

MINUTES

Heading: Bonds and Interest Rates Derivatives Advisory Committee Meeting
Date: 08 October 2015
Time: 12h00 – 14h00
Venue: Johannesburg Stock Exchange - Serengeti Conference Room

Attendees:	Yeshveer Koobair	ABSA
	Warren Geers	Chairperson
	Francois Venter	Eskom
	Riaan Groenewald	ICAP
	Ian Balfour	JP Morgan
	Brett Kotze	JSE
	Paul Du Preez	JSE
	Graham Smale	JSE
	Terry Eichhoff	JSE
	Alex Comninos	JSE
	Bronwyn Bower	JSE
	Natasha Mgoli	JSE
	Bernard Claassens	JSE
	Andrea Maisel	JSE
	Jacob Shayi	JSE
	Thabo Mahloele (Conference call)	Nedbank
	Mark Southworth (Conference call)	Nedbank
	Emil Kaltenbrunn	Rand Merchant Bank
	Henry Collins	Rand Merchant Bank
	Ashley Dickinson (Conference call)	Sasfin
	Tom Anderson (Conference call)	Standard Bank
	Steven Ingelby	Strate
	Joe Verkuil	TTSA
	Ian Mackinnon	Tullett Prebon

Apologies: Garth Klintworth (ABSA), Adré Smit (ASISA), Wayne Jackson (ICAP), Malcolm Charles (Investec Asset Management), Alison McPhee (Investec), Donna Oosthuysen (JSE), Michael Jansen Van Rensburg (Old Mutual Investment), Gavin Betty (Peregrine Derivatives), Bruce Simpson (Sanlam Investment Management), Callie Hugo (SARB), Stuart Leslie (Standard Bank), Nick Fitzgeorge (Tradition).

No	Items	Action Item
1.	<p><u>WELCOME:</u> Mr. Geers welcomed all members present in the meeting and thanked them for their attendance.</p>	
2.	<p><u>APPROVAL OF PREVIOUS MINUTES:</u> The previous Advisory meeting minutes were accepted.</p>	
3.	<p><u>ELECTRONIC TRADING PLATFORM (ETP) UPDATE</u> Mr. Smale provided the committee with feedback on the ETP project.</p> <ul style="list-style-type: none"> • At the moment the team is calibrating the cost of the ETP which is comprised of the vendor cost and the cost to integrate the solution inside the JSE, and surveillance requirements. • The next stage is to present the costing to National Treasury and the JSE Exco along with the revenue model. • The plan is to present to the JSE board in mid-November. 	
4.	<p><u>LISTING FEES UPDATE</u> Mr. Claassens provided feedback relating to the process that they went through to build an equitable listing fee model:</p> <ul style="list-style-type: none"> • The market fees are set to increase by 5%. • The new model will allow the exchange to align its listing fees to other international exchanges. • Is currently awaiting feedback from the market which is estimated to be obtained by the end of October 2015. • The new model will be communicated to the market in November and be effective from January 2016. 	
5.	<p><u>SECONDARY MARKET FEES UPDATE</u> Mr. Claassens gave an update of the Secondary Market fees:</p> <ul style="list-style-type: none"> • The secondary billing model has been approved internally. • The exchange is looking to introduce a two-tier fee for Spot and Repo and, is currently engaging with four market participants that are adversely impacted by the proposed model. • When the participants agree to the model, it will be communicated to the entire 	

	market accordingly and be effective from January 2016.	
6.	<p><u>PROFESSIONAL DEBT MARKET</u></p> <p>Mrs. Eichhoff provided an overview and some background on the proposed Professional Debt market which is aimed at meeting market demand for less onerous disclosure obligations for bilaterally negotiated deals.</p> <ul style="list-style-type: none"> • A proposal has been presented internally and the next step is to get FSB approval for the proposed approach. • Issuer Regulation team is busy working on the listing and disclosure requirements. <p><u>PROJECT BOND INITIATIVE</u></p> <p>Mrs. Eichhoff also took the committee through the Listed Project Bond Initiative which is a joint initiative by the JSE and National Treasury aimed at creating a framework for the listing of Project bonds in SA.</p>	
7.	<p><u>INITIAL MARGIN: IMPLEMENTING NEW MARGINS METHODOLOGY (TIMING AND CONSEQUENCES)</u></p> <p>Mr. Du Preez from the Risk team was brought in to advise on the changes to Initial Margin Requirement on Interest Rate Derivatives.</p> <ul style="list-style-type: none"> • The changes will not have a substantial cash flow impact on most participants. • He welcomed questions from members. 	
8.	<p><u>TAKING-A-TURN</u></p> <p>Mr Comminos from Post-Trade and Information Services (PTIS) spoke to the contentious subject of taking a turn in the price when acting as an agent.</p> <ul style="list-style-type: none"> • Some brokers expressed their concern at the meeting about the changes, which were duly noted, and Mr. Geers advised that further bi-lateral conversations will take place with the concerned parties. • The implementation will have many implications such as legal complications, VAT and tax treatment issues as well as operational issues. • A forum will be created to facilitate more discussion around the subject. • The exchange hopes to find a solution that will support the market. 	
9.	<p><u>TRADING SYSTEM UPDATE: ITaC UPDATE AND CURRENT TRADING SYSTEM RELEASES FOR 2015</u></p> <ul style="list-style-type: none"> • Mrs. Maisel advised the committee that the Derivatives Release 2 for the IRC 	

	<p>market is scheduled to go live on the 7th of December 2015 with deployment taking place on the 5th of December 2015.</p> <ul style="list-style-type: none"> • Market communication will be sent to all members when the external test environment is ready for market testing. • It was highlighted that the IRD and Bonds market system releases will form part of Phase 2 of the ITaC project. There are no dates to advise on at this point in time. 	
	<p><u>ITaC COMMUNICATION</u></p> <p>Mr. Geers posed the question of whether the exchange is communicating effectively with the market on ITaC and system updates.</p> <ul style="list-style-type: none"> • He welcomed suggestions from the committee on how the exchange can better communicate with them on ITaC issues. • Members were requested to email their suggestions to the JSE. <p>Although dates weren't confirmed for the IRD and Bonds ITaC go-live, Mr. Geers urged the committee to pay special attention to hotline notices as they contain important dates and information.</p>	
	<p><u>NUTRON UPGRADE</u></p> <p>Mr. Claassens gave a bond systems perspective and how the exchange is looking at creating a system that will provide tradeable prices for corporate bonds.</p> <ul style="list-style-type: none"> • The system will allow for the electronic trade of corporate bonds on a spread basis through Nutron. 	
	<p><u>INTEREST RATES DERIVATIVES UPDATE:</u></p> <p><u>SWAP FUTURES</u></p> <p>Ms. Bower provided the committee with detailed feedback on the Interest Rate Swaps:</p> <ul style="list-style-type: none"> • No trades have taken place since the product launched partly due to market making banks having to follow new product approval processes. • There is still an interest in the product from the buy-side. • The biggest challenge faced is that of clearing fees in terms of CVA capital charges. The exchange charges a trading fee however the clearing members could potentially charge an additional fee over and above the exchange fees. The additional fee includes Initial Margin and CVA charges. • Ms. Bower will be meeting with clearing members and the market maker banks to get a view of where they stand on the issue and lobby with SARB for them to make 	

	<p>an exception on the treatment of exchange traded swap products.</p> <ul style="list-style-type: none"> • There is no consistency between the clearing banks in respect of how CVA is to be charged to the clients. Ms Bower is engaging with clearing banks on the matter of CVA charges. 	
10.	<p><u>BONDS AND INTEREST RATE DERIVATIVES STATISTICS – YTD 2015</u></p> <p><u>Bond Market</u></p> <p>Mr. Claassens presented the Bonds statistics to the committee.</p> <ul style="list-style-type: none"> • Standard Turnover: YTD Sep 2015 deals are up 21% and nominal up 22%. • Repo 1&2 Turnover: YTD Sep 2015 deals were up 13% and nominal up 19%. <p><u>IRD Market</u></p> <p>Ms. Bower presented the IRD market stats</p> <ul style="list-style-type: none"> • Total number of contracts traded in the IRD market is up 10% • The YTD value traded on all IRD products is up 11% • R186 continues to be the most liquid instrument traded in the IRD market. 	
11.	<p><u>GENERAL</u></p> <p>Mr. Collins questioned how the exchange is communicating to the market on the booking of trades as this has the potential of distorting statistics when repo trade bookings are being misrepresented as spot trades.</p> <p>Mr. Claassens advised the committee that from a system viewpoint the exchange can curtail this by:</p> <ul style="list-style-type: none"> • Introducing a flagging system to provide more detail around the statistical data. The flag will show which deals are prime brokers deals, book-over-deals, private placement. • An official document detailing the rules and processes will need to be signed off by Market Regulation and then communicated to the market. • Surveillance has been able to identify the banks that don't report in line with the rules of the exchange and are trying to get all participants to comply. <p>Mr. McKinnon enquired if there is any foreign participation in the IRD market that would have contributed to the Bond Futures statistics.</p> <p>Ms Bower advised that she would update the committee on the percentage of foreign participants in the bond futures market.</p>	

	<p><u>PRICE BANDS</u></p> <p>Ms. Bower advised the committee of the price bands on limits and how they will change from an absolute number to a percentage for Currency and Bond Derivative instruments. Multiple suggestions were made by the committee. Mr. Geers encouraged the committee members to continue to submit their suggestions outside of the meeting but will continue with the price bands that are currently in place which was previously agreed upon by the committee.</p> <p><u>M-T-M PROCESS</u></p> <p>Mr. Kaltenbrunn queried whether there has been a streamlining to the M-T-M process on Bonds.</p> <p>Mr. Claassens advised that there are efforts to republish the M-T-M rules and to make sure that they are being adhered to.</p>	
12	<p><u>CLOSE</u></p> <p>Mr. Geers thanked the committee for attending the Advisory meeting. The meeting adjourned at 13H35</p>	