

## MINUTES

### FINANCIAL DERIVATIVES ADVISORY COMMITTEE MEETING

Date: 26 March 2020  
Time: 10h00-12h00  
Venue: Conference Room Serengeti – 1st Floor, JSE Offices, Sandton

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Dialled In: Luke Alers (LA), Guy Algeo (GA), Ved Somera (VS), Aveshen Pillay (AP), Pierre Badenhorst (PB), Mthokozisi Mvubu (MM), Valdene Reddy (VR), Kgabo Molabe (KM), Alex Comninos (AC) Nicola Comninos (NC), Mzwandile Riba (MR), Anne Clayton (AC), Langa Manqele (LM), Kim Pillay (KP)

Apologies: Roberto Pharo (RB), Matthew Arnott (MA), Eben Maree (EM), Conrad Africa (CA), Adrian Jeffreys (AJ), Phillip Thuthuka Dube (PD), Petrus Bosman (PB), Shiran Samuels (SS), Jolin Majmin (JM), Crispin Gell (CG), Helen Masson (HM), Shahil Soni (SS)

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#### 1. WELCOME, APOLOGIES & NEW MEMBERS

(VR) welcomed everyone to the first quarter Financial Derivatives Advisory Committee meeting for 2020.

#### 2. CONFIRMATION OF PREVIOUS MINUTES

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

#### 3. COVID -19 UPDATE

- NC reported that the JSE issued a Market Notice regarding the 21 Day Lockdown on the 25 Mar 2020 (Notice Reference: 105A/2020 and 105B/2020)  
The Notice lists all the firms that are authorised to operate (i.e. essential services) during the lockdown
- It also details how clients can acquire a permit to perform essential services for their critical employees.
- A template as provided by the government, was also included in the notice. Government requested that the permit, including proof of identification (ID or Driver's license) be carried everywhere by authorised employees at all times
- Further, the JSE will be drafting a market notice with a full comprehensive list of all the authorised categories of firms.

#### 4. Margin Discussion

##### a) Clearable Products Framework

- AC stated that currently, our Clearable Products Framework states that in order to list instruments such as Single Stock Future and/ IDX on single stocks, you would need to meet four criterion, two of which are ADVT and Market Capitalisation thresholds.

- Risk has taken these requirements to the JSE Clear Risk Committee and it has agreed that JSE can list any instrument that meet the other two listing (i.e. ??) criteria but don't meet ADVT and Market Capitalisation provided that at least 85% of ADVT and Market Capitalisation requirements are met.
- These so-called borderline case contracts will be listed with margins of up to 100%, or whichever margin that Risk deems fit.

**b) IMR updates**

- Given high volatility observed in the market in recent days, the JSE Clear has been updating IMR daily instead of weekly.
- JSE has been sending Market Notices on these updates as they were being updated daily.
- IMR is usually updated weekly, on Wednesday to be published and be effective the following Monday.
- The most recent example was an increase in IMR on the ALSI from 10% to 15% after a one-day 10.5% drop in index level.
- N.B: Our IMR is a Two-Sigma event (i.e. it covers a two day move)

**c) Margin Offsets**

- The JSE has introduced margin offsets between ALSI DTOP and DCAP and; MSCI SA Index

**5. Valuation Methodology**

- MR advised that current process used to mark-to-market volatility references actual trade data
- The current model uses a 'sticky delta' strike adjustment to the ATM where the skews are set once a week from vendor data providers.
- JSE has removed the 2% Cap on volatility, which was viewed as inadequate by some of the market participants that we've had calls with in recent weeks.
- Because these changes - removal of Cap and letting whatever trade we observe that goes significantly beyond the current mark stand - have not yet been automated, and after realising that the sticky delta strike adjustment on a daily basis wasn't ideal, we have resorted to adjusting realised volatility on a daily basis in instances where we did not observe any trades.
- JSE recognises that this methodology is inadequate and plan to have a detailed discussions with the market to see how best can it get to a methodology that can be automated and which makes more sense to all.
- JSE will consult all market players to ensure that it has the right process and model in place for the options' market.
- PB suggested that JSE set up an email address where inter-dealer brokers and banks could send contributions as trades go through the market.
- MR advised that JSE does encourage that clients send their vol contributions as they trade.
- PB also mentioned that an interest rate cut was not factored in Futures Contract price

**6. Quick Update:**

**a) Monthly FCO Changes:**

- LM mentioned that the JSE launched Monthly FCO in July 2019
- Its expiration method is very similar to the Quarterly FCO's, it has a midday auction.
- JSE and the market has observed very low volumes in the monthly FCO in comparison to the quarterly FCO
- As a result, JSE has been receiving requests from clients to move the monthly midday FCO to End-of-Day Closing Auction.
- JSE will be sending out a formal consult note to the market in this respect.

**b) Margin Calculator:**

- LM advised that there are two issues on the Margin Calculator:
  - Firstly, the (dis)connectivity issues being experienced by users, this has been tested and is now fixed.

- It is in process to be put into production soon.
  - In the meantime, clients may send us urgent request for indicative margin calculations.
  - Secondly, JSE is working with an external vendor to build a permanent solution with two-phases of the issue with the margin calculator:
    - Short-term and Long term Fix
  - **First Phases of the Project (Short Term Fix):** this will give clients margins on instruments that are already listed, i.e. existing underlying and expiries.
  - **Second Phase of Project (Long term Fix):** To build functionality that enables the end-user to put in their own vols, expiries etc. for instruments that have never been listed in our systems and have no existing expiries.
  - This project has been prioritised but is not yet allocated resources. It is still awaiting resource allocation.
- c) **CFTC Approval – This item was skipped**
- d) **Volatility Auction**
- JSE has introduced an additional 3 minutes Price Monitoring Extension (PME) in the volatility auction in the Equities Market that may trigger if either the Static or Dynamic Circuit Breaker is breached in the first volatility auction of 5 minutes, this means that there is now a potential of a total of 8 min in the volatility auction, each with a 60 seconds random uncrossing.
  - The circuit breakers in the equity markets remain the same; no changes were made.
  - To align with the Equities Markets, the volatility auction in the Equity Derivatives Market has also been changed to 5 minutes from 2 minutes.
  - There were no price monitoring extension changes in the Equity Derivatives Market.
- a) **Circuit Breakers on DTOP and DCAP**
- Following requests from the market, JSE has since changed circuit breaker thresholds for DCAP and DTOP.
  - The new Dynamic Circuit Breaker thresholds for DCAP and DTOP have been changed from 1% to 2%. The Static Circuit Breaker has remained the same at 5%.
  - ALSI circuit breakers remained unchanged at 1% dynamic and 5% for static.
- b) **Stop Order**
- KP mentioned that the JSE discovered a bug in the MIT system in a scenario where Stop Order and Stop Limit Order are not correctly triggered on the Equity Derivative Market.
  - This occurs when an inverse calendar spread trade is due to an implied order.
  - The resultant match of the inverse calendar spread trade can incorrectly trigger the sell stop and stop limit orders.
  - To avoid this error, implied orders have since been switched off for now.
  - We are expecting a fix in the next couple of weeks after which the stop orders will be switched back on
- c) **MIT Upgrade – This item was skipped**

## 8. FTSE Russell ICB Sector Reclassification Discussion- Item was postponed to the next meeting

## 9. Policy Update

- AC advised that a discussion paper has been published by National Treasury on: Building Competitive Financial Markets for Innovation and Growth.
- Paper primarily covers and proposes amendments to the Financial Markets Act.
- The proposed amendments are fundamental changes to the financial markets framework and has a number of unintended consequences.

- National Treasury is thus inviting the public for comment, the deadline has been extended from 30 Mar 2020 to 20 April 2020
- Members are encouraged to ensure that someone in their firm is reviewing the document.
- The paper needs to be reviewed alongside the discussion paper on the Review of the Financial Markets.

## **10. General**