

MINUTES

Heading: Currency Derivatives Advisory Committee Meeting
Date: Tuesday 10 March 2015
Time: 10h30
Venue: Johannesburg Stock Exchange - Serengeti Conference Room

Committee Members

Warren Geers	(Chairman)
Gavin Betty	(Peregrine Derivatives – Conf. Call)
Eben Karsten	(Brait – Conf. Call)
Justin Nichols	(ABSA Bank)
Woerie de Villiers	(Farmwise)
Steve Greenstein	(Investec Bank)
Andrew Gillespie	(Tradition)
Dianne Bates	(Rand Merchant Bank)
Greg Kennelly	(Rand Merchant Bank)
Jan Badenhorst	(Robinson, Mulder and De Waal)
Tom Anderson	(Standard Bank)
Jayson Gordon	(Standard Bank)
Andre Koen	(JSE)
Jacob Shayi	(JSE)
Cindy Pillay	(JSE)
Donna Oosthuysen	(JSE)

Attendees: Kobus Venter (ABSA Bank)
Abdulghaaliq Adams (Nedbank)

Apologies Justin Kightley, Phillip Blom

Secretary Desray Naidoo

Minutes:

No	Items	Action Item
1.	<p><u>WELCOME:</u> Mr. Geers welcomed the committee members to the meeting and thanked them for their attendance at this meeting.</p>	
2.	<p><u>CONFIRMATION OF MINUTES:</u> The minutes of the meeting of the Currency Advisory Committee held on 17 November 2014 were approved.</p>	
3.	<p><u>ACTION ITEMS FROM PREVIOUS MEETING MINUTES</u></p> <ul style="list-style-type: none"> • Mr. Geers advised the committee that the JSE has received confirmation from the SARB that he will be invited to attend the Forex Financial Markets Liaison Group (FMLG) and to participate in the committee going forward. Mr. Geers will also follow up with the FMLG regarding a request for a copy of the minutes of their previous meeting. • From an action item from the previous Advisory minutes, Mr. Geers informed the committee that should a member not attend the Advisory Meetings on a regular basis, they will be requested to step down from the committee to make way for a new active member to join. • Mr. Geers is to prepare a list of committee members and accordingly denote meetings attended or not. This is to be provided at each Advisory Committee meeting. <p>It was <u>NOTED</u> that all action items from the previous meeting have been addressed by the JSE and therefore closed.</p>	Warren Geers
4.	<p><u>RISK: INITIAL MARGIN AND OFFSET BETWEEN US DOLLAR / RAND MAXI CONTRACT AND NORMAL US DOLLAR/RAND</u></p> <p>Mr. Geers introduced Terrence Saayman and Paul du Preez from the JSE Risk Team who would be addressing the Committee on the Margin Methodology that has been proposed and already implemented across the Currency Derivatives market.</p> <p>Mr. Saayman advised the Committee that there is a 60 % offset on the Mini and Maxi contracts as it currently stands. A request was sent through to the JSE to review and increase this offset even further as there is zero risk between 100 Mini contracts and 1 Maxi contract, if holding opposite open interest in the respective contracts. The JSE had trading system changes planned where this issue would be addressed; unfortunately due to prioritization this item was not included in the first release. However, this will be included in the second release.</p>	

No	Items	Action Item
	After a lengthy discussion, Mrs. Oosthuysen advised the committee that the JSE is working on the margin issues raised and that the changes required to address the margin offset should be implemented by November 2015 as part of that system release.	
5.	<u>RISK: CURRENCY DERIVATIVES MARKET INITIAL MARGIN REVIEW.</u>	
	Mrs. Oosthuysen advised the committee that going forward the JSE will add Risk Management as a standing item on every Advisory meeting agenda and all issues will be discussed and raised here going forward.	Warren Geers
	<p>Members of the committee advised that they are not against the changes but would like to raise the following concerns around the recent increase in initial margin requirements:</p> <ul style="list-style-type: none"> • The communication around the changes should have been via the Advisory committee and not only via a market notice. • Communication should also come from the respective Clearing Members. • The JSE should ensure that the compliance representative from every member firm receives the communication. • Members are trying to create and build the market, but with the increase in the initial margin requirements, it makes it extremely difficult to sell the exchange traded products as opposed to OTC products which now becomes cheaper than the JSE again. • Mr. Gavin Betty advised that the Risk component of products should be seen as an attraction to trade and not as a deterrent. • Mr. Betty also enquired around how top-up margin would be applied and rolled out considering the increase in initial margin requirements. • The funding cost for Banks has doubled with the increased margin and is now no longer cost effective to trade JSE Currency Futures. • Mr. Jan Badenhorst informed the committee that he has since lost larger scale clients due to their inability to now fund the higher initial margin requirements, and his clients have reverted back to Forward exchange contracts. • Mr. Badenhorst also advised that he would have liked to see a client impact analysis to better prepare him for communicating with individual clients. • The JSE needs to find the right balance between changing initial margin and trading activity. • The members raised the fact that the initial margin requirements tripled since implementation and the rand weakened resulting in a net increase of 80%. • Mr. Tom Anderson suggested that scenario testing be conducted prior to rolling out changes around initial margin, including testing which clients would be stopped out as a result of the scenarios tested. 	
	The members suggested that a more gradual approach in increasing the initial margin would have been more appropriate.	
	The JSE Risk team acknowledged the issues raised by the committee.	

No	Items	Action Item
6.	<u>PROPOSED NEW MEMBERS & RESIGNATION</u>	
	Mr. Geers welcomed Jayson Gordon from Standard Bank Clearing. As per the previous committee meeting, a second representative from the Clearing Members was required to join the committee.	
	Mr. Geers would like to propose that Mr. Petrus Bosman from Avior Research join the Advisory Committee following on from the resignation of Mr. Alan Yates. There were no objections from the committee and Mr. Geers announced that he will notify Mr. Bosman accordingly.	Warren Geers
7.	<u>REGULATION: UPDATE BLOCK TRADE RULE AMENDMENTS – 201 DOLLAR / RAND RULE</u>	
	Mr. Geers advised that effective from 20 January 2015 the amended 201 Rule had been passed that a member no longer has an obligation to trade 201 contracts onscreen, if the trade in question was one of the specified exemptions agreed to.	
	Mr. Jacob Shayi from the JSE Regulation team has requested to have a time stamp on all Market Maker flagged trades. The time stamp would indicate the time the deal was agreed to and would give the JSE Surveillance team the ability to confirm the appropriateness of the traded price.	
	Mr. Steve Greenstein mentioned that the amended rules have made the booking of trades below 201 contracts more onerous. Mr. Greenstein also raised that the rule is not consistent across all currencies as it is a rule only in place for the US Dollar/Rand contract.	
	Mr. Greg Kennelly advised the meeting that requirement to insert the trade type and time stamp for market maker trades is not effective or always possible as the market is at times moving very quickly. This has introduced administrative work for traders, however does agree that in principle the requirement for the time stamp on Market maker trades is correct.	
	Mr. Shayi advised the meeting that the Regulation team will be looking at the rule across all currencies. It was further agreed by Mr. Shayi, that the Banks would not have to insert the time stamp on the trades reported, but the Banks would have to respond or answer any questions when queried by the Regulation team. The Banks agreed and thus it was <u>accepted</u> on that principle.	
	Mr. Geers mentioned to the committee that there have been some concerns raised regarding the concept of a Late Trade within the rules. Mr. Geers clarified that any trade taking place after market closing hours at 18h00 and prior to market open at 09h00 the next morning is regarded as Late Trade.	
	After much discussion, it was agreed by Mrs. Oosthuysen that the JSE would look at all the comments raised around the reporting of trades below 201 contracts, as well as the effectiveness of the newly implemented rule and provide feedback at the next Advisory meeting.	

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	Mr. Geers advised that he would meet with the JSE Regulation team regarding the reporting of LAT (Late Trade) and MMT (Market Maker Trade) trades. Mr. Geers undertook to provide feedback to the committee.	Warren Geers
6.	<u>REGULATIONS: PRE-TRADE ARRANGEMENTS RULES</u>	
	Mr. Geers mentioned that in previous meetings held with the Banks, requests were made to clarify the JSE rules governing pre-arranged trades.	
	Mr. Shayi advised that currently the Interest Rates and Currencies Rulebook is silent on this matter.	
	<p>After a lengthy discussion, Mr. Justin Nichols and Mr. Shayi agreed that the Banks concerned should meet with the JSE Regulation team around this issue and find a solution that mitigates compliance concerns within the Banks.</p> <p>Mr. Anderson requested that Standard Bank and their compliance team also be included in these discussions.</p> <p>Feedback will be provided to the Committee at the next meeting.</p>	Jacob Shayi
7.	<u>CLOSING OUT OF OPEN INTEREST BETWEEN MARKET MAKERS – PRIOR TO EXPIRY DAY</u>	
	Mr. Geers advised that with the increased focus on compliance and rules governing pre-trade arrangement, the Exchange had received a request to review and ensure that the current process in place for Market makers closing out open interest prior to expiry day adheres to and meets all regulatory requirements.	
	Mr. Geers clarified for the committee that Bank to Bank trading is permitted by the JSE and the Reserve Bank. This was approved in 2008.	
	Mr. Geers advised the committee that the Banks would like to engage with the JSE about potential counterparts to close out open interest prior to the closeout process. Mr. Geers assured the committee that the counterparty is not revealed to anyone until both parties have agreed to trade and that the price level nor the positions are disclosed. The aspects to the trade are done bilaterally between the two Banks involved, and the JSE is never party to the discussions.	
	It was agreed that the close out process of the currency futures would be discussed at the next Forex FMLG meeting, and feedback will be provided to the committee accordingly.	Warren Geers
8.	<u>BILLING MODEL: STRATEGIC VIEW FOR 2015</u>	
	Mr. Geers informed the committee that the JSE team has embarked on the annual billing review for the Currency Derivatives Market.	
	Mr. Geers mentioned that as previously discussed, with the increase in liquidity, trading fees for the Currency Derivatives Market have been reduced every year since July 2008.	
	As from 1 August 2014, the JSE had stopped paying back rebates to members who are not Market makers.	

No	Items	Action Item
	Mr. Geers advised that after consultation with all the Market Makers it was decided that a proposal for a fixed fee model as an incentive for liquidity providers be investigated.	
	<p>The team would explore splitting members into two categories:</p> <ul style="list-style-type: none"> • Providers: as authorized by the South African Reserve Bank making prices • Users: All other participants taking prices 	
	<p>Mr. Geers stated that the sliding scale model for all other participants (Users) would also be reviewed. As a result of the increase in liquidity in 2014 but revenue reported 2% lower than 201, an increase in trading fees would most likely be implemented.</p> <p>The committee all agreed that separate pricing for providers compared to users was appropriate.</p> <p>All committee members agreed that the 2 Tier pricing model for providers and users was not seen as anti-competitive. The JSE's legal counsel also confirmed that due to different roles, that this would not be deemed as anti-competitive.</p>	
	The members wanted to know what the impact of changes would be upon them and Mr. Geers confirmed that this will be a part of the process. The JSE Team will be consulting with all market participants around all changes to the billing model.	
9.	<u>TRADING SYSTEM UPDATE: ITAC UPDATE AND CURRENT TRADING SYSTEM RELEASES FOR 2015</u>	
	Mr. Geers advised the committee that the JSE will be making minimal changes to the current STT trading software as the focus is on the new ITAC trading technology. There has been one release scheduled for the 3 rd quarter of 2015 and one for the 4 th quarter of 2015. The focus will be on implementing Interest Rate Swaps (only 5 items were approved for the 1 st release across all Derivatives markets).	
14.	<u>STATISTICS</u>	
	<u>CURRENCY FUTURE STATISTICS: JANUARY – MAY 2014 COMPARED TO JANUARY – MAY 2015</u>	
	The committee NOTED the statistics relating to the Currency Market for the period January to May 2014 compared with January to MAY 2015,	
	<u>January to May 2015</u>	
	Value Traded – R40 801 561 820 (-13% decrease compared to YTD 2014)	
	Volume Traded – 3 465 392 (-14% decrease compared to YTD 2014)	
	<u>CURRENCY OPTIONS STATISTICS: JANUARY – MAY 2014 COMPARED TO</u>	

<u>JANUARY – MAY 2015</u>		
<u>January to May 2014</u>		
Value Traded – R29 408 425 860.00		
Volume Traded – 2 213 363		
<u>January to May 2015</u>		
Value Traded – R9 859 686 934.00 (-66% decrease compared to YTD 2014)		
Volume Traded - 802 525 (-64% decrease compared to YTD 2014)		
<u>FULL YEAR BREAKDOWN (FUTURES AND OPTIONS) – 2013 COMPARED TO 2014</u>		
Value Traded – R516 199 695 409.00 (54% increase compared to full year 2013)		
Volume Traded - 44 634 070 (30% increase compared to full year 2013)		
15.	<u>GENERAL</u>	
	<p>Mr. Andrew Gillespie advised the committee that client requests have been received to list the following three African Currencies:</p> <ul style="list-style-type: none"> • Ugandan Shilling • Mauritian Rupee • Botswana Pula <p>Mr. Gillespie is in consultation with the Banks and Reuters. Mr. Gillespie will inform the JSE once the necessary listing requirements for new currencies has been obtained (i.e. Dedicated Market maker and appropriate source for benchmarking the currency for Mark to Market purposes).</p>	
	<p>Mr. Geers requested feedback from the meeting around their views on listing Forward Forward contracts on the exchange. The Banks agreed to the concept of the product and requested further investigation and discussions around the proposed structure of the product, including the trading fee structure.</p> <p>A meeting will be scheduled with the Banks to discuss the mechanics of the product in more detail.</p>	Warren Geers
No	Items	Action Item
	Mr. Geers closed the meeting at 12H40 and thanked the Committee for attending.	