

MINUTES

FINANCIAL DERIVATIVES ADVISORY COMMITTEE MEETING

Date: 14 August 2019
Time: 10h00-12:00
Venue: Serengeti Conference Room – 13rd Floor, JSE Offices, Sandown

Present: Donna Nemer (DN), Langa Manqele (LM), Kgabo Molabe (KM), Kim Hoosen (KH), Valdene Reddy (VR), Alex Comminos (AC), Aveshen Pillay (AP), Luke Alers (LA), Martin Koch (MK), Vaneshri Chetty (VC), Jacob Shayi (JS), Chuma Qwalela (CQ), Mark Randall (MR), Mzwandile Riba (MR), Ann Clayton (AC); Mtho Mvubu

Apologies: Petrus Bosman, Ved Somera (VS),

Dialled In: Shahil Soni (SS), Matthew Arnott (MA), Andrew (A), Pierre Badenhorst (PB), Allan Allison (AA); Roberto Pharo

Webiner: Jolin Majmin (JM), Conrad Africa (CA)

1. WELCOME AND APOLOGIES

DN welcomed everyone to the third Financial Derivatives Advisory Committee meeting for 2019. She further made special mention of the two new members to the committee i.e. Pierre Badenhorst and Conrad Africa. There were no objections by the committee member wrt the two new members.

2. CONFIRMATION OF PREVIOUS MINUTES

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

3. UPDATE-ITAC PRODUCTION ISSUES

(A) SOFTWARE PROVIDER ISSUES

- KH advised that the issues were mainly logged by clients and software providers
- Clients have experienced technical difficulties when creating user-created instruments. Feedback from software providers is that most of not all issues were fixed by 19 July 19
- There has also been an issue with unavailability of FXM and the EDM FCO closing price file could not be published. To resolve this, an EDM file will be published on IDP (Information Data Portal)
- Clients who booked Off Order Book Roll trades were not getting the (50%) discounts that's allocated for these types of trades. Clients that logged and queried this have advised that this has since been resolved.

(B) BILLING

- KH stated that the main issue with billing is to do with applying correct billing around FCO, i.e. billing uses FCO Uncrossing Price instead of Spot Close Price and fee discount not being applied to deal managed legs. The work around on not having the billing automated is that we will have the CSC team continue to process the refunds
- Maker-Taker billing model is currently applicable only on Index and Single Stock Options.
- **A 50%** discount on Exotic Options for assigns & tripartite. Targeted date for go-Live to be communicated
- There has been issues in applying discounts on calendar spreads rolls. Until a permanent solution has been devised, the JSE will still be applying manual refunds

(C) IT - TRADING

- Closing prices for instruments that only trade off book e.g. CFD are not being published on the trading market data gateway. From our perspective, this is not a big issue as these closing prices are available on RTC. Market Notice has been sent out, clients have been encouraged to test
- When trading a calendar spread, there is a limitation in identifying trades legs and linked them back to the parent order. The fix is to have an order ID linking the leg trades to the parent order

(D) OTHER

- Currently, on FCO date, the JSE uses end of day spot price to calculate fees instead of the 12h15 uncrossing price. It was stated that it would be more accurate to use the 12h15
- There is an issue with regards to Circuit breakers relating specifically to DTOP and DCAP which trade off-screen. Dynamic circuit breaker limit is set at 1% while the static circuit breaker is set at 5%. Because DCAP and DTOP are so illiquid, they often bridge the dynamic circuit breakers and therefore go into the volatility auction. Proposed solution was that we either have a bigger band or a shorter vol auction or both.
- We have had queries from the client whereby the vol on On-screen single stock option has been reported as being irrelevant as it uses a stale futures price. The suggestion made was that the market should trade the future first before they could trade the option
- **MIT release phase 1:** From an EDM perspective, it's not such a big change.
 - Some of the post ITAC releases are:
 - Negative Stock limit price enhancements
 - User created instruments. Currently user-created instruments can be created before markets open and after close. An amendment will be made such that user-created instruments can only be created between 8am and 6:30pm.
 - From an Option's perspective, delta on options are not being published on the data gate ways. Enhancements are underway to be able to publish data on delta

(4) NASPERS CORPORATE ACTION

(A) INDEX TREATMENT OF NASPERS/PROSUS EVENT

- MR advised that although the time line for index adjustments as a result of corporate actions is usually T+2, the upcoming corporate action, because of its timing (few days before FCO) will be handled differently. The adjustment to the index will be effective from 20 September 2019
- He also reiterated that when Naspers and Prosus are first listed, particularly options, Naspers vol will be used to value both options. However, after 11 September 2019, Prosus vol will be used for Prosus options. The two instruments will not be linked, but valued independently.

- The time line for the Index adjustment as a result of the Naspers Corporate Action will be as follows:
- **11 September 2019** – Add Prosus into all the indices Naspers is in. This will be a non-trade event from an index perspective. The decrease in the weight of Naspers will correspond to the increase in the weight of Prosus. None of the other relative weights will change.
- **13 September 2019** – election is due to happen
- **16 September 2019**- Notice will go out detailing the election results, how Naspers and Prosus shares will be adjusted post the election and which constituent/s will be demoted from the TOP40. All changes will be published on this day but only effective from 20 September 2019.
- Wrt **Capped Indices**, Naspers and Prosus will come in as different entities and will therefore be capped at separately. Naspers will come in at 10% and Prosus will come in at a weight between 3-5%. Naspers and Prosus will therefore come in at a combined weight in excess of 10%. Concerns were raised by the buy-side that Naspers and Prosus were exposed to the same underlying and economic concentration in the form of Tencent and that a rule should be modified to affect legal entity. MR advised that they are uncomfortable to do a rule change right now and that further consultations will have to be done wrt this before rule change can be effected
- MR advised that all non-residents will receive their shares in the Amsterdam register and not in the strata register. In this case, the Prosus free float number is now being projected between 8-12%. In comparison to 25% which was projected in the last couple of months

(B) DERIVATIVES TREATMENT

Naspers Futures

- It was agreed that all client positions will be adjusted on 10 September 2019 (LDT) and available for trading on 11 September 2019.
- All existing NPN futures positions will be closed off at a zero price and opened as Basket Futures (with Naspers and Prosus) at zero price. The basket will be at a ratio of 1 Naspers share:1 Prosus share.

Naspers Options

- The adjustment on Options will be treated similar to futures with the strike remaining the same

Naspers ECFDS

- For every one Naspers ECFD, you will receive one Prosus ECFD

Baskets with Naspers

- Prosus will be added to all the baskets that have Naspers. At this point we only have two (BSK024 and BSK078)

Exotics on Naspers

- All exotics that have Naspers as an underlying will be dealt with on a case by case basis by liaising with the relevant client
- There was a concern from one member about their positions potentially being incorrect on ex-date. To ensure that everything runs smoothly, it was suggested that the traders together with their back office and service providers participate in the Naspers Corporate Action Workshop to further discuss and find solutions to all the scenarios that might cause issues on the day

The JSE will zero fee all members that would like to trade out of the Naspers basket and into the single names i.e. with Naspers and Prosus. A market notice will be issued wrt this

5. EQUITY DERIVATIVES VALUATIONS INPUTS

- This was not covered as the meeting ran over. It was proposed that a call be held in the next week or two to discuss this point

6. EDM FEE REVIEW

(A) JSE has already introduced a Maker/ Taker on Index Options and SSF Options

- JSE will engage with the market, to get further input on EDM pricing.
- Changes to be proposed for effect January 2020 following formal consultations with the market, although strong push from market to get it done as soon as possible
- There is an urgent need to look into fees post ITaC, and JSE needs to engage members.
- There are concerns that some of the amendments may require tech changes.

(B) Price Point changes/ issues

- There is a generally concern with regards to a sustained decline in Open interest
- JSE intends to grow trading activity and incentivize LP business.
- Tiered Billing model could be introduced on On-Screen trades for Index Futures
- Assign and Tripartite fee reduction (agency trades, low margins for members and has become non profitable) has come back as high priority to cheapen costs and to be inline with other markets.
- Introduction of SSF price point reduction, as currently its uncompetitive, we also intend to align with AnyDays by introducing a Cap

(C) To cross incentivize across all products.

(D) The timeline for a consultation for the price point dispensation, should be in the next few weeks.

(E) A suggestion was made that a fee incentive should be provided for both off book and on screen trades

7. REGULATION UPDATES

- AC advised that she was available to tackle any questions on the list of items on the agenda regarding regulation.
- The OTC joint standard is set to be published on either the 1st Sep 19, 30th Sep 19 or 1st January 2020
- There has not been an update on the Levies Bill
- AC stated that she was of the view that National Treasury will start to put in the Levies Bill by the end of September

8. JSE POST TRADE SERVICE STRATEGY DISCUSSION

- This was not covered in the meeting as it ran over. It was proposed that a call be scheduled for the next week or so to cover this point

9. GENERAL