

## MINUTES

**Heading:** Currency Derivatives Advisory Committee Meeting  
**Date:** 05 October 2015  
**Time:** 12h00  
**Venue:** Johannesburg Stock Exchange - Serengeti Conference Room

### Attendees

<b>Members:</b>	Warren Geers	Chairperson
	Andre Koen	JSE
	Brett Kotze	JSE
	Donna Oosthuysen	JSE
	Elaine Mabiletsa	JSE
	Jacob Shayi	JSE
	Dianne Bates	RMB
	Greg Kennelly	RMB
	Jan Badenhorst (Conference call)	RMD
	Nongcebo Ngcobo	SARB
	Rudolph Mangena	SARB
	Tom Anderson (Conference call)	Standard Bank
	Andrew Gillespie (Conference call)	Tradition

<b>Non-members:</b>	Kobus Venter	Absa
	Athandile Maswili	JSE
	Alex Comminos	JSE
	Andrea Maisel	JSE
	Paul Du Preez	JSE
	Tshwantsho Matsena	JSE
	Abdul Adams	Nedbank
	William Van Rijn	Nedbank
	Fikile Dlamini	SARB

**Apologies:** Justin Nichols (Absa) , Woerie de Villiers (Farmwise), Steven Greenstein (Investec), Leanne Parsons (JSE) , Gavin Betty (Peregrine) , Philip Blom (RMB) , Jayson Gordon (Std Clearing) , Eben Karsten (Matrix Fund Managers) , Ross Hooper (SARB), Petrus Bosman (Avior).

No	Items	Action Item
1.	<p><b><u>WELCOME</u></b></p> <p>The chairperson Mr. Geers welcomed all members present and declared the meeting open at 13:00.</p>	
2.	<p><b><u>APPROVAL OF PREVIOUS MINUTES</u></b></p> <p>The previous minutes were adopted as a true reflection of the meeting held. No changes were proposed.</p>	
3.	<p><b><u>PROPOSED NEW MEMBERS AND RESIGNATIONS</u></b></p> <p>There were no proposed new members and neither were there any resignations.</p>	
4.	<p><b><u>REGULATION: UPDATE PRE-TRADE ARRANGEMENT RULES</u></b></p> <p>Mr. Venter to consult Mr. Nichols (ABSA) and their compliance officer on this matter and to revert back to the JSE.</p>	
5.	<p><b><u>LISTING REQUIREMENTS: NEW CURRENCY CONTRACTS</u></b></p> <ul style="list-style-type: none"> <li>• Mr. Geers spoke on the current structure; the requirements and process of listing new Currency contracts.</li> <li>• The first point of action for listing new currency pairs is for the JSE Risk team to perform an analysis of the liquidity in the underlying instrument, view the currency information on Reuters and set the appropriate limits and initial margin requirements.</li> <li>• The Risk team advised on the implications of bringing in a new contract to the market with only one market maker.</li> <li>• The Risk team can cover the additional risk by adding extra concentration risk margin if necessary.</li> <li>• It was unanimously agreed that the principle of one market maker will suffice to list new contracts, as it has been the case since the market inception.</li> <li>• The exchange will circulate to the members the principles discussed of how to list a new contract on the exchange.</li> </ul> <p><b>Timing of listing (How long it takes to list a contract)</b></p> <ul style="list-style-type: none"> <li>• It will depend on the liquidity of the instrument. Risk advised that 2 days is sufficient time for the listing of most liquid instruments.</li> <li>• Very liquid instruments can even be listed on the same day depending on the requirements ascertained by Risk.</li> <li>• Mr. Venter raised the concern of urgent listings under circumstances where the client is</li> </ul>	Mr. Geers

	<p>ready to trade, how is the exchange going to accommodate such urgent trades.</p> <ul style="list-style-type: none"> <li>Mr. Geers advised that if it is a really liquid instrument, listing can even be done in 1 day, but needs to be assessed on a case by case nature. The exchange will undertake to list the contract as soon as possible.</li> </ul> <p><b>Relisting the Pula</b></p> <ul style="list-style-type: none"> <li>Mr. Gillespie raised the issue of the potential relisting of the Pula on the exchange.</li> <li>The exchange is happy to relist on condition that there is a market maker and a fixing page on Reuters.</li> </ul>	
<p>6.</p>	<p><b><u>CLOSE OUT :</u></b></p> <p><b><u>CLOSING OUT OF OPEN INTEREST BETWEEN MARKET MAKERS – PRIOR TO EXPIRY</u></b></p> <p>Mr. Geers highlighted that there were concerns raised on the amount of Open Interest going into a close-out and how close-out should be handled. This was also discussed at the FMLG (11/8/2015).</p> <p>He further talked through the close-out process and how banks are allowed to close-out currency futures by communicating with each other to try and mitigate the risk in accordance with the current SARB dispensation.</p> <p>The JSE proposed 2 methodologies, namely an open auction and closed auction.</p> <p><b>Option 1</b> is the open auction methodology:</p> <ul style="list-style-type: none"> <li>Here the trades will be matched using the mid-price at the end of the auction, this will maximise trade volumes.</li> <li>This method is good for price determination yet does not allow dealers to unwind at a perfect hedge against the spot position held against the futures position.</li> <li>Three scenarios were presented to the committee on the actual workings of an Open Auction methodology.</li> </ul> <p><b>Option 2</b> is a closed auction methodology:</p> <ul style="list-style-type: none"> <li>This method allows the banks to unwind long/short positions by submitting the quantity that they are willing to unwind to the JSE via email.</li> <li>The auction will run for one minute at 10:59, 12:59 and 14:59.</li> <li>The proposed closed auction methodology will only be for the dollar as that is 80% of the contracts traded.</li> <li>This process is by no means intended to exclude brokers.</li> <li>It is a better solution than what is currently involved in closing-out contracts as it</li> </ul>	

	<p>allows the banks to unwind their futures and spot positions at the same price, without any need for banks to discuss the closing price of the future or the resultant spot transaction.</p> <ul style="list-style-type: none"> <li>• The JSE will advise the counterparties as to the exact amount of contracts to be traded and the price to be settled at.</li> <li>• It was agreed that the JSE should document the proposal and request approval from the banks compliance officers that they are in agreement with the approach.</li> <li>• The JSE must then consolidate the banks feedback on the matter and submit a formal request to SARB for approval.</li> <li>• There was a unanimous vote on option 2 – the closed auction methodology.</li> </ul>	
<p><b>7. <u>UPDATE MARKET MAKER OBLIGATION DEFINITIONS</u></b></p>	<ul style="list-style-type: none"> <li>• A question was put to the committee by Mr. Geers about the qualifying criteria of the billing model and whether or not the minimum of 90% and the basis point spread is still appropriate.</li> <li>• Suggestions from the committee included reducing the minimum percentage and allowing for one miss in the analysis.</li> <li>• The committee was in agreement with the view of reducing the minimum percentage and it was agreed that it would be brought down from 90% to 85% in Period 1 (09:00- 10:00) and Period 3 (16:00- 17:00) from the 1<sup>st</sup> of November 2015.</li> <li>• Mr. Geers emphasised the importance of market makers to be on screen in order to qualify for the incentive.</li> <li>• Mr. Geers explained to the committee that the minimum qualifying number of contracts bid/offer is 100 for minis and 5 for the maxi contracts.</li> <li>• Mr. Geers agreed to prepare an analysis of the incentive qualification status for each market maker and meet with them bilaterally, and without revealing who the other banks are, to show the banks how they are performing relative to the market average.</li> </ul> <p><b><u>Action item:</u></b> Set up meetings with banks and show them the statistics.</p>	<p>Mr. Geers</p>

8.	<p><b><u>TRADING SYSTEM UPDATE: ITaC UPDATE AND CURRENT TRADING SYSTEM RELEASES FOR 2015</u></b></p> <ul style="list-style-type: none"> <li>• Mrs. Maisel took the committee through the ITaC project.</li> <li>• An important date to take note of for Currency Derivatives members is that Release 2 goes live on 7 December 2015.</li> <li>• The ITaC programme is broken down into 2 Projects. The Currency Market upgrade falls under Project 1 – Phase 1C targeting 2 months after the Equity Derivative implementation which is planned for final quarter of 2017.</li> </ul>	
9.	<p><b><u>TAKING A TURN/GIVE UP TRADES – NEW PROCESS FOR ITaC</u></b></p> <p>Mr. Comninos from Post-Trade and Information Services (PTIS) addressed the contentious subject of taking a turn.</p> <p>The implementation will have many implications such as legal complications, Vat and operational issues.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• A forum will also be formed to facilitate more discussion around the matter with brokers.</li> <li>• The JSE hopes to find a solution that will support the market.</li> </ul>	
10.	<p><b><u>ITaC COMMUNICATION</u></b></p> <ul style="list-style-type: none"> <li>• Mr. Geers asked whether members were receiving the communication and if they paid attention to the hotline notices since the presence at the last session was poor.</li> <li>• He asked whether the exchange is communicating efficiently to members and asked the committee how they prefer to be communicated to.</li> <li>• Some suggestions from the committee were: smaller workgroups, a unique flag for the hotline notices thus making them easy to note, the inclusion of a hyperlink that will encourage a response or feedback for critical notices, hosting a session with currency members about ITaC and communication, and the member organisation nominate an individual who will receive the communication and be responsible for communicating it to their colleagues.</li> </ul>	

11.	<b>CURRENCY FUTURES AND OPTIONS STATISTICS : JAN-SEP 2014 VERSUS JAN-SEP 2015</b>																										
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	<ul style="list-style-type: none"> <li>• With effect from 1 November 2015 the minimum percentage of on-screen market making obligations will be brought down by 5% to 85% for the two critical periods.</li> <li>• Mr. Mangena requested that the proposed closed auction methodology be run past the banks' respective compliance officers and their approvals be collated by the JSE and submitted to SARB along with the JSE's proposal.</li> </ul>																										
13.	<p><b>CLOSE</b></p>																										
	<p>Mr. Geers thanked the committee for attending the Advisory meeting. The meeting adjourned at 13H35</p>																										