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MINUTES

HEADING:	**JSE EQUITY TRADING ADVISORY COMMITTEE MEETING**
Date:	02 October 2015
Time:	10:00am – 12:00pm
Venue:	JSE, Serengeti Boardroom - 9th Floor

Present:

Ms Donna Oosthuyse (Chairman, JSE)
Ms Valdene Reddy (Business Owner, JSE)
Mr Gregori Nicola (JSE)
Ms Adele Hattingh (JSE)
Ms Maryke Vreulink (JSE)
Ms Pumelele Sibisi (JSE)
Mr Merlin Rajah (JSE)
Mr Peter Redman (JSE)
Mr Brett Kotze (JSE)
Ms Corli le Roux (JSE)
Ms Soraya Seedat (JSE)
Mr Neil Cohen
Mr Corrie de Bruyn
Mr Cameron Macklin
Mr Alphonso Raats
Mr Muneer Ismail
Mr Mike Ray
Mr Alec Schoeman
Mr Warren Chapman
Mr Nathan Jardine (JSE) , standing in for Mark Randall
Mr Tshwantsho Matsena (JSE), standing in for Leanne Parsons
Ms Adriana Weilbach, standing in for Derek Hompes
Mr Rudolph Botha (Dial in)
Ms Jackie Tetlow (Dial in)
Mr Harry Ioannou (Dial in)
Ms Marsha de Wet (Dial in), standing in for Chris Edwards

Ms Erica Bruce

Mr Chris Edwards

Mr Mark Randall (JSE)

Mr John Slettevold

Apologies: Mr Peter Coutromanos

Ms Leanne Parsons (JSE)

Mr James Stewart

Ms Sunette Mulder

Distribution: Equity Trading Advisory Committee

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1. WELCOME, APOLOGIES & NEW MEMBERS

Donna Oosthuyse welcomed everyone to the meeting for Q3 2015 and introduced the new Equity & Equity Derivatives Head Mrs. Valdene Reddy to the committee.

2. CONFIRMATION OF PREVIOUS MINUTES

The minutes of the TAC meeting held on 25 June 2015 were confirmed and accepted.

3. BDA BILLING MODEL REVIEW

Chris Grove provided background on the BDA model review and how the JSE progressed to a decision of providing a 20% reduction on BDA Fees. He also stated that the percentage reduction per member would however be dependent on the members' usage of BDA. Chris noted that around 35 of the JSE's members saw a reduction of between 18-22%. Chris further stated that the JSE is still working on a model that will potentially enable members to predict their costs as the fee reduction does not resolve the concern raised around the number of hits and being able to more accurately predict BDA costs.

Chris welcomed further suggestions from the members on improving the billing model that would be fair to all clients.

4. MATTERS ARISING

4.1. NEW/ENHANCED ORDER FUNCTIONALITY

Donna briefly gave background on the JSE's block trade and hidden order functionality as well as the research that the JSE is undertaking to enhance these functionalities. She then reported that the JSE has not seen the expected uptake, in terms of volume, for these trades and welcomed suggestions on how the JSE can make improvements.

She then added that the JSE is investigating the possibility of introducing an order type that would be a "safe haven" for buy-side clients to trade large orders. This received a positive response. A comment was made that this initiative would be a step in the right direction as the JSE's Block-X was never meant to be a hidden block trade facility but rather a dark pool.

4.2. REGULATION & POLICIES UPDATE: FMA REGULATION (PLEASE SEND THIS SECTION TO NATALIE FOR REVIEW AND/OR SUMMARY)

Natalie provided a policy update and noted that National Treasury (NT) is introducing significant policy shifts both through the Ministerial regulations underpinning the FMA, as well as through consequential amendments to the FMA, via the Financial Sector Regulation Bill (FSR or "Twin Peaks" Bill).

The Ministerial regulations in terms of S5 of the FMA and Financial Services Board (FSB) Notices released in June 2015 are intended to introduce regulations on the OTC derivative market in line with G20 recommendations.

The requirements for the regulation of OTC derivatives are expected to become effective early next year, but they cannot be viewed in isolation but must also be seen alongside Twin Peaks changes. NT has submitted the FSR Bill (and proposed consequential amendments to the FMA) to the State Law Advisers – it is not yet public – and it will likely be submitted to Parliament soon. There will be a 30-day consultation period and public hearings on the FSR Bill through the Standing Committee of Finance at Parliament. JSE has raised the matter with NT that many of the significant changes have been made without sufficient consultation with the market.

A comment was made that some brokers have engaged directly with NT and the South African Reserve Bank (SARB) with regards to Twin Peaks.

A question was raised as to who in South Africa would perform the role of trade repository (TR). Natalie explained that the role hadn't been confirmed yet and that Strate as the local operating unit (LOU) for the Legal Entity Identifiers might take on the role. A further question was raised as to whether regulations would be friendly towards OTC derivatives being reported to offshore TRs. Natalie stated that NT's treatment of external (offshore) market infrastructure in the proposed FMA consequentially is a key concern for the JSE as the JSE believes that the current draft policy creates unlevelled playing fields.

Natalie also expressed the JSE's serious concern with NT's proposed definition for a CCP as an independent clearing house only and how that impacts JSE Clear as an associated clearing house (CH) and CCP for exchange-traded derivatives. Natalie did note however that NT has admitted on record that although the intent is to eventually dismantle the concept of an associated CH in law, the aim is not to have JSE Clear lose its QCCP status.

A concern was also raised about the shift in the thought process of the FSB. Twin Peaks has leveraged on this shift but raises concerns with regards to the new CSD's. The FSB has viewed CSD's from a competition angle only and not in terms of the protection of an efficient working environment. Natalie explained that part of the issue is that there is no well-defined policy in the FMA which balances all of the issues appropriately.

In terms of Twin Peaks, the prudential authority (PA) and financial sector conduct authority (FSCA) will have the power to put standards directly on the brokers which may result in the duplication of regulations.

Natalie also discussed the proposed Resolution Framework for systemically important financial institutions (SIFIs), which at this stage is just a policy paper released jointly by NT and SARB. The policy paper talks to the introduction of a Special Resolution Bill which will introduce requirements on SIFIs (including financial market infrastructures) in terms of recovery, resilience and resolution. The Bill will designate the SARB as the resolution authority

4.3. ABILITY FOR CSDPS TO COMMIT TO CASH AS THEY DO SECURITIES

Brett Kotze highlighted that from a JSE risk management perspective, specifically related to margining, the JSE is unable to know what cash member firms will hold in their broker proprietary accounts on settlement day. Therefore technically, all that the JSE is able to acknowledge from a margining perspective, is that any sales releasing proceeds on the day, are assumed to be used to fund a purchase.

Currently the JSE acknowledges that when short selling occurs in the market, securities lending and borrowing is done. When the hedge it booked in BDA by the member firm, it is viewed as a covered transaction and the member firm is not margined. However, a question was raised as to why the JSE was not acknowledging cash returned upon an SLB return. It is possible to view the SLB being booked against the short transaction, using

Strate and JSE's systems. Strate's rules and directives, which do not allow a CSDP to lift its commits on the morning of T+4 without JSE's Settlement Authority approval, ensures that no default occurs.

An issue exists with SLB returns in that the cash is actually not linked to the return. JSE is however working with SASLA, to see if the cash can be linked to the return itself. If the JSE is able to link the cash to the SLB return, the JSE will be able to make changes to its systems to acknowledge SLB returns. This change will lead to a significant reduction in margin costs, especially during market events such as FCO.

An enquiry was made as to whether only cash collateral movements would be considered. Brett replied that the JSE does acknowledge other securities collateral through BDA, especially when there is a return date before settlement of a sale transaction. Securities are however not the issue but more the cash linked to the SLB return. A credit risk exists if the cash is not linked to the SLB return, hence the JSE's move to improve risk management efficiencies.

Expected implementation is dependent on how quickly the lending desk (SASLA) is able to accommodate the JSE.

5. SECURITIES COLLATERAL FOR ADD-ON MARGIN IN THE DERIVATIVES MARKETS

Brett informed the committee that the JSE has initiated an investigation with phase one resulting in the JSE allowing currency and equity derivatives securities collateral to be put up to the clearing house. Initial margin would allow for securities collateral margin to come through equity derivatives with currency positions, however, no percentage figure has been confirmed. The JSE has had discussions with SARB and National Treasury in terms of currency collateral and SARB have in-principle, no issue as long as only non-residents do so.

Brett then added that the JSE has come out with new risk management on initial margin particularly on large positions, which also includes an introduction of an add-on margin. This however has resulted in a few members being affected in terms of having to present large amounts of money for initial margin. The JSE is currently working with Strate to come up with an interim solution which should be finalized in the next 3 months.

A concern was raised about foreign players being able to have all their technology and skills offshore and being able to trade in South Africa without bringing in any investment to the country and putting up collateral to facilitate this activity. Brett explained that the entity would still trade through a member and come through the JSE with the only exception being that they can put up dollar collateral instead of rands. He added that further investigation would also need to take place to ensure that this policy is not misused.

A question was then raised if the JSE cannot implement borrowing non-cash/currency collateral for the whole market as opposed to just international participants. Brett explained that the JSE has investigated this avenue and approached the SARB but the fundamental problem is exchange control. He added that the SARB is taking steps in the right direction as it has granted the JSE approval to list a Zambian grain contract that will be traded, cleared and settled in US dollars. This contract will not be restricted for just non-residents but corporates can also get involved.

6. JSE PROJECTS UPDATE

6.1. T+3

A market notice will be issued informing the market that the JSE has moved into its next phase of T+3 testing. The JSE started system development October/November 2014 and has approached the last phase of T+3 project using Agile. The JSE has now engaged in its first cycle of external testing with the CSDPs and is confident that it will meet next year's timelines (May-July 2016) as previously communicated to the market.

JSE is on target in terms of system readiness; however concerns exist around market/user readiness. Currently, non-controlled clients are only committing to 65% of their transactions by end of T1 and approximately 85% by end of T2. This raises two particular issues 1) margining in the T+3 world will be at end T1, which means that margining will be exponential for brokers dealing with non-controlled clients and 2) the non-commits as at end of T2 will be seen as failed trades. These non-commits will be reverse substituted in the T+3 world and the onus would lie with the broker for settlement of net buys/sells, resulting in a funding requirement (buys) or SLB (sells), failing which it will go back to fails management. Margining for controlled and proprietary clients does not change as the market moves from T+5 to T+3. Non-controlled/institutional clients are more directly affected.

Using data from a six month period, an analysis was done to determine which clients are not committing on T1, using a T+3 scenario. The member firms of these clients will be contacted directly and will be given a list of clients not committing on T1 and an indication of what that margin will be in a T+3 environment. The intention is to work with member firms in determining what is preventing clients from committing on T1. Similarly, CSDPs will also be contacted and the JSE will be working with them to contact global custodians.

The JSE is planning a roadshow to London in November to visit international clients. The intention is to get the commits percentage higher from both a margining and fails management perspective. A question was posed as to how market players' behaviour could be changed, either through reward or punishment. Brett mentioned that it was a tricky situation as the punishment/penalty is often not passed on from member firm to client. Best way would be better communication.

Moving into a T+3 world, means that the market is moving into a rolling of settlements environment. The JSE is expecting up to 6% daily failure rate, which is effectively 600 to 1000 orders failing per day. To reduce the 6%, the JSE will be looking for an opposite terminating transaction, regardless of whether it was the original trade or not. Rolling settlement is a market norm, especially internationally – Brett is working on identifying inefficiencies to reduce the 6% even further e.g. reducing share removal times between registers through automation where JSE Settlement Authority can now loan directly from pension and provident funds and do not have to go through a lending desk. The JSE is also looking into whether the 50% of SLB can be increased. In addition to this a "dummy's guide to corporate actions" will be rolled out.

A suggestion was made that the JSE should have limited involvement and should allow the market dynamics to sort itself out. The JSE's intention is to create an environment with as few inefficiencies and barriers as possible. Alphonso Raats also mentioned that the biggest risk lies with the buy-side as it is not familiar with margining at all. Brett mentioned that interestingly enough the majority of the 65% commits encapsulates the buy-side, while the remaining non-commits originated from foreign clients, who are familiar with margining. The issue of strict margining requirements was raised as a potential penalty however this was put aside as it could create inefficiencies and restrict the market.

6.2. ITAC

All is on track with ITAC with minimal impact to the market in the short-term. We have Millennium onsite for 2 weeks in October to finalize functionality. We are going to be releasing the API documentation before December with a view to release the final API by 1Q of 2016. We are heavily dependent on T+3 going live by May/July next year and if that all goes to plan, we should go live with the first phase of ITAC by September 2016. There shouldn't be any major impact on the equity players. The future phase that's affecting the derivatives side is going to happen in 2017 which will require a lot more market involvement next year.

7. ZA04 & ZA06 CLOSING PRICE METHDOLOGY

The ZA06 and ZA04 closing price methodology has been a subject of dispute in terms of how it is being calculated in that if there are no trades happening in the auction and the bids and offers fall away just before the auction, we end up using stale prices to determine the closing price. There was a methodology change that was proposed but that was met with unfavourable feedback at the last PAC (Product Advisory Committee). The JSE has now gone back to the drawing board to try and look at alternatives. One of ideas that the JSE is pushing forward is to leave the methodology as-is and engage with the market makers to get the end of day valuations from the product issuers and distribute that particular price as a fair and reasonable indication of the closing price.

The JSE will engage with all interested parties and welcome anyone who has a strong view or opinion in this matter to please advise to allow for consultation with us.

8. UPDATE OF MARKET QUALITY STATISTICS

Rapelang Motang gave an updated analysis of market quality statistics conducted for a 349-day period post colocation go-live. Over the period under consideration, the JSE implemented two new pricing methodologies which have impacted clients' trading strategies and hence the trends identified post the implementation of colocation may be a result of a combination of factors.

In summary, the following points were highlighted w.r.t narrowing of spreads: All Share and Top 40 Index stocks spreads have narrowed; Top 40 Index stocks' volatility of spreads decreased and All Share Index stocks volatility of spreads increased – and there was increased trading activity of less liquid stocks. The volume & value per order at the top of the order book has increased since the implementation of colocation. The daily turnover and volatility of daily turnover of the Top 40 Index stocks increased and the average value per transaction has decreased while the average value per order at the top of the order book has increased.

The question was raised as to what we attribute the increase in value and volume at top of order book to and a fellow member comment was made of the opinion that smart participants were running optimization models to identify price size vs. cost parameters. The request was made for the detailed analysis to be circulated to the TAC.

9. OD RULE CHANGE

Peter Redman detailed the proposal to change the conditions or description of a Delta Trade (OD) in order to allow for several scenarios. The objective was to agree in-principle to the changes before the rule change was taken forward. The original reason for the introduction of an OD was to allow a member to trade the hedge for his client or himself and then transfer it to the issuer of a derivative instrument against the issue of a derivative instrument. In addition, it will allow for a situation where a client who owns the shares to be able to instruct his broker to transfer the shares to another member against the issue of a derivative instrument and to allow a member to transfer the hedge from a client to himself, against the issue of a derivative instrument. We have drafted a rule to allow a member to trade either as an agent or as a principal in an OD trade with changes to be made of "not" a single member anymore but "either". There was no objection to the proposed changes.

On the matter of ODs, Donna highlighted that we have had OD pricing on the agenda several times before and at the last TAC we agreed we would look into it for our pricing for 2016. She reassured members that we are looking at it and are reviewing the comments and input very seriously. She affirmed that the JSE is giving careful consideration in dealing with the matter with price changes in the beginning of the new year although if we are able to do something sooner, we will.

10. ESG INDEX WITH FTSE PARTNERSHIP

Corli le Roux went through a presentation providing a historical overview of the SRI Index, leading into the ESG collaboration with FTSE Russell that will replace the SRI Index at the end of 2015. She mentioned that the launch date for the new indices is 12 October. She also mentioned that the Invitation will be extended to the committee.

She mentioned that the approach for the new responsible investment indices will continue to be a positive screening as was the case with the SRI Index. The FTSE/JSE collaboration will result in the JSE adopting FTSE Russell's ESG criteria and ratings, which offers expanded access to data and flexibility of product creation.

Nathan Jardine took the committee the detail of the new indices:

- Launching 2 indices with FTSE this year. The creation of further indices is quite flexible. The current research process covers mainly Top 40 and Mid Cap companies.
    1. Benchmark index (requiring an ESG rating of 2 for inclusion, index weighted by SWIX market cap)
    2. Tradeable index – Responsible investment Top 30 index (Top 30 companies by ESG rating, follows equally weighted construction)
- FTSE will be here for the launch and JSE is able to set up meetings for clients
- ESG rating product is being developed and will probably be available mid next year

He mentioned that there is an opportunity for issuers to issue more products on the back of these indices. He also mentioned that the fee structure will be available after the 12 October.

A question was raised regarding the 'automation' of the process. Initially the SRI index review was completely voluntary and thereafter desktop research was assessed. FTSE also includes desktop analysis of information within the public domain and then allows companies the ability to respond. The collaboration with FTSE enables the JSE to extend that capability to our indices.

There was enquiry made as to how much money tracks SRI and the point was highlighted that with the previous index there were tradability limitations and that with the new tracking and tradeable subset, it should hopefully encourage trade.

Caution was raised that if the focus goes with a green and/or ethical theme, costs and cost effectiveness should be taken into account. A suggestion was made that if costs are too excessive, the JSE should look to engage with the buy-side to address needs and identify if any cost sharing could be leveraged.

11. GENERAL

It was mentioned to address the potential new entrants to the market i.e. new exchanges and central depositories. The JSE's engagement and view is that we have been anticipating that there will be competition. From a commercial perspective, the JSE is looking forward to the positive result it will have on our company in terms of innovation and competitive pricing but also in terms of client service. However there are questions that still need to be addressed and clarity needed from a macro and regulatory perspective.

A question was posed regarding the broader issues of the regulatory framework and if FSB was intending to engage with the brokers on these concerns. The FSB representative said they were evaluating the applications as they were received and that there is a process of engagement that they are considering.

A point was made that the risk for the JSE was the possibility of an alternative exchange falling under a recognized regulator and hence may get access much quicker.

Donna reaffirmed JSE's commitment to be generous with our engagement and views regarding broader market issues and equally focus on our commercial competiveness in products, pricing & service.

12. TAC NEXT MEET TIMING AND TAC RECONSTITUTION

It was agreed that the next TAC meeting will be scheduled for early next year and if there is anything that needed a round-robin consultation, the committee would deal with it separately.

TAC reconstitution deferred to the next meeting. The consensus is that we should review for the right representation with the focus on value-add for the community and not the individual. Donna proposed that we start by addressing to see if we currently have the right composition in the number of representatives and the split between buy-side and brokers etc. If we are ok with that, then we can agree on what basis we would like to add and define the criteria for whom we bring onto the committee.

Donna Oosthuyse thanked everyone for their commitment and for attending the meeting.

Meeting closed at 12pm