

## MINUTES

### FINANCIAL DERIVATIVES ADVISORY COMMITTEE MEETING

Date: 13 February 2019  
Time: 10h00-11:30  
Venue: Kopano Conference Room – 3rd Floor, JSE Offices, Sandown

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Present: Donna Nemer (DN), Guy Algeo (GA), Matthew Arnott (MA), Ved Somera (VS), Langa Manqele (LM), Godfrey Matjuda (GM), Kim Hoosen (KH), Valdene Reddy (VR), Matthias Kempgen (MK), Alex Comninos (AC), Aveshen Pillay (AP), Luke Alers (LA), Leanne Parsons (LP), Paul Du Preez (PD), Phillip Dube (PD),

Apologies: Brendan Harcourt-Wood (BHW), Eben Mare (EB), Bryan Hatty (BH),

Dialled In: Roberto Pharo (RP), Crispin Gell (CG), Shahil Soni,

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#### 1. WELCOME AND APOLOGIES

DN welcomed all the attendees to the first quarter Financial Derivatives Advisory Committee (FDAC) meeting for 2019.

#### 2. CONFIRMATION OF PREVIOUS MINUTES

The minutes of the previous FDAC meeting were confirmed and accepted as correct.

#### 3. ITAC UPDATE

Please refer to ITAC document "ITAC FDAC Update 20190212"

#### 4. ITAC EDM CHANGES

- **JSE EDM Price List for 2019**
  - a. EDM Fees will not change as a result of ITaC.
  - b. There are system induced changes for which work-around exists.
- **Taking-a-turn is not allowed.**
  - a. **Agency** trades - same as an Assign - carries a Zero Fee.
    - Commission to be captured separately.
  - b. **Principal** trades – with a change in Traded Price - carries a Fee.
    - Book two Reported Trades in 'principal' capacity.
- **Sub-Account Modification**
  - a. On ITaC, positions can only be moved at **previous day's** closing price. Currently the market frequently moves existing positions at a **specific price**.

- b. As an interim measure, members will have to book **Single-Sided** Reported Trades at a desired price, this **Single-Sided** Reported Trades will attract a fee.
  - c. The fees will thereafter be waived automatically on the **Same Day** basis.
  - d. Late Zero Fee requests will be processed on the **Next Day** on CBS.
  - e. Members are required to send a **manual Zero Fee Request** to have late Zero Fee requests processed.
- **The Maker-Taker model** will no longer be offered on ITaC, JSE will introduce LPS/MMs on select products at a later stage as soon as ITaC has been bedded down.

## 5. RISK CONVERSATION (INITIAL MARGIN METHODOLOGY)

We are currently looking into our Initial Margin (IM) calculation methodology framework, as it is to be reviewed every two years. Our risk parameters are on par with global practices. One aspect that we looked into was volatility scaling, as this is a contentious issue on the current model design. Volatility scaling is actually a calculation of Value at Risk (VAR), which we scale by the ratio of the realised 90 day volatility relative to the 90 day volatility when the observation was made.

Even though it a very responsive model it does pose a risk of pro-cyclicality, which is something we want to avoid. In an example when we had big volatility spikes in December for white maize we were required to double margins overnight, of which we are trying to avoid by removing this volatility scaling. Unfortunately for the Equity Derivatives Market (EDM) this will result in a slight increase in the IM. The ALSI DTOP, index products will have an increased impact of 10% in the IM. There are single name counters where we see roughly 30% increase.

We are not going to have a big bang approach, we have issued a market notice, which indicates the small incremental stages that we plan to implement over a five-week period from mid-Feb to just before the March Futures closeout. In so far all the people that we have spoken to, about the implementation seem to be happy about it. If anyone has concerns on the impact of this change to them, we are happy to run simulations on the system to see what the impact will be. We are happy to provide all that information to the clearing members and the clearing members will than pass that info over to the rest of the market participants.

(AC) The JSE has resumed conversations with STRATE on Cash Collateral, implementation has been removed as from the scope of ITAC project 1. We are looking to implement Securities Collateral which will be on Bonds only as a start, as soon possible after ITAC go-live.

## 6. VALUATIONS DISCUSSION

- **Marked-to-Market changes**
  - a) It was decided not to change the ALSI Top 40 marked-to-market method and to explore reducing the 'snapshot window' to 1 minute.
  - b) It was decided not to change the DTOP and DCAP marked-to-model (theoretical model)

- **Dividends**
  - a) The meeting advised the JSE to explore and decide on the appropriate external provider of dividend assumptions, with the following preferred providers in order:
    - a. Bloomberg;
    - b. Reuters and;
    - c. Tottem
- **Implied Vols**
  - a) The accuracy of ATM Vols is a major concern.
  - b) JSE was advised to consider Tottem or other external providers.
  - c) However, there was a limitation noted with the permission terms to publish the vols.

## 7. NASPERS CORPORATE ACTION

On 27 February 2019, when Naspers unbundles Multichoice, and Multichoice lists separately, the following actions will be taken:

### **Options and Futures Contracts on Naspers:**

- Close-out old Naspers positions (futures and options)
- Create a new Future and Option Baskets with Naspers and Multichoice as the constituents
- The new futures positions will be moved at 1:1
- New Option positions will also be moved at 1:1 such that there is only one strike price equivalent to the old strike price
- Should members require to exist their new futures and options basket positions, they will be zero feed.
- This fee will be limited to a maximum of two business days following the ex-dividend date

**With regards to CFDs**, a Multichoice CFD will be created and booked after close on ex-dividend date

**The impact of Multichoice listing on Novus** is that existing Novus Baskets will add Multichoice as a constituent resulting in a basket rebalance

## 8. REGULATION UPDATE

Open consultation items that we are looking at that may have an impact on our member firms is the Conduct of Financial Institutions (COFI) Bill, the aim is to centralise licensing for all financial market service participants. However what has not been decided on in this bill is how they are going to treat market infrastructures, such as licencing coming out Financial Markets Authority (FMA) would be incorporated in the new bill. Another new thing is the requirement for the transformation and inclusion for every licensee must comply with a prescribed BEE Act level code. This could be pitched in the bill at an assumed Level 4 BEE code, at which a licence can be refused if the code is not met. A member might be granted a licence if they are at a lower score provided that member can display a formidable plan in achieving the required level in a specified time frame. There is an ongoing obligation to maintain the code, if the participant reduces their score it might have their licence revoked, or not granted on renewal.

All the other legislation Acts will be phased out, i.e.

- Collective Investment Schemes (CIS) Act;

- Financial Advisory and Intermediaries Services (FAIS) Act;
- and the two insurance Acts Long and Short Insurance Acts. Since there is no determination on market infrastructure on the bill due to the assumption that this falls in the wholesale financial market category which would include conduct in this category.

Our question arises as to who supervises this conduct. Is it done by Self Regulating Organisation (SRO) such as (Exchanges; Custody Services Providers (CSP); Central Securities Depository Participant (CSDP)) or will it be centralised at Financial Sector Conduct Authority (FSCA). The comments on the bill are due on the 1st of April 2019.

- There is a consultation Paper out by joint working group on Crypto Assets that is out for comment by the 15 February 2019.
- Discussion Paper on the review of the Financial Markets Act, final markets review on the wholesale market sector. We hoping to have comment on it as it is expected to go to parliament at least around year 2020.
- We have done some advocacy to National Treasury on their inward listed securities policy regarding the treatment of securities as to whether they are foreign or domestic. Now the framework and policy is sitting with Treasury for review.
- Short Sale disclosure framework comment period closed last month number of market participants commented, so we are expecting a final paper on the framework on short selling soon. However, it was not clear on what securities the short selling will apply to, but the assumption is on cash equities and not derivatives. The JSE's comments were aligned to position reporting on the short sale, and not on the transactional reporting, as the JSE has to be consistent in maintaining anonymity.

**Meeting ended**