

MINUTES

Heading: Bonds and Interest Rates Derivatives Advisory Committee Meeting

Date: 22 June 2016

Time: 09h30 – 11h30

Venue: Johannesburg Stock Exchange - Serengeti Conference Room

Attendees:	Warren Geers	JSE (Chairperson)
	Yeshveer Koobair	ABSA Capital
	Christine Fourie (On teleconference)	Coronation Fund Managers
	Bridgette Lubbe	Credit Suisse Securities
	Francois Venter	Eskom
	Shane Pomeroy-Ward (On teleconference)	HSBC South Africa
	Paul Wilson	ICAP Securities
	Flynn Robson (On teleconference)	Investec bank
	Ian Balfour	JP Morgan
	Donna Oosthuysen	JSE
	Natasha Mgoli	JSE
	Alex Comninos	JSE
	Bronwyn Bower	JSE
	Bernard Claassens	JSE
	Brett Kotze	JSE
	Jacob Shayi	JSE
	Prejelin Naggan	JSE
	Paul Du Preez	JSE
	Mark Randall	JSE
	Rapelang Motang	JSE
	Joe Vercuil	Micromega securities
	Stephen Charles	RMB
	Ashley Dickinson (On teleconference)	SASFIN
	Stuart Leslie (On teleconference)	Standard Bank
	Steven Ingleby	Strate
	Ian Mackinnon	Tullett Prebon South Africa
	Sarel Pretorius	Vunani Capital Markets
	Marten Banninga	WWC Trading

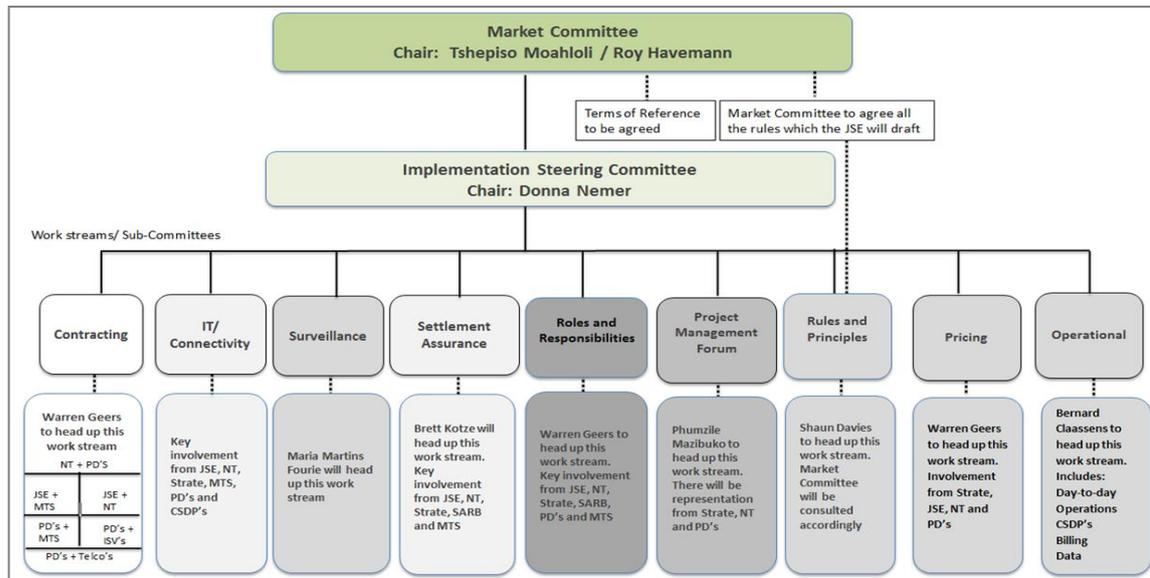
Apologies:

Garith Botha (Standard Bank), Garth Klintworth (Absa Capital), Henry Collins (RMB), Jayson Gordon (Standard Bank), Leanne Parsons (JSE), Leon Smit (PIC), Mark Southworth (Nedbank), Nick Fitzgeorge (Tradition SA), Patty Barbeau (Standard Bank), Ryan Proudfoot (RMB), Steve Arnold (Investec), Andrew Cairns (Absa Capital), Diane Bates (RMB Clearing), Tom Anderson (Standard Bank), Emil Kaltenbrunn (RMB).

No	Items	Action Item																																		
1.	<u>WELCOME</u>																																			
	— Mr. Geers welcomed all members present in the meeting and those on conference call. He thanked everyone for their attendance																																			
2.	<u>APPROVAL OF PREVIOUS MINUTES</u>																																			
	— The previous minutes were confirmed as a true reflection of the proceedings of the advisory committee meeting held on 17 February 2016.																																			
3.	<u>NEW MEMBERS AND RESIGNATIONS</u>																																			
	— There were no resignations from the Bond and Interest Rate Derivatives market or the advisory membership.																																			
	— There were no new members to approve.																																			
4.	<u>Bonds and Interest Rate Derivative Statistics (IRD) – 2016 YTD Review</u>																																			
	<u>Secondary Bond Market Update</u>																																			
	— Mr. Claassens gave an update of the trading activity in the secondary bond market for the period																																			
	Standard Trades (Include Spot)																																			
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	<u>Interest Rate Derivatives update</u>																																			
	— Ms. Bower provided the committee with a 2016 review of the Interest Rate Derivatives (IRD) market.																																			
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	— Bond Futures Open Interest as at 31 May 2016 represented a 81% year-on-year increase																																			

	<ul style="list-style-type: none"> — Bond Futures traded on 28 different underlying bonds in 2016; 10 were inflation bond futures and 18 nominal bond futures. — The top 5 most liquid bond futures contracts traded year-to-date on the exchange are; R186, R2048, R207, 2037 and R208. — The Inflation-linked Bond Futures accounted for 19.6% of total Bond Futures volume in 2016. 	
5.	<p><u>NEW TRADE REPORTING FIELDS FOR BONDS</u></p>	
	<p>Mr. Claassens gave an update on the Bonds new trade reporting fields</p> <ul style="list-style-type: none"> — Mr. Claassens informed the committee members that the trade reporting fields were effective from 20th of June 2016. — Mr. Claassens advised that he had been in discussions with the Prime Brokers and it was agreed that the Prime Broker flag will not be implemented at this point in time as it is seen by the market as a discriminatory flag in that it reveals the clients business. — The below flags have been introduced: <ol style="list-style-type: none"> 1. Spread BP Field 2. Spread Companion Field 3. Primary Market Flag 4. Tap Issue Flag 5. Book over Flag 6. Give Up Flag <p>Questions, Responses & Comments</p> <ul style="list-style-type: none"> — Mr. Pomeroy-ward queried if the information would be published to the market. — Mr. Claassens advised that the exchange will not publish the data to the market. He stated that the process is to first understand how the information is being reported by the market participants and then analyze the data. Should there be an area of contention in how the information is being reported, the JSE will take it up with the relevant parties; however, at this point in time the exchange will not be making the information available. He added that it will take at least one month to gather the information. — Mr. Geers mentioned that a discussion around the type of information that can be disseminated and published to the market will take place at the next advisory. 	
6.	<p><u>ELECTRONIC TRADING PLATFORM (ETP) UPDATE</u></p>	
	<p>Mr. Geers gave an update on ETP:</p> <ul style="list-style-type: none"> — The project costs have been presented to all stakeholders and all are in agreement. — There are 9 project streams that have been identified and have kicked off 	

The first phase of the project caters for primary dealers only. The second phase will introduce the non- Primary Dealer Market Makers and phase three will be the price takers. No dates can be confirmed at this point in time for phase 2 and 3.



The ETP Market committee will be chaired by National Treasury's Ms. Tshepiso Moahloli and Mr. Roy Havemann, and the Implementation Steering Committee will be chaired by Ms. Donna Nemer from the JSE.

The Market Committee will approve rules and terms of reference.

The Settlement Assurance work stream commenced on the 15th of June 2016.

Mr. Kotze and National Treasury will be meeting all the primary dealers and their Risk and Trade managers to ensure that everyone is on the same page in terms of settlement and credit risk.

Mr. Claassens will be heading up the operations work stream; however, within that work stream there is an additional CSDP work stream which will be managed by Mr. Kotze, who will ensure that the CSDP components are catered for from an operations perspective.

The project is scheduled to go-live in the first half of 2017.

Questions, Responses & Comments

Mr. Venter queried about the involvement of World Bank in ETP, and asked who would be driving the initiative.

Ms. Nemer advised that the National Treasury is driving the project. The World Bank is the consultant to National Treasury and the project is a multiple-stakeholder arrangement. The World Bank has been influential on the governance aspect of the project rather than on the specifics.

Mr. Charles informed the members that the advent of ETP stemmed from concerns in the media, levelled at primary dealers, around the pre- and post-trade transparency. The National Treasury

	stepped in and appointed the World Bank as the advisor to get a view of the best practise globally.	
7.	<p><u>Valuations Update – Bonds MTM</u></p> <p>Mr. Randall gave an update on the methodology applied to spot bond valuations:</p> <ul style="list-style-type: none"> — A bonds valuations committee was formed and is made up of representatives from all trade sectors such as banks, asset managers and brokers. The first meeting was held on the 9th June. — At the next committee meeting in August, the committee will go through the valuation methodology applied to all bond instrument types and establish whether the approach is still sensible, and if there can be improvements. — The notes from the committee meetings will be published on the JSE website, and proposals or recommendations to a change to the methodology will be put up on the website for market comments. — Mr. Kotze stated that the JSE focus is on confirming the valuation methodology, and from an operational perspective, ensuring that the correct rates are published to the market. There are efforts underway to automate the process and to also relook at the calculation within the system which will help eliminate inefficiencies in the process. — The JSE is currently focusing on the following two areas to improve this process. The one is around the call down process with the primary dealers that is done every day. The process is being automated on a system so it can feed directly into Reuters or Bloomberg to do an extract off their screens. Testing of this process will be done in the following weeks. — The other focus is on moving from 5 million to 1 million nominal which is being investigated as a solution. Both the solutions are in test phase. 	
8.	<p><u>Corporate Bonds Trading Platform</u></p> <p>Mr. Claassens provided an update on Corporate Bond trading platform:</p> <ul style="list-style-type: none"> — The roll out to pilot phase participants has been delayed but is expected to commence by the beginning of July — The system is ready and, the JSE will be in discussions with pilot participants about contributing to the screen — The JSE has begun discussions with data vendors in relation to the publication of the supplied information to a broader audience. — Various constituents have expressed an interest and the need for the platform to be supported and successful in relation to pre-trade credit pricing. 	

9.	<p><u>Professional Board Update and Listed Project Bonds Update</u></p>	
	<p>Mr. Naggan gave an update on the Professional Board and Listed Project Bonds initiative:</p> <ul style="list-style-type: none"> — There have been frequent meetings with the workgroups around the listed project bonds. — They have been consulting and engaging with international exchanges to establish what the global best practise is. — The workgroup has come up with what they consider a sensible solution which is being discussed internally at the workgroup meetings. This will be incorporated into the framework and distributed to relevant stakeholders, internal and external, for approval and signoff. — The efforts made on the Listed Project Bonds initiative will largely carry over into the Professional Board. 	
10.	<p><u>Bond Index Futures – Cash vs Physically Settlement</u></p>	
	<p>Ms. Bower gave the committee members an update on bond index futures cash versus physical settlement:</p> <ul style="list-style-type: none"> — A request came from the market making banks to change the settlement type on the Bond Index Futures from cash settlement to physical settlement. — It was initially requested to physically settle the inflation linked bonds indices. — Ms. Bower advised that market makers were pushing for this change; however, the change will have to be approved by the entire market. — From a <i>JSE system perspective</i>, the change is possible and it can be facilitated; however, participants will have to be made aware that from a system close-out perspective, the physical deliveries resulting from Bond Index Futures will not be offset against the Bond Future Deliveries. — Mr. Kotze added that this will also have a margin effect. Where there is physical delivery the system holds back the margin to settlement day. — The JSE is waiting for feedback from ASISA to understand their member’s views on the change. 	
11.	<p><u>Debt Instrument System</u></p>	
	<p>Mr. Ingleby gave an update on Strate DIS project:</p> <ul style="list-style-type: none"> — It is a big system change from the Strate perspective — There will be changes to the settlements model; however, this will have minimal effect on the trading market participants. — Under the DIS the funding of coupons and redemptions will be automated, and payments will go directly through to the settlement banks rather than being paid into the Strate account. — There will be changes to the Interest and Redemption confirmation process. — Under the DIS there will be no limitations to settlement runs, there will be an enhanced functionality that allows for multiple settlement runs. — The changes will be communicated to the market. 	

	<ul style="list-style-type: none"> — The project is scheduled to go live in Q1 2017. — Mr. Kotze advised that the JSE will try to make the implementation on the system as seamless as possible for its members. There will be system changes for Strate and the CSDPs; however Strate will address these changes with the CSDPs. 	
12.	<p><u>Commissions Processing</u></p>	
	<p>Mr. Comninos gave an update to the committee:</p> <ul style="list-style-type: none"> — Following the decision to decommission functionality to ‘take a turn’ in deal management, the JSE investigated various solutions that would assist the market in settling commissions for agency trades on T+1 through the JSE acting as a payment clearing house. — The JSE commissions offering was presented to trading advisory members, clearing members and software providers on 31 March 2016 with the objective of verifying that the mechanics and processes support the market’s need in a practical and workable manner. — The JSE is currently in the process of implementing the proposed solution. 	
13.	<p><u>Minimum Price Display on IDB Screens (R25 million Rule)</u></p>	
	<ul style="list-style-type: none"> — Mr. Geers explained to the committee how this became a concern; — The Institutional brokers raised a concern on the pricing in a minimum of R25 million by the interdealer brokers. — The JSE facilitated a discussion between the primary dealers, IDBs and institutional brokers and National Treasury on the 1st of June 2016. The JSE and National Treasury were observers at this meeting. — The outcome of the meeting was that the IDBs and the institutional brokers would investigate the feasibility of having two screens for retail and wholesale price structures. — The JSE agreed to investigate the possibility of using the Nutron trading platform for the execution of these smaller tickets. — The next meeting is schedule for the 6th of July 2016 — The consensus was reached to improve timely communication in relation to market structure decisions and to facilitate industry wide consultation. <p>Questions, Responses & Comments</p> <ul style="list-style-type: none"> — Mr. Banninga stated that some IDBs still do not put prices for smaller tickets on screen and believes that the best price is not advertised to the market. — Mr. Banninga stated that the prices in sizes of 25 million were forced on the market. — Mr. Geers advised that the 25 million limitations is not a JSE Rule but is a size limit proposed by 	

the primary dealers to the IDBs.

- Mr. Banninga expressed the view that the 25 million size limits infringes on the Market Rules which all market participants need to abide by. He cited the rule book and stated that the IDBs must broadcast prices in relation to its clients orders to buy and sell JSE listed bonds in a non-discriminatory manner which ensures the prices are accessible at the same time to all other trading members with whom the IDB contracts.
- He added that the JSE may use the prices for regulation purposes, and to promote liquidity and transparency in trading listed bonds.
- Mr. Charles stated that the market is growing, and the same way that market has moved from 1 million to 5 million, it is now progressing to 25 million. He mentioned that the small sizes distort the market liquidity and now that the pricing is in sizes of 25 million, the market is more transparent and liquid.
- The solution proposed by Tradition and Tullets Prebon, includes setting up a screen for smaller sizes.
- The alternative is that the JSE use its existing Nutron trading platform for small sizes.
- Mr. Vercuil advised that they do not have a second screen for small sizes of 5 million however they do voice advertise small prices to their members.
- It was **agreed** that further discussions will take place at the next meeting on the 6th of July 2016.
- Mr. Vercuil stated that the stance of the IDBs in ETP has not been made clear. He queried who will have sight of the screen and transact on it.
- Mr. Geers advised that the pricing information on the platform will be available to everybody. The vendors will be carrying the data and the prices will be published for all to see.
- Mr. Geers stated that ETP is discussed with all market participants at the advisory meetings and also at the one-on-one meetings that the JSE has with IRC members.
- Mr. Banninga highlighted to the committee members that the Bond Market Development committee chaired by National Treasury has not had a meeting since December 2014 and there have been no updates or communication to the market. Mr. Banninga requested that the JSE follow up with the chairperson of that committee.
- Mr. Geers advised that he will be meeting with National Treasury tomorrow and he will raise this at the meeting.
- Ms. Nemer welcomed questions from the members at any point in time. The JSE is open and transparent about everything.

14. **General**

Settlement cycle

- Mr. Claassens advised that there have been requests from some members for the JSE to investigate the possibility of extending the second settlement run window and align it to Euroclear region time standards.
- This issue mostly impacts on IDBs.
- He mentioned that the upcoming DIS project will try to alleviate the problem however the cut off times are still not aligned with European times.
- Mr. Claassens stated that many attempts have been made over the past to come up with ways to ensure that the settlement actually happens, such as communicating to the relevant parties and their respective compliance officers. This has not been successful and the JSE is now investigating possible solutions.

Mr. Kotze advised that the JSE has initiated an investigation to see how this can moved forward:

- He mentioned that the issue is caused by EuroClear timing mismatches.
- He stated that the investigation is two-folds; one is to determine whether or not the timeline of the settlement can be extended, and the other is the crisis-management on occasion that the counterparty has a valid problem.
- The banks are pushing the cut-off as they are trying to clear their books for the day, and pushing the windows further may result in funding issues for banks treasury.
- He proposed that the JSE consult with the treasury at the banks to understand their concerns versus the CSDPs versus the National Treasury.
- With the Strate DIS Project, the JSE system can facilitate the rolling of settlement, and facilitate lending and borrowing, repos, etc. to resolve issues.
- Mr. Claassens suggested that the JSE should first try and obtain details from the impacted market participants of the problems that exist around international delivery.
- Mr. Claassens proposed that the issue be noted and discussed at the next advisory.

Penalties:

- Mr. Kotze advised that the penalties were introduced to encourage settlement to happen, and currently 90% of the penalties are being waived.
- The penalty is a regulatory obligation (stipulated in the FMA and JSE rules) to ensure that settlement occurs.
- Mr. Geers stated that the issues will be investigated and **noted** as a point of discussion for the next Bonds advisory meeting.

<p><u>Collateral management</u></p>	
<p>Mr. Kotze gave a brief update on the collateral management:</p> <ul style="list-style-type: none"> — The testing of the interim solution has been completed however an issue was identified in terms of the insolvency act section 35A. — The final solution is under the ITaC project. The JSE has created system functionality that will take securities collateral against derivatives positions. 	
<p><u>Trade confirmation</u></p>	
<ul style="list-style-type: none"> — Mr. Kotze informed the committee members that the JSE has automated trade confirmation notifications for bond trades on Nutron, and clients who wish to receive confirmations should contact him. 	
<p><u>Close</u></p>	
<ul style="list-style-type: none"> — Mr. Geers thanked everyone for their time. — The meeting was formally closed at 10:56am 	