that the JSE is busy exploring. Revisions to Listing fee model are aimed at finding new ways to introduce listings in the market, like the Non Rand Sovereign Debt. The new model is likely to be rolled out next month and the JSE are busy liaising with the market.</p> <p>Mr. Geers mentioned to the committee that the JSE is busy gathering information from the different stakeholders like ASISA, DIA, Originators and Structuring Desks to give feedback to the JSE Issuer Department to accommodate an improved service for debt listings.</p> <p>Mr. Claassens mentioned that on the transactional side the JSE is busy analysing a New Fee model for Trading of corporate and Government Bonds.</p> <p>Mr. Smit raised a point that the fees for corporate bonds should not be punitive as this is a key area for investors.</p> <p>Mr. Geers introduced Ms. Oosthuysen, newly appointed Director of Capital Markets and Chairman.</p>	Mr. B Claassens
<p><b>Initial Margin add-on Framework for the Interest Rate Derivatives:</b></p>	<p>Mr. Geers introduced Mr. Du Preez from the Risk team to the committee, mentioning that the Risk team will be present at all the Advisory meetings going forward.</p> <p>Mr. Du Preez advised the committee about the 2 components that he would like to address to them.</p> <ul style="list-style-type: none"> <li>• The amount of time used to liquidate a defaulting position at contract level and not at position level presumes that this can be liquidated in 2 days. This liquidation period will be based on the actual turnover in the market and to scale the margins as to how long the actual position will take to liquidate.</li> <li>• The second component the JSE has is a 99% of desired level of coverage. Stress testing will be applied to anything over 99.7% of coverage. This has not been implemented yet. The JSE is busy in discussions with the clearing members to agree on</li> </ul>	

	<p>an implementation period. This will be communicated to the committee as well as what the impact on portfolios will be.</p> <ul style="list-style-type: none"> <li>• Mr. Koobair raised a concern about the accuracy of the data used in these calculations. Mr. Claassens mentioned that the data was accurate at the time of distribution but that the JSE was working on producing additional data.</li> </ul>	
<p><b>Swap Futures</b></p>	<p>Mr. Geers mentioned to the committee that he has exciting news regarding Implementing Swap Futures to be traded on exchange. Dates have not been confirmed yet.</p> <p>Ms Bower advised the committee about the market forums that was held in Johannesburg and Cape Town in 2014 when the JSE proposed a Swap Product to the market. After numerous one on one meetings with the markets, the JSE realised that this product did not meet the criteria the market required. The JSE then went back to relook at another product, and they managed to find an International Partner that was willing to sign a Licensing Agreement with the JSE. This product is currently being signed off by the Relevant Exco members and Committee members at the JSE so no details can be divulged until the agreement is signed.</p> <p>System changes to Nutron have been requested and the Go Live date has been planned for the 15th Aug 2015. A press release will take place within the next month to advise the market who the International company is that the JSE has partnered with, and one on one discussions will be held with the market to discuss in detail the mechanics and process flows on this product.</p> <p>Mr. Geers further mentioned to the committee that the reason the JSE has to partner with this particular company is to bring International flow and to participate in S.A.</p> <p>Ms. Bower spoke to the committee about the Market to Market Process. She mentioned that the JSE is not looking at changing the current process, but to improve the process of the swap curve. The JSE is looking at increasing the number of participants to this process as currently there are not enough participants.</p>	<p>Ms. B Bower</p>



<b>Electronic Trading Platform Update (ETP)</b>	<p>Mr. G Smale is busy working on this project and advised the committee that he would to meet with them individually to ascertain what it is they are looking for in this project, and once he has all the feedback, he then will present to the committee.</p> <p>Mr. Geers advised the committee that the Banks, National Treasury and the FSB are all involved with this project. The JSE is not driving this project; they are merely completing the Logical Design of this and will run the project on behalf of National Treasury.</p>	Mr. G Smale
<b>Bond Pricing Formula Investigation</b>	<p>Mr. Claassens advised the committee that the JSE will relook at this project at a later stage due to Resource constraints and no real appetite for change from the market. The market is also busy with ITAC and T+3 which are consuming the majority of limited resources. There has been no set date for the launch of either of these projects, however this will be communicated to the market as soon as more information is available.</p>	Mr. B Claassens
<b>Credit Indices</b>	<p>Mr. Claassens provided feedback from the previous Advisory Committee meeting. The JSE was putting together a number of Indices for Market Consultation. The old indices were revamped and a total of 58 Indices were put together.</p>	
<b>Professional Market</b>	<p>Mr. Geers mentioned that 99% of the trade on the market comes from the Professional Market (Banks &amp; Asset Managers) and there is very little Retail participation. The JSE has been engaging with the Debt Issuers and is trying to establish how to introduce more Debt Issuers and more issuance.</p> <p>Mr. Smit raised concerns relating to which instruments should be included as well as compliance with general guidelines and Standards. Mr. Claassens agreed to work with the market in clarifying the solution with the DIA, ASISA, FSB, Securitisation Forum as well as individual participants before finalizing the solution.</p>	Mr. B Claassens

<b>Bonds Market Process review</b>	<p>Mr. Claassens proposed a new model for determining the closing levels for PD instruments in order to quicken the process and reduce the operational burden on the JSE. The committee approved the changes.</p>	<p>Mr. B Claassens</p>
<b>Construction of the advisory committee</b>	<p>Mr. Geers informed the committee that should a member not attend the Advisory Meetings on a regular basis, they will be requested to step down from the committee to make way for new active members to join. Mr. Geers advised that he would prefer more members to attend the Advisory meetings rather than less.</p> <p>Mr. Smit agreed to circulate the invitation to the ASISA membership.</p>	
<b>General</b>	<ul style="list-style-type: none"> <li>• Ms. Oosthuysen mentioned that this is the first time she is meeting this committee and feels that it was an excellent meeting.</li> <li>• Mr. Mckinnon asked Mr. Geers if the JSE would consider Relooking at the Liquid contracts and whether the JSE would consider listing Basket Bond Futures.</li> <li>• Mr. Geers advised that currently there are 25 trading bond futures however the JSE will research the potential of a basket bond future contract. This will be performed in the upcoming months and the feedback will be shared with the committee.</li> <li>• A member of the committee asked if the advisory meetings can take place quarterly and Mr. Geers agreed.</li> <li>• A member of the committee requested some the DIS project. Mr. Claassens advised that he will contact Strate and ask them to do a presentation at the next Advisory meeting.</li> </ul>	<p><b>Mr. Geers</b></p> <p><b>Agenda for next meeting</b></p> <p><b>Mr. Claassens</b></p>



	Meeting closed at 11:55am and Mr. Geers thanked the Committee for attending.	
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