

MINUTES

Heading: Currency Derivatives Advisory Committee Meeting
Date: 15 Feb 2018
Time: 10h30-11h30
Venue: *Johannesburg Stock Exchange – Serengeti conference room*

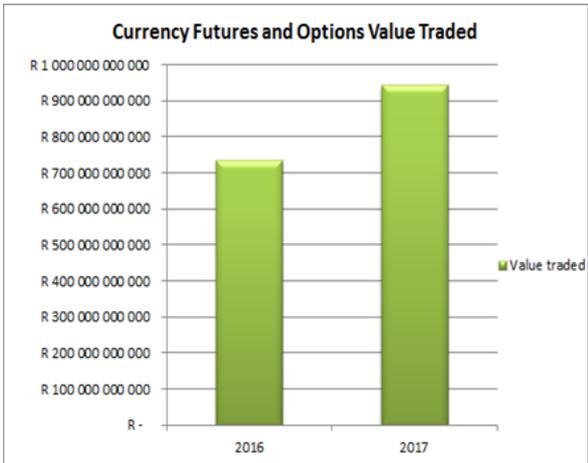
Members

Bernard Claassens	(BC)	JSE
Donna Nemer	(DN)	JSE
Elaine Mabiletsa	(EM)	JSE
Greg Kennelly	(GK)	RMB
Gavin Betty (On Telecon)	(GB)	Peregrine
Justin Nichols	(JN)	Absa
Jan Badenhorst (On Telecon)	(JB)	RMD
Steve Greenstein (On Telecon)	(SG)	Investec
Raymond Jansen	(RJ)	Nedbank

Attendees

Athandile Maswili	(AM)	JSE
Alex Comminos	(AC)	JSE
Andrea Maisel	(AM)	JSE
Cameron Paterson	(CP)	JSE
Garith Botha (On Telecon)	(GB)	Standard Bank
Gillian Van Heerden (On Telecon)	(GH)	Tradition
Mark Randall	(MR)	JSE
Themba Maseko	(TM)	JSE
Paul du Preez	(PD)	JSE

Apologies Diane Bates (RMB), Jayson Gordon (Std Bank Clearing), Andrew Gillespie (Tradition)

No	Items	Action Item																																					
1.	<u>Welcome</u>																																						
	<ul style="list-style-type: none"> Ms. Nemer opened the meeting and welcomed all the attendees to the first Currency Advisory meeting of 2018. 																																						
2.	<u>Approval of previous minutes</u>																																						
	<ul style="list-style-type: none"> Ms. Nemer reviewed the previous meeting minutes from September 2017. The minutes were adopted and confirmed to be a true reflection of the meeting. 																																						
3.	<u>Proposed new members and resignations</u>																																						
	<ul style="list-style-type: none"> There were no new members or resignations to be noted. 																																						
4.	<u>Currency Derivatives Statistics 2016 vs 2017:</u> <table border="1" data-bbox="210 1039 1305 1214"> <thead> <tr> <th colspan="5">Currency Futures & Options</th> </tr> <tr> <th>Period</th> <th>Deals</th> <th>Contracts Traded</th> <th>Value Traded</th> <th>Open Interest</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>70 191</td> <td>48 324 320</td> <td>R 734 205 216 653</td> <td>2 331 477</td> </tr> <tr> <td>2017</td> <td>70 031</td> <td>68 368 701</td> <td>R 944 210 734 845</td> <td>6 592 692</td> </tr> <tr> <td>% change</td> <td>0%</td> <td>41%</td> <td>29%</td> <td>183%</td> </tr> </tbody> </table> <div data-bbox="210 1234 767 1697">  <p>Currency Futures and Options Contracts Traded</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Contracts Traded</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>48 324 320</td> </tr> <tr> <td>2017</td> <td>68 368 701</td> </tr> </tbody> </table> </div> <div data-bbox="786 1234 1374 1697">  <p>Currency Futures and Options Value Traded</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Value Traded (R)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>734 205 216 653</td> </tr> <tr> <td>2017</td> <td>944 210 734 845</td> </tr> </tbody> </table> </div> <p><i>*Please note that the Open Interest illustrated above is as at 31 December 2017</i></p> <ul style="list-style-type: none"> Ms. Nemer thanked the committee members for their contribution to the Currency market throughout 2017. She stated that the currency market is one of the fastest growing asset classes in Capital Markets. Mrs. Mabiletsa informed the committee that the JSE will not be able to perform accurate historical comparisons as the one illustrated above post 	Currency Futures & Options					Period	Deals	Contracts Traded	Value Traded	Open Interest	2016	70 191	48 324 320	R 734 205 216 653	2 331 477	2017	70 031	68 368 701	R 944 210 734 845	6 592 692	% change	0%	41%	29%	183%	Year	Contracts Traded	2016	48 324 320	2017	68 368 701	Year	Value Traded (R)	2016	734 205 216 653	2017	944 210 734 845	
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	<p>ITaC Go Live.</p> <ul style="list-style-type: none"> • She explained that the new set of statistics will not be identical to the current data because of the new product codes and functionality that will be introduced with ITaC i.e. same day cancellations (When a trader corrects an error trade, statistics will count it as one leg instead of three) 	
5.	<p><u>USDZAR MtM</u></p>	
	<ul style="list-style-type: none"> • Mr. Randall took the committee through the current USDZAR MtM methodology: <ul style="list-style-type: none"> ○ The JSE Spot Fixing is based on Thomson Reuters D3 (16:55-17:00) ○ The JSE receives forward points from Investec, Nedbank, RMB and Standard Bank ○ The JSE will then calculate an average based on the points contributed by these four banks. ○ The JSE receives contributions for up to 12 months ○ The JSE uses a Thomson Reuters Aggregate for anything beyond 12months. • Mr. Randall mentioned that the JSE recommends using the Thompson Reuters aggregate across all tenors, because this will provide transparency and consistency across all instruments and expiries. • Alternatively, the committee can assist in identifying key market participants who should contribute and agree on a code of conduct or contribution governance. • Mr. Nichols highlighted that Reuters does not consist of aggregated figures, they display figures from whoever is publishing points at that particular time. • Mr. Nichols also stated that Absa will only contribute once the JSE signs a letter confirming that Absa will not be held liable for errors. • Mr. Jansen suggested that the JSE should consider using other vendors such as Bloomberg. • Mr. Kennelly stated that RMB will continue contributing if there are at least two additional banks contributing. • Mr. Randall asked if the committee would consider contributing to far dated expiries. • Mr. Kennelly stated that he has no objections with contributing to far dated expiries as long as the JSE does not hold him liable for errors. • Mr. Randall to investigate the Bloomberg option and provide the committee with feedback. 	<p>EM</p> <p>MR</p>

6. **African Currency Pairs**

Nigerian Naira

- Mr. Randall mentioned that the JSE has been engaging with Thompson Reuters with regard to relisting the NGN contract at the back of the NAFEX fixing.
- He mentioned that the FMDQ Securities Exchange publishes an opening rate at 9am, a fixing rate at 12pm and a closing rate at 4pm.
- Mr. Randall mentioned that the biggest issue is the data availability and timing of settlements.
- TR currently provides the following rates
 - NGN=IE Contributed/Indicative rate for window
 - NGN=D1 Confirmed/Dealt rate for window
 - NAFEX=FMDQ 24 hour delayed NAFEX
- Mr. Botha stated that delayed feeds will create complications as the price will be irrelevant to the end user.
- Mr. Randall mentioned that Thomson Reuters is working with FMDQ to provide this data real time on their terminals.
- Mr. Randall explained that the JSE has another option, which is to subscribe to real time data directly from the FMDQ e-portal at a fixed cost of \$315 per user and \$26,250 for re distribution.
- Mrs. Mabiletsa stated that the JSE is trying to ascertain whether it would be financially viable to subscribe to the data directly with FMDQ.
- She further asked whether the banks had seen enough interest from other market participants.
- Mr. Nichols stated that Absa does receive requests from clients but he cannot confirm how eminent the contract will be.

Fee Changes

Market Data

- Mr. Claassens informed the committee of the new market data fees that Currency Derivatives members will incur once ITaC goes live.
- He mentioned that the Market data team held bilateral meetings with members to discuss their direct impact.
- Mr. Claassens also reminded the committee that the new market data pricing and policies were published in December 2017.
- He encouraged the committee members to contact their market data account managers if they had any questions or concerns with regard to the fee changes.

Connectivity fees

- Mr. Claassens highlighted that connectivity fees will be waived for a one year period post ITaC Go live.
- He explained that this will translate into savings of R1000 per market, per member, per month for a base set of ComplIDs.

Trading fees

- Mr. Claassens stated that Currency booking fees will remain unchanged in 2018 as a result of ITaC.
- Mr. Claassens stated that they have received requests from market participants to look into the zero fee process for facilitating intraday fees and allowing Option structure offsets.
- He explained that the JSE has heard the market concerns and that the JSE is committed to finding solutions for these two issues that were raised. However, it is currently not possible to make any technical changes before ITaC is live.
- Mr. Kennelly stated that the JSE should start engaging the market and work on a solution well in advance. The work cannot commence once ITaC is live.

Cost assistance

- All trading members should have received a letter detailing the value of

financial support they will be receiving from the JSE from January 2018.

- He mentioned that this amount will be paid over a period of two years.

Fees on Initial Margin(IM)

Background

- Mr. du Preez stated that the JSE has been communicating that when ITaC is implemented they will consolidate the haircut taken on IM across asset classes.
- He mentioned that the IRC market currently applies 12.5bps and other markets apply 20bps.
- He stated that currently the JSE only accepts ZAR cash as IM.
- He explained that currently the fees mentioned above are facilitated via a turn taken on the monthly interest payment to participants.

New Initial Margin (IM) Fee

- Mr. du Preez mentioned that post extensive engagement the following has been decided with regard to the single fee on IM:
 - An explicit IM fee will be charged and invoiced on a monthly basis
 - The JSE will move the equity, currency and commodity derivative markets to a single fee of 17.0 bps, with the change being effective from the ITaC go-live date, and
 - The JSE will leave the interest rate derivatives market at 12.5bps for now, and only migrate to 17.0 bps when this market moves into the ITaC solution
- Ms. Nemer requested Mr. du Preez to provide the committee with feedback on the progress made with regard to non-cash collateral as well as the margin offset solutions.
- Mr. du Preez explained that the use of j-span methodology was discontinued in IRD and the portfolio var methodology was introduced. This implementation resulted in a four billion rand saving on initial margins. He mentioned that post ITaC go live the risk team will be able to provide the same solution for currency pairs.

	<ul style="list-style-type: none"> • Mr. Nichols asked if the JSE had any plans to decrease the IM number required from members. • Ms. Nemer mentioned that the JSE has proposed various ways on how it could reduce the IM number; these suggestions were all declined by the risk committee. • Mr. Nichols stated that he feels the JSE is as not firm in their approach to clearing members about this issue as they are with trading members when it comes to rules and fees. • Mr. du Preez mentioned that a reduction will come from the Portfolio Var framework as was seen in the IRD market. • He further stated they are exploring more sophisticated ways of doing the outright number calculation at contract level, but the intention of this is not just to reduce the IM but to review scenarios that are included in the calculations and manage risk appropriately. • Mr. du Preez mentioned that reducing IM should not mean lowering the standard/barriers for investors in order to increase liquidity. • Mr. Kennelly mentioned that the JSE should take a more holistic look at the cost of doing business from a member's perspective. • Ms. Nemer requested the IRC team to expedite conducting billing reviews as this will assist in alleviating the overall cost of doing business for members. 	IRC
	<p><u>ITaC Update</u></p>	
	<p><u>Clearing Member Readiness</u></p> <ul style="list-style-type: none"> • Mr. Comninos thanked the committee for their participation in the market dress rehearsal in November. • This gave an indication that the trading and clearing members were not ready for the previous go live date that was scheduled for 19 February 2018. • Mr. Comninos mentioned that the Clearing members experienced a delay in the delivery of software to them. 	

- He stated that the JSE team has been actively engaging with Clearing Members and their software providers to resolve the delay in the start of market wide Mandatory Clearing Member Testing (MCMT)
- A run plan was compiled jointly by the JSE clearing team and the Clearing members, which defines the test cycles that will ensure that clearing members are able to test all scenarios several times before go-live
- Mr. Comninos mentioned that the first cycle commenced on the 12th of February 2018.
- Mr. Comninos mentioned that there is a check point scheduled for the 19th Feb 2018, where all the feedback from the clearing members will be consolidated to assess if the project will be able to meet its current timelines.

Trading Member Readiness

- Mrs. Mabiletsa encouraged Trading Members to engage with their Software providers to ensure that their front-end functional needs are understood.
- She further stated that the JSE has requested demonstrations from all software providers so that the JSE team can have a better understanding of functionality being provided.
- Ms. Nemer stated that she feels the JSE has been focusing mainly on clearing members and not fully addressing the concerns raised by trading members. She explained that this is a risk as trading members could potentially be left behind.
- Mr. Nichols agreed to this statement, he also mentioned that Absa is awaiting a code release from STT in order for them to resume their testing.
- Mr. Betty also added that the JSE has not been able to respond to some of their questions and concerns.
- Mr. Comninos stated that they are aware of the issues Mr. Betty is referring to and that the team is working on resolving them.
- Ms. Nemer requested Mrs. Mabiletsa to call all trading members to ensure that their concerns and issues are logged and addressed by the ITaC team.

EM

Key dates:

DAY	DATE	SCOPE
Saturday	24-Mar-18	Mandatory Market Dress Rehearsal 3
Saturday	14-Apr-18	Mandatory Market Dress Rehearsal 4
Saturday	12-May-18	Final cut-over activities with mandatory testing
Monday	14-May-18	Targeted Go Live
Monday	28-May-18	Go Live contingency 1 with Mandatory Testing on 26 May 2018
Monday	11-Jun-18	Go Live contingency 2 with Mandatory Testing on 9 June 2018

7. Meeting adjourned at 11:13