

MINUTES

Heading: Currency Derivatives Advisory Committee Meeting
Date: 25 October 2016
Time: 10h00-11h30
Venue: Johannesburg Stock Exchange - Serengeti Conference Room

Members

Warren Geers (Chairperson)	(WG)	JSE
Elaine Mabiletsa	(EM)	JSE
Diane Bates	(DB)	RMB
Gavin Betty (On teleconference)	(GB)	Peregrine
Greg Kennelly (On teleconference)	(GK)	RMB
Vincent Masoloke (On teleconference)	(VM)	AVIOR
Jan Badenhorst (On teleconference)	(JB)	RMD
Tom Anderson	(TA)	Standard Bank
Justin Nichols	(JN)	Absa

Attendees

Abdul Adams	(AA)	Nedbank
Athandile Maswili	(AM)	JSE
Andre Koen	(AK)	JSE
Andrea Maisel	(NS)	JSE
Jacob Shayi	(JS)	JSE
Maria Dale Ave	(MDA)	JSE
Mark Randall	(MR)	JSE
Martin Koch	(MK)	JSE
Paul Du Plessis	(PDP)	JSE
Raymond Jansen	(RJ)	Nedbank

Apologies Woerie De Villiers (Farmwise), Justin Kightley (Absa), Jayson Gordon (Standard Bank), Nongqcebo Mthembu (SARB), Andrew Gillepsie (Tradition)

No	Items	Action Item
1.	<u>Welcome</u>	
	<ul style="list-style-type: none"> Mr. Geers opened the meeting and welcomed all the attendees including the committee members who had dialled in. He read the apologies of members who were not able to attend. 	
2.	<u>Approval of previous minutes</u>	
	<ul style="list-style-type: none"> Mr. Geers reviewed the previous meeting minutes from the 31 May 2016. The minutes of the previous meeting were adopted and confirmed to be a true reflection of the meeting. 	
3.	<u>Proposed new members and resignation</u>	
	<ul style="list-style-type: none"> There were no new Advisory committee members or trading members to take note of. The trading members' resignations included Sanlam Securities, BOE Investments Ltd and Dynamic Wealth Derivatives (Pty) Ltd. Mr. Geers stated that the resignations are due to a data clean-up of the entities. BOE Investments Ltd. is still in existence under a different name and structure. Dynamic Wealth has been inactive for over 8 years hence the removal of the entity from the IRC membership. Sanlam Securities has changed its name to Sanlam Conduit. 	
4.	<u>Registration of Derivatives dealers and officers:</u>	
	<p>Mrs. Dalle Ave, the Head of Client Data presented the committee with the process changes that will be implemented with regards to the registration of dealers and officers:</p> <ul style="list-style-type: none"> To ensure that there is consistency in client experience across all markets and increase efficiency, the JSE has amended the registration rules and requirements to align them to the JSE Equity rules. The rules were approved by Exco and will be effective from Monday, 31st October following the FSB publishing the changes in the Gazette. Mrs. Dalle Ave stated that under the new rules, the JSE Exco approval will fall away and be replaced by the Registered Officers Approval committee, which comprises of Capital Markets Division, Market Regulation Division and the Client Data team. The revised application forms for registration of officers and traders will be available on 	

	<p>the JSE website.</p> <ul style="list-style-type: none"> The Client Data team will issue market notices to the members notifying them of the approval of the changes by Exco, and where electronic application forms can be accessed online. 	
5.	<p>Forward Forward FX</p> <p>Mrs. Mabiletsa gave an update on forward-forward FX and the London roadshow promoting the product:</p> <ul style="list-style-type: none"> The forum, which was established to finalise a close out methodology, has come up with an appropriate methodology. $(IMM_2 - IMM_1)$ = Close out price IMM_1 = near date rate; IMM_2 = far date rate These rates will be from the On Screen JSE prices as at 10:00 The Forward-Forward FX contract will be tradable for IMM dates at the outset, however, there is potential to allow for an AnyDay instrument to cater for growth. All relevant system testing is completed and necessary approval has been obtained. The forward-forward FX is ready for trading, however it will only be listed upon request and commitment to trade from participants. Mrs. Mabiletsa explained to the committee that on the first expiry (IMM_1) both legs would be closed-out and the spread will become the close out rate. 	
6.	<p>RAIN futures contract</p> <p>Mr. Randall described the current RAIN index methodology.</p> <ul style="list-style-type: none"> The weightings under the current methodology are updated once a year using the previous year's trade data as published by the South African Revenue Services. The index was last updated three years ago. There is no continuation factor to the index under the current methodology and so changes to the weightings of the notional basket of currencies would result in a jump in the value of the index. The proposed methodology will introduce a smoothing-factor to ensure continuity in the index value in the event of a weighting rebalance. Mr. Geers asked the committee members which methodology they preferred. 	

	<ul style="list-style-type: none"> Mr. Randall stated that he would be pleased to take interested participants through scenarios and figures for comparison against the current methodology. The advisory members requested for more in-depth information and calculations to conclude on which methodology they preferred. Mr. Randall agreed to provide the banks with some calculations and in-depth information on the two index options. Mr. Geers stated that the JSE would engage with the banks independently to get their preferred index methodology. The chosen methodology will be communicated at the next advisory in 2017. 	MR												
7.	<u>201 Rule</u>													
	<ul style="list-style-type: none"> Mr. Geers stated that the JSE had received negative feedback with regards to the rule Internally the JSE has contacted market participants to get explicit examples of scenarios which have not previously had exceptions catered for. Mr. Geers mentioned that there is not much headway towards discontinuing the 201 rule; however, the JSE Market Regulation team will deal with the issues that have arisen from the exceptions that were put in place. <table border="0"> <thead> <tr> <th>Transaction Description & Rule Reference</th> <th>Transaction type code</th> </tr> </thead> <tbody> <tr> <td>Market Maker - 7.120.1.2</td> <td>MMT</td> </tr> <tr> <td>Delta trades - 7.120.1.3</td> <td>DEL</td> </tr> <tr> <td>Late trades – 7.120.1.4</td> <td>LAT</td> </tr> <tr> <td>Roll trades – 7.1.1.5</td> <td>ROL</td> </tr> <tr> <td>Physical Settlement – 7.120.1.6</td> <td>EXP</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Mr. Geers stated that some brokers and banks have pointed out that some of the practices are no longer done in the same way they were done when the rule was implemented. Mr. Geers stated that the JSE Market Regulation has acknowledged that a lot has changed since the rule was put in place, and the JSE is taking the concerns of the participants into consideration. Market Regulation is willing to engage participants who are having issues with the rule. Mr. Kennelly expressed concerns around the administrative tasks ensuing from the 201 rule. Mr. Geers stated the JSE would try and lessen the administrative burden on 	Transaction Description & Rule Reference	Transaction type code	Market Maker - 7.120.1.2	MMT	Delta trades - 7.120.1.3	DEL	Late trades – 7.120.1.4	LAT	Roll trades – 7.1.1.5	ROL	Physical Settlement – 7.120.1.6	EXP	
Transaction Description & Rule Reference	Transaction type code													
Market Maker - 7.120.1.2	MMT													
Delta trades - 7.120.1.3	DEL													
Late trades – 7.120.1.4	LAT													
Roll trades – 7.1.1.5	ROL													
Physical Settlement – 7.120.1.6	EXP													

	<p>participants.</p> <ul style="list-style-type: none"> Mr. Geers mentioned that Anyday trades and exchange in principle (either future to spot or spot to future) are not catered for in the rule. He stated that the 201 Rule will remain on the agenda until it has been settled and there is consensus among members. 									
8.	<p><u>Proposed fee increase</u></p> <ul style="list-style-type: none"> The JSE is proposing a fee increase across all price bands on the sliding scale as well as for market makers. Overall impact: <table border="1"> <thead> <tr> <th>Fee Increase Impact</th> <th>% Increase</th> </tr> </thead> <tbody> <tr> <td>Banks</td> <td>5.56%</td> </tr> <tr> <td>Members</td> <td>3.07%</td> </tr> <tr> <td>Total fee Increase</td> <td>4.11%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Mr. Geers asked the committee for comments or concerns around the proposed fee increase. There were no objections, comments or concerns raised by the committee. 	Fee Increase Impact	% Increase	Banks	5.56%	Members	3.07%	Total fee Increase	4.11%	
Fee Increase Impact	% Increase									
Banks	5.56%									
Members	3.07%									
Total fee Increase	4.11%									
9.	<p><u>ITaC Project – Equity Derivatives(1b) and Currency Derivatives (1c)</u></p> <p>Mrs. Maisel gave an overview of the ITaC Project 1b and 1c:</p> <ul style="list-style-type: none"> The JSE hosted a Software Provider Showcase Day on the 6th October 2016 which was an opportunity for clients to engage directly with Software Providers on their requirements to replace the Nutron front-end that will no longer be provided by the JSE. The system integration testing is currently in progress and the team is managing some challenges identified during the integration tests. The JSE team is working on refining the project timelines which includes detailed planning for the remaining SIT cycles as well as high-level planning for User Acceptance Testing (UAT). The JSE has had three clearing member focused working group sessions in September. The sessions are to assist clearing members in understanding the new clearing solution functionality and how this will impact on their current operations. Mr. Geers asked the committee members present for feedback from their experience at the showcase day. 									

- Mr. Betty stated that he would like the ITaC communication with the brokers to strengthen since there is some functionality changes and requirements that need to be addressed; some of the issues are regarding commission structure, deal management and the treatment thereof under the new system.
- Mr. Koen advised that the JSE ITaC team is willing to have one-on-one meetings with member participants to discuss their concerns and ensure user-readiness. All interested parties should e-mail itac@jse.co.za to schedule an appointment.
- Mr. Nichols stated that the response from the Absa technical team is that they are not overly impressed with the showcase. He stated that from a trading perspective, Absa will be creating its own front-end application.
- Mr. Nichols stated that some of the vendors did not have answers to some the questions he had.
- Mr. Geers thanked the committee members for their comments and stated that their concerns would be raised and discussed at the ITaC management meetings.
- Mr. Koch stated that the JSE would engage market participants on the dual-systems run in certain markets and how that will function.
- Mr. Koch stated that the JSE encourages the trading members and front-end users to engage robustly with the software providers to ensure that their system requirements are met from a technical perspective before the migration to the new environment.
- Mr. Koch stated that there is an ITaC technical working group on the 26th October and the agenda has gone out to trading and clearing member contacts. The JSE has previously requested that the trading and clearing members provide contacts of developers and relevant technical staff at their organisations in order to include them in the workgroups.
- Mr. Geers stated that the communication should be improved because there are a few participants who have accepted and will be attending the technical workgroup session tomorrow.
- Mr. Koch stated that JSE Key Clients managers are also involved in engaging members on ITaC and ensuring the communication reaches them.
- Mr. Geers added that communication which is disseminated in bulk does not get delivered in some organisations due to security reasons. He mentioned that Nedbank

	cannot receive communication that's sent in bulk. Mr. Koch stated that he would discuss this issue with Mrs. Sandra Borrageiro.	
10.	<u>General</u>	
	<p><u>Close out Auction:</u></p> <ul style="list-style-type: none"> • Participants are encouraged to send their emails five minutes before each auction. • All emails will be acknowledged within a few seconds of being received. • Participants are advised to call the JSE should they not receive acknowledgement within a minute of submitting their positions. • The JSE has obtained approval to include the AUD/ZAR contracts in the auction. <p><u>On Screen Spread trading:</u></p> <ul style="list-style-type: none"> • Mr. Geers stated that currently spread trades reference only the near leg on Nutron • He asked participants what the significance of referencing the near or far-leg is when executing a spread trade. • Mr. Kennelly suggested that there be a validation on the reference price. The price should stay within a pre-specified range • Mr. Adams stated that they would typically reference the mid-price of the bid and offer as opposed to the last traded price. • Mr. Anderson stated that he would have a look at it before providing input on the topic • Mr Geers stated that the JSE has been engaging with internal developers to come up with parameters; however no decision has been made as yet. <p><u>Increase of onscreen trading hours (08:30 – 17:30):</u></p> <ul style="list-style-type: none"> • Mr. Geers asked the committee if they would prefer to change the onscreen trading hours by either extending or reducing the time. • Mr. Betty stated that from a broking perspective extending the onscreen time by 30 minutes from 17h00 to 17h30 would be suitable for their type of business. • The bank participants expressed that extending the times does not affect their operation. • Mr. Nichols stated that for consistency purposes markets should have the same trading hours. 	

- Mr. Geers thanked members for their views and stated that the JSE would continue to engage all market participants before a decision can be made. He stated that the issue is raised across all market advisory committee meetings and the preference is for the times to be extended by 30 minutes.

Pre – arranged trading

- Mr. Geers stated that if any member has concerns around pre-arranged trading they should contact the JSE Market Regulation division and engage with them directly.
- Mr. Anderson expressed the view that pre-arranged trading distorts onscreen figures and believes this practice is not aligned with other exchanges.

11. Currency Derivatives Statistics : Overall 2015 vs 2016

Mrs. Mabiletsa presented the below trade statistics

Currency Futures				
Period	Deals	Contracts Traded	Value Traded	Open Interest
2015	42 548	25 393 538	R 318 628 444 809	1 175 690
2016	52 544	26 876 402	R 416 256 302 769	1 040 969
% change	23%	6%	31%	-11%

Currency Options				
Period	Deals	Contracts Traded	Value Traded	Open Interest
2015	1 970	8 113 753	R 110 164 336 737	2 475 811
2016	2 476	10 764 496	R 164 800 503 977	2 360 976
% change	26%	33%	50%	-5%

Product	Contracts Traded	Value Traded	Open Interest
Standard Futures	25 907 262	R 402 357 523 462	990 914
Standard Options	7 630 680	R 119 008 721 277	1 826 461
AnyDay Futures	830 425	R 12 383 943 732	35 407
AnyDay Options	3 083 816	R 45 783 077 400	484 515
Quanto's	105 034	R 1 181 798 892	13 266
CanDo's	50 000	R 8 705 300	50 000
African Currency	33 681	R 333 036 686	1 382
Total	37 640 898	R 581 056 806 749	3 401 945

- The open interest across all asset classes in the JSE has declined.

12. Close

Comments:

- Mr. Nichols asked if the JSE Initial Margin Requirements is comparable to global norms or if it is too high.
- Mr. Du Preez stated that it is difficult to do a comparison but the JSE calls for higher margins than CME or ICE.
- The JSE Risk Department is currently conducting a benchmark exercise to work out what makes the JSE methodology more complex.
- Mr. Du Preez stated that the JSE approach is a lot more conservative, however they are

	<p>looking at ways of increasing efficiency.</p> <ul style="list-style-type: none"> • Mr. Badenhorst stated that the high margins are impacting on the brokerage business in that clients are opting to take their business to the OTC market and others have closed their positions due to high margin requirements. • Mr. Badenhorst asked whether there is a way of posting cross market margins as a potential solution to supporting agricultural farmers who need the cash for other areas of their business by, for instances, linking positions from agriculture (Commodities) to Currency positions. • Mr. Du Preez welcomed the suggestion. He stated that it could be something to consider, however warned that from a system point of view it could be complex to implement. He stated that these are the type of efficiency that the JSE Risk is working towards which will allow the JSE to call for less margins than what is currently the case. • Mr. Geers thanked the committee members for their comments. He stated that the risk team is working together with the business area to find a solution and possibly lower margins. 	
	Meeting adjourned at 11h30	