

## MINUTES

**Heading:** Currency Derivatives Advisory Committee Meeting

**Date:** 6 Sep 2017

**Time:** 10h30-11h30

**Venue:** *Johannesburg Stock Exchange – Serengeti conference room*

<b>Members</b>	Andrew Gillespie (On Telecon)	(AG)	Tradition
	Bernard Claassens	(BC)	JSE
	Donna Nemer	(DM)	JSE
	Diane Bates	(DB)	RMB Clearing
	Elaine Mabiletsa	(EM)	JSE
	Greg Kennelly (On Telecon)	(GK)	RMB
	Gavin Betty (On Telecon)	(GB)	Peregrine
	Justin Nichols	(JN)	Absa
	Jayson Gordon (On Telecon)	(JG)	Standard Bank Clearing
	Jan Badenhorst (On Telecon)	(JB)	RMD
	Steve Greenstein (On Telecon)	(SG)	Investec
	Raymond Jansen	(RJ)	Nedbank

### Attendees

	Athandile Maswili	(AM)	JSE
	Alex Comninos	(AC)	JSE
	Andrea Maisel	(AM)	JSE
	Bryan Brownrigg (On Telecon)	(BB)	Standard Bank
	Glenn Thompson	(GT)	Nedbank
	Jacob Shayi	(JS)	JSE
	Paul du Preez	(PD)	JSE
	Vincent Masoloke (On Telecon)	(VM)	Avior

<b>Apologies</b>	Petrus Bosman	(PB)	Avior
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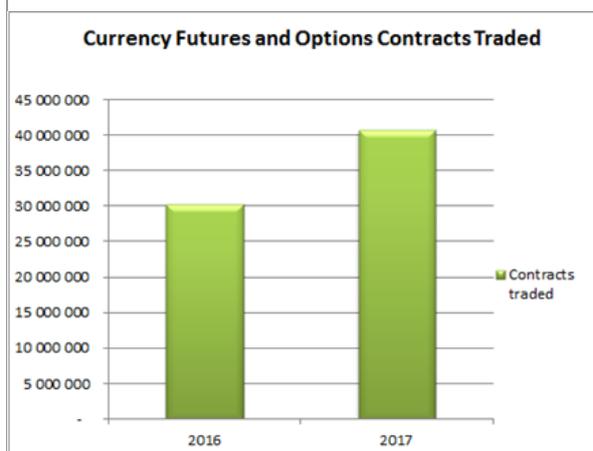
No	Items	Action Item
1.	<u>Welcome</u>	
	<ul style="list-style-type: none"> <li>Mr. Claassens opened the meeting and welcomed all the attendees including the committee members who had dialled in.</li> </ul>	
2.	<u>Approval of previous minutes</u>	
	<ul style="list-style-type: none"> <li>Mr. Claassens reviewed the previous meeting minutes from June 2017.</li> <li>Ms. Nemer requested the following amendment under the FX collateral subject.</li> <li><i>“Ms Nemer mentioned that the JSE is interested in extending FX collateral to South Africa clients as well”.</i></li> </ul>	
3.	<u>Proposed new members and resignations</u>	
	<ul style="list-style-type: none"> <li>Mr. Claassens mentioned that BNP Paribas has terminated its membership from JSE markets.</li> <li>Mr. Gillespie proposed Mr. Warren Geers from F-wise Capital to be invited to join the advisory committee.</li> <li>Ms. Nemer acknowledged this proposal; she mentioned that Ms. Nicky Newton-King received an email from Mr. Gillespie highlighting a number of concerns on behalf of the FX forum.</li> <li>Ms. Nemer stated that Ms. Newton-King is currently travelling abroad and that she is going on a roadshow for two weeks from the 11<sup>th</sup> of September 2017.</li> <li>She stated that all of the concerns raised by the forum will be addressed accordingly upon their return.</li> <li>Mr. Kennelly asked what the correlation was between Mr. Gillespie’s request to invite Mr. Geers as committee member and the response to the forum.</li> <li>Ms. Nemer explained that the JSE appoints members of the committee on recommendation by the existing committee members but also at its own discretion. She mentioned that this will be one of the matters that she will</li> </ul>	DN

discuss with Ms. Newton-King.

- Ms. Nemer further explained that some members have expressed concern regarding individuals that leave the JSE to join the market shortly thereafter. Subsequently there has been a request to introduce a “cooling off” period going forward.
- Ms. Nemer stated that introducing this policy will align the JSE to other institutions within the market such as Strate, the banking sector, etc.

4. Currency Derivatives Statistics YTD 2016 vs YTD 2017:

Currency Futures & Options				
Period	Deals	Contracts Traded	Value Traded	Open Interest
2016	45 523	30 251 016	R 474 357 754 441.00	3 266 608
2017	44 608	40 609 844	R 553 993 917 051.00	5 150 467
<b>% change</b>	<b>-2%</b>	<b>34%</b>	<b>17%</b>	<b>58%</b>



5. Open action items:

Intraday trading zero fee

- Mr. Claassens informed the committee that the JSE is currently reviewing all zero fee rules, of which intraday trading is one of them.
- It was also highlighted that the JSE would only be able to implement any system changes post ITaC.

201 Rule

- Mr. Claassens acknowledged that this is a long standing issue, and the JSE

is finalizing its engagements with the banks. He will update the committee once there is substantial feedback.

BC

### **MiFID II regulation**

- Mr. Cockeran provided the committee with a high level overview of the potential impact MiFID regulations will have on JSE markets.
- He mentioned that this will be implemented on the 3rd of January 2018.

### **Post trade disclosure**

- Mr. Cockeran stated that the new regulation requires that European investment firms that conclude bilateral transactions in bonds, finance products and derivatives must publish as close to real time as possible, the volume and price of those transactions through an approved publication arrangement (APA).

### **Assessment criteria**

- Mr. Cockeran mentioned that with an implementation of any regulation, there will always be exceptions accommodated.
- He stated that the ESMA considers that only a third-country trading venue that meets all of the following objectives criteria should be considered as a trading venue for the purpose of this regulation:
  - It operates a multilateral system, in which multiple parties buying and selling financial instruments are able to interact. i.e. the central order book and reported transactions.
  - It is subject to authorisation in accordance with the legal and supervisory framework of the third-country;
  - It is subject to supervision and enforcement on an ongoing basis in accordance with the legal and supervisory framework of the third-country by a competent authority that is a full signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation

and Cooperation and the Exchange of Information (MMoU);

- It has a post-trade transparency regime in place, which ensures that transactions concluded on that trading venue are published as soon as possible after the transaction was executed or, in clearly defined situations, after a deferral period.
- Mr. Cockeran stated that in order for the JSE to remain an international trading destination, it will aim to comply with all these provisions.
- He mentioned that if a foreign bank concludes transactions on the JSE platforms, they will be released of their obligation to publish the transactions themselves.
- Based on the information the JSE provides, ESMA will determine whether the JSE's trading venue meets the criteria mentioned above.
- Mr. Cockeran also mentioned that each market will be assessed independently based on its own unique characteristics.

#### Comments from the committee

- Mr. Nichols asked whether there were any action items that the JSE expected from its members in order to become Mifid equivalent.
- Mr. Cockeran mentioned that currently the onus is on the JSE to be equivalent; the market does not have to take action at the moment.
- Ms. Nemer stated that the JSE has a number of European entities that trade on the JSE platforms, either as subsidiaries of foreign banks or as clients.
- Mr. Cockeran encouraged members to start engaging with their international clients that may be impacted to establish whether they have an APA in place.
- Mr. Viakosky mentioned that overnight trades will be a potential challenge to the regulation.
- Mr. Cockeran mentioned that the regulation permits applications for deferral periods on specific transactions.
- Mr. Nichols asked whether the regulation stated which type of client had to

	<p>be equivalent (professional/non-professional).</p> <ul style="list-style-type: none"> <li>• Mr. Cockeran stated that the regulation refers to “European Investment firms” that are currently required to be compliant.</li> <li>• Mr. Cockeran read out the definition of an investment firm to the committee:</li> </ul> <p><i>“ It means any legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis”</i></p>	
6.	<p><b><u>ITaC Update</u></b></p>	
	<p><u>Timeline</u></p> <ul style="list-style-type: none"> <li>• Mrs. Greenwood stated that the JSE still maintains the Q1 2018 delivery date; however the exact date will depend on the delivery of the STT clearing code.</li> <li>• Mrs. Greenwood mentioned that the vendor code will be delivered in the next few weeks.</li> <li>• Mrs. Greenwood also mentioned that the JSE is comfortable that it has met most of its internal milestones; it hosted its first internal dress rehearsal on the 2<sup>nd</sup> of September 2017.</li> </ul> <p><u>Vendors</u></p> <ul style="list-style-type: none"> <li>• Ms. Nemer requested a list of all the service providers who have passed conformance testing to be circulated to the committee.</li> <li>• She mentioned the JSE engages very frequently with all the vendors to track their progress, as well as resolve issues as they arise.</li> <li>• Mrs. Greenwood mentioned that the clearing code will only be ready and delivered towards the end of October, which is much later than anticipated. This has been one of the concerns raised by members.</li> <li>• She also mentioned that they have relooked at the timelines to ascertain where they can accommodate additional testing time while adhering to the Q1 2018 delivery.</li> <li>• Mrs. Greenwood mentioned that the JSE acknowledges the market concerns regarding having one clearing vendor and will explore various ways to</li> </ul>	EM

mitigate this risk.

#### Market consultations

- Mrs. Greenwood mentioned that the JSE will be hosting a market facing workshop on the 13<sup>th</sup> of September 2017.
- She also mentioned that all of the revised testing and deployment timelines will be communicated at the workshop.
- She further encouraged all members to attend the workshop, to ensure that there is better representation.
- She also stated that the workshop is intended for business, technical and operational individuals.

#### Fees changes

- Mrs. Greenwood stated that JSE has heard the market concerns regarding the end to end cost of ITaC.
- She also mentioned that the JSE will provide implementation support to help alleviate some the financial costs the members will incur.
- Mrs. Greenwood further mentioned that the JSE has finalised most of the fees associated with ITaC and that these figures will be communicated to the market on the 13<sup>th</sup> of September 2017.
- A market notice will be published shortly thereafter.
- Mrs. Greenwood mentioned that there will be no changes made to the trading cost, the JSE intends on keeping the billing models the same.

#### Haircut on margin

- Mrs. Greenwood mentioned that the JSE needs to move to a single rate across all asset classes, she mentioned that the current rates are between 12.5bps and 20bps.
- Mrs. Greenwood stated that the final figure is still being discussed through the internal governance process; it will also be shared with the members on the 13<sup>th</sup> of September 2017.
- Mr. Comninos mentioned that there will be a single rate applied to initial margin, regardless of how that margin is collateralised.

JSA

- Mrs. Greenwood stated that members can sign the JSA once the new fee schedules have been communicated on the 13<sup>th</sup> of September 2017.
- She also mentioned that data fees will be ready by the end of September.
- Mr. Nichols requested that the data fees be included in the workshop as well.

7. Non-cash Collateral

Background

- Mr. Comninos provided the committee with a high level overview of the non-cash collateral:
  - JSE Clear calls for initial margin (collateral) against all open derivative exposures held by its clients.
  - These margins are currently payable in ZAR-cash only.
  - Post the 2008 financial crisis and the tightening of risk and regulatory frameworks, the demand for efficient asset utilisation has increased.
  - As a result, there has been a steady growth in demand from the market for the acceptance of alternative forms of margin.
- Mr. Comninos mentioned that introducing alternate collateral forms will allow members to meet their Initial Margin (IM) requirements through a combination of:
  - ZAR cash,
  - selected securities i.e. equities and bonds, and
  - in the case of non-resident clients, selected foreign currency cash.

Timelines

- Mr. Comninos mentioned that the new securities collateral service offering is being designed and developed as part of the ITaC project and is planned for implementation in Q1 2018. However this service will be implemented in phases:
  - **Phase A** – Pledging of select SA government bonds against initial margin requirements in the equity derivatives (EQD) and currency derivatives (FXD) markets in Q1 2018.

- **Phase B** – Pledging of select Top 40 equities against initial margin requirements in the equity derivatives (EQD) and currency derivatives (FXD) markets to follow a few months after Phase A.
- **Phase C** – Pledging of select SA government bonds and Top 40 equities against initial margins requirements in the interest rate derivatives (IRD) and commodity derivatives (CMD) markets to be developed and tested using existing systems in parallel with phases A and B and launched soon thereafter.
- **Phase D** – Pledging of foreign currency collateral i.e. USD, GBP and EUR, will be launched as soon as final regulatory approvals are obtained and testing with the market is completed.

#### Service overview

- Mr. Comninos mentioned that the use of alternative collateral forms is proposed for the all JSE derivative markets.
- He also mentioned that trading members and clients will have the option of collateralising their initial margin, add-on margins and settlement margin requirements.
- He mentioned that trading members and clients will not be able to pledge securities or FX collateral against Variation Margin.
- Mr. Nichols asked what the top-up process would be when an asset decreases in value.
- Mr. Comninos stated that the JSE will send the updated prices to Strate during the intraday process; Strate will then evaluate the value of the collateral at the end of day.
- He further explained that members will be able to set thresholds, in order to efficiently administer their collateral value fluctuations. Please see an example illustrated below:

Threshold Type	Percentage Based	Absolute Amount
<b>Deficit Threshold</b>	e.g. deficit threshold set at 10%  No additional securities will be pledged until the exposure amount that can be covered exceeds the value of the pledges by more than 10% i.e. until there is a deficit in the collateral amount of 10%	e.g. deficit threshold set at R1million  No additional securities will be pledged until the exposure amount that can be covered exceeds the value of the pledges by more than R1million i.e. until there is a deficit in the collateral amount of R1million
<b>Excess Threshold</b>	e.g. excess threshold set at 10%  No pledged securities will be released until the value of the pledges exceed the exposure amount that can be covered by securities by more than 10%	e.g. excess threshold set at R1million  No pledged securities will be released until the value of the pledges exceed the exposure amount that can be covered by securities by more than R1million

- Mr. Comninos stated that in the initial phase of this service offering, it is anticipated that only the highly liquid securities will be accepted as collateral. Namely:
  - Liquid South African government bonds.
  - Liquid South African equities, e.g. Top 40.
- He mentioned pledging of foreign currency collateral will only be available to non-resident clients.
- Mr. Comninos also mentioned that there will be a minimum percentage of the exposure that will be pledged in cash.
- Additionally, the JSE is looking at starting at a minimum of 40% and move to 20% overtime.
- Mr. Comninos mentioned that trading members and clients will pledge securities directly to JSE Clear.
- There will be a daily intraday rebalancing process whereby clients may substitute pledged cash for pledged securities.

#### Collateral risk management

- Mr. Comninos mentioned that in the event of a default, all pledged securities will be liquidated into ZAR cash via a JSE appointed trading member and the standard default management process will be followed thereafter.

#### Corporate actions

- Mr. Comninos mentioned that in the event that pledged securities become ineligible as a result of a corporate action, the JSE will send out a market notice well in advanced to all impacted clients advising them to start substituting these securities.

#### Client enablement.

- Mr. Comninos took the committee through the five steps that clients should

	<p>follow in order to be enabled for the securities collateral service:</p> <ul style="list-style-type: none"> <li>○ <b>Step1:</b> Contact trading member or clearing member to initiate enablement process.</li> <li>○ <b>Step2:</b> Contact existing/new CSDP to create a new Segregated Depository Account (SDA) at the CSD (Strate).</li> <li>○ <b>Step3:</b> Complete necessary securities collateral enablement forms and submit to Strate.</li> <li>○ <b>Step4:</b> Receive confirmation from Strate once client accounts are loaded into their collateral management system and linked to the client's JSE derivatives account.</li> <li>○ <b>Step5</b> Transfer eligible securities into newly created SDA at Strate.</li> </ul> <ul style="list-style-type: none"> <li>● Mrs. Greenwood stated that the JSE will issue a market notice stating the onboarding process in detail.</li> <li>● Mr. Comninos mentioned that the JSE will issue a survey to all derivative trading members and clients; the purpose of the survey is to gain a better understanding of the number of clients that will be utilising this service.</li> <li>● He also mentioned that one-on-one meetings with trading members and clients will be arranged to discuss any open questions or concerns with regard to this new service.</li> </ul>	<p>AG AC</p>
8.	<p><u>General</u></p>	
	<p><u>Far dated expiry contracts : MtM methodology</u></p> <ul style="list-style-type: none"> <li>● Mrs. Mabiletsa stated that due to the thin availability of long dated forward point contributions, an interim solution was employed.</li> <li>● This snaps the 3yr forward points from Reuters (Best bid/offer) instead of referencing the contributed points.</li> <li>● This method seems to have held true to market levels, and as such we would like to propose that we maintain this methodology.</li> </ul>	

	<ul style="list-style-type: none"><li>• The committee was in agreement with the proposed methodology.</li></ul>	
9.	Meeting adjourned at 12:23	