

MINUTES

Heading: Currency Derivatives Advisory Committee Meeting
Date: 31 May 2016
Time: 10h00-11h30
Venue: Johannesburg Stock Exchange - Serengeti Conference Room

Members	Petrus Bosman (On teleconference)	(PB)	Avior
	Steven Greenstein	(SG)	Investec
	Donna Nemer	(DN)	JSE
	Elaine Mabiletsa	(EM)	JSE
	Warren Geers	(WG)	JSE
	Gavin Betty (On teleconference)	(GB)	Peregrine
	Greg Kennelly	(GK)	RMB
	Philip Blom (On teleconference)	(PB)	RMB
	Jan Badenhorst (On teleconference)	(JB)	RMD
	Tom Anderson (On teleconference)	(TA)	Standard Bank
	Andrew Gillespie (On teleconference)	(AG)	Tradition
Attendees	Abdul Adams	(AA)	Nedbank
	Garith Botha (On teleconference)	(GB)	Standard Bank
	Melissa Barendse (On teleconference)	(MB)	Absa Capital
	Alex Comninos	(AC)	JSE
	Andre Koen	(AK)	JSE
	Andrea Maisel	(AM)	JSE
	Athandile Maswili	(AM)	JSE
	Brett Kotze	(BK)	JSE
	Mark Randall	(MR)	JSE
	Paul Du Plessis	(PDP)	JSE

No	Items	Action Item
1.	<u>Welcome</u>	
	<ul style="list-style-type: none"> Mr. Geers opened the meeting and welcomed everybody who attended the meeting and the members dialled in. 	
2.	<u>Approval of previous minutes</u>	
	<ul style="list-style-type: none"> Mr. Geers reviewed the previous meeting minutes dated the 17th of February 2016. Mr. Du Preez from JSE Risk advised the committee that the document explaining the JSE margin methodology is still in the process of being compiled. The minutes of the previous meeting were adopted and confirmed to be a true reflection of the meeting. 	<p>PDP</p>
3.	<u>Proposed new members and resignation</u>	
	<ul style="list-style-type: none"> There were no new members and resignations noted. Mr. Geers reminded the committee members that if a member firm representative is not present at more than two consecutive advisory meetings, then the member will be removed from the advisory committee. He stated that Standard Bank Clearing will be informed that they have missed more than two advisory meetings. 	<p>EM</p>
4.	<u>Close-out auction update</u>	
	<ul style="list-style-type: none"> The JSE has obtained approval from the Reserve Bank to include EURZAR and GBPZAR contracts in the closeout auction effective from the June closeout. The JSE will not consolidate the positions across the three contracts to provide a single resultant USDZAR position. Mr. Geers informed the committee that the JSE has received concerns from the compliance department of a bank that contributes to the closeout auction. Their concern is the manner in which the JSE communicates the contracts or positions filled during an auction. This, they stated, provides the participants with confidential counterparty information. Mr. Geers asked for thoughts and preferences of the other banks on how the JSE should communicate this information going forward. Mr. Kennelly suggested that the information be given to the specific bank(s) whose positions are not filled. It was <u>agreed</u> that should there be no contracts filled, the JSE would revert to the specific bank stating zero contracts filled during the auction. 	

5.	<u>Product Development</u>	
	<p><i>RFQ (Request for Quote)</i></p> <ul style="list-style-type: none"> Mrs. Mabiletsa informed the committee that the JSE is working with their service provider to amend the direction of the Responder Screen. <p><i>Forward-Forward FX</i></p> <ul style="list-style-type: none"> A Forward-Forward forum has been set up and it was agreed by the forum that the instrument will be cash settled. Mrs. Mabiletsa informed the committee that the proposed closeout rate methodology is currently being tested. The JSE, with the support of the market participants, is doing an analysis to determine whether the onscreen futures prices and the prices derived from adding forward points to the spot price differ. The contract specification will be finalised and sent to the members once the close-out rate methodology is established. 	EM
6.	<u>RAIN futures contract</u>	
	<ul style="list-style-type: none"> Mr. Randall gave an overview of how the RAIN index functions. The weights were recalculated and the last update was in the March 2010 index review. Mr. Randall posed a question to the committee members on whether they prefer to have historical indices data or if the most recent data should be published. The general consensus from the committee was to keep the historical data. A concern that was raised was the change in the number of futures in the notional basket. The members of the committee expressed that they preferred that the numbers remain constant and not change mid-year. Mr. Geers advised that he and Mr. Randall will consider the impact of a rebalancing of the index at the end of the year and how the movement in the prices will affect the index. Mr. Anderson proposed that the exchange not only engage the hedge funds but also the larger institutional investors. 	EM/WG/ MR
7.	<u>Incentive Billing</u>	
	<ul style="list-style-type: none"> The spread was removed as a qualifying criterion for the incentive billing with effect from 01st of April 2016. 	
8.	<u>201 Rule</u>	
	<ul style="list-style-type: none"> Mr. Greenstein stated that he feels like the JSE is not listening to the market concerns. The market participants would like the rule to be removed. The rule was formulated to get the market participants to participate onscreen and for price discovery. Mr. Greenstein expressed his concerns about the 201 rule and believes that it should be 	

	<p>removed as it serves no purpose.</p> <ul style="list-style-type: none"> • Mr. Kennelly informed the committee that the rule disincentivises onscreen trading and stated that RMB will not be inserting any reasons going forward. • It was proposed that the 201 rule be discarded and only returned to on occasion that the JSE Market Regulation identifies a certain surveillance breach or concern on USDZAR trades under 201 rule. • The brokers also support the proposal from the bank on the 201 rule. • Ms. Nemer stated that the JSE will discuss the proposed suggestion with Market regulation to reach a resolution. 	EM/WG
9.	<u>Commissions Processing</u>	
	<ul style="list-style-type: none"> • Mr. Comminos informed the members that 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 commission solution that's aimed at facilitating the flow of commission at T+1. • The brokers expressed that they support the solution. 	
10.	<u>General</u>	
a)	<u>Client sub-accounts</u>	
	<ul style="list-style-type: none"> • The client sub-accounts were implemented on 17th of May 2016 	
b)	<u>Trading onscreen within the same member</u>	
	<ul style="list-style-type: none"> • Mr. Geers explained that this practise is causing a duplication of trades and is distorting the statistics and member rankings. • Mr. Geers stated that the JSE will raise this is a Market regulation issue, and that the current system does not prevent this practise from occurring. Mr. Geers advised that the JSE will confirm whether this can be prevented in the MIT environment. • All banks agreed that this is an anomaly and is likely caused by technical issues. 	
c)	<u>Pre-arranged trades onscreen</u>	
	<ul style="list-style-type: none"> • Mr. Geers stated that the IRC rules do not make provision for the pre-arranged trades and the exchange should consider prescribing rules around it. • Mr. Botha informed the committee that his concern is that the pre-arranged trades distort the statistics and he believes that people do it to win awards for the volume put through. • Mr. Geers advised that he would revert to the members on this matter after he has engaged with the Market regulation to determine how long the trades can stay onscreen for before being hit. 	WG

11.	<p><u>ITaC: Timeline</u></p> <ul style="list-style-type: none"> Mrs. Maisel informed the committee that Project 1b&c technical integration testing has been completed and the system integration testing started on the 23rd of May 2016. The post-trade service documentation is the API documentation that was published on 13 May 2016. The post-trade positions papers were published on the 24th of May 2016. The vendor showcase day is planned for the 26th of July; the JSE will liaise with software providers as soon as details are finalised. Mr. Geers stated that he and Mrs. Mabiletsa will be visiting every single member and client to raise awareness, highlight bandwidth requirements and to discuss the strategic intent of ITaC and requirements to go-live on ITaC. 	WG/EM																																																									
12.	<p><u>Currency Derivatives Statistics : Overall 2015 vs 2016</u></p> <ul style="list-style-type: none"> Mrs. Mabiletsa presented the below trade statistics <table border="1" data-bbox="209 965 1270 1424"> <thead> <tr> <th colspan="5">Currency Futures and 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>2015</td> <td>23 166</td> <td>16 509 721</td> <td>R 199 887 440 235.50</td> <td>3 917 073</td> </tr> <tr> <td>2016</td> <td>25 963</td> <td>17 090 090</td> <td>R 273 797 399 656.20</td> <td>3 547 951</td> </tr> <tr> <td>% Change</td> <td>12%</td> <td>4%</td> <td>37%</td> <td>-9%</td> </tr> </tbody> </table> <table border="1" data-bbox="209 1155 1270 1424"> <thead> <tr> <th>Product</th> <th>Contracts traded</th> <th>Value Traded</th> <th>Open Interest</th> </tr> </thead> <tbody> <tr> <td>Standard Futures</td> <td>11 914 253</td> <td>R 190 975 237 081</td> <td>1 473 341</td> </tr> <tr> <td>Standard Options</td> <td>3 712 363</td> <td>R 60 111 598 739</td> <td>1 735 808</td> </tr> <tr> <td>AnyDay's</td> <td>1 416 273</td> <td>R 22 205 662 694</td> <td>313 041</td> </tr> <tr> <td>Quanto's</td> <td>31 051</td> <td>R 347 138 196</td> <td>13 410</td> </tr> <tr> <td>CanDo's</td> <td>-</td> <td>R -</td> <td>-</td> </tr> <tr> <td>African Currency</td> <td>16 150</td> <td>R 157 762 946</td> <td>12 351</td> </tr> <tr> <td>Total</td> <td>17 090 090</td> <td>273 797 399 656</td> <td>3 547 951</td> </tr> </tbody> </table>	Currency Futures and Options					Period	Deals	Contracts Traded	Value Traded	Open Interest	2015	23 166	16 509 721	R 199 887 440 235.50	3 917 073	2016	25 963	17 090 090	R 273 797 399 656.20	3 547 951	% Change	12%	4%	37%	-9%	Product	Contracts traded	Value Traded	Open Interest	Standard Futures	11 914 253	R 190 975 237 081	1 473 341	Standard Options	3 712 363	R 60 111 598 739	1 735 808	AnyDay's	1 416 273	R 22 205 662 694	313 041	Quanto's	31 051	R 347 138 196	13 410	CanDo's	-	R -	-	African Currency	16 150	R 157 762 946	12 351	Total	17 090 090	273 797 399 656	3 547 951	
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13.	<p><u>General comments</u></p> <ul style="list-style-type: none"> Mr. Badenhorst raised the question around the fees that will be charged by vendors when ITaC is implemented and how this will affect the clients and members. He expressed the concern that the conversation should happen early on in the process. Mr. Geers stated that the vendor showcase will be the appropriate place to raise these pertinent questions. Mr. Greenstein asked if a resolution from the previous closeout was reached, where the closeout rates were late. He also raised a concern around live price streaming on closeout day on the contracts that have already closed out. Mr. Koen responded by saying that there was a problem with the Reuters terminal which led to the late publishing of the close out rate. The process has now been automated. 																																																										

	<ul style="list-style-type: none"> • Mrs. Maisel added that a market notice was sent to the market informing members that the onus is on them to not trade on prices streamed on closed contracts. • Ms. Nemer advised that the issues will be logged on the BCA incident log and will be attended to. 	EM
14.	Close	
	Meeting adjourned at 11h30	