MARKET NOTICE

Johannesburg
Stock Exchange

Tel: +27 11 520 7000
www.jse.co.za

Number:	**287/2015**
Relates to:	☐ Equity Market
	☐ Equity Derivatives
	☐ Commodity Derivatives
	☒ Interest Rate and Currency Derivatives
Date:	4 May 2015
SUBJECT:	**CURRENCY DERIVATIVES PRICE LIST - 2015**
Name and Surname:	Warren Geers
Designation:	Head: Bonds, Interest rates and Currency Derivatives

Dear JSE Client

Seven years ago, the JSE gave a commitment to the Currency Derivatives Market that as long as liquidity was increasing, the JSE would consider reducing fees. On that basis, the JSE have for the past seven consecutive years reduced fees each year. This year, the market, its providers and key participants have agreed to a change in fee structure that is aimed at ensuring continued liquidity growth of the market. We have also needed to consider a fee increase for the first time since June 2007.

Change in fee structure

In the Currency Derivatives Market the liquidity providers are the Authorised Dealers who provide live tight prices into the market which makes the market attractive to local and foreign participants. Without their prices, few trades would take place on the Currency Derivatives Market and there would definitely be no price discovery. The market (Users) benefits from the tight spreads provided by the Providers (generally less than half a cent wide).

However, quoting this tight spread frequently results in a loss of revenue for the liquidity providers. Given that the market does not wish to lose any providers, it is important to ensure that an appropriate liquidity-based incentive model is implemented. This would ensure that some value in the market is maintained for the providers, who have acted upon their commitment to tighten their spreads.

As such, the Currency Derivatives team conducted a thorough research process which included numerous discussions and consultations with the market. The finding was that the Currency Derivatives Billing Model would be changed to a billing per participant type model.

At the currency derivatives advisory committee meeting held on 10 March 2015, it was discussed and proposed that a new billing model would be explored for the currency derivatives market, based on the facts discussed within the meeting.

It was agreed that the JSE would implement a 2-tier pricing model, applying a different fee structure to the providers (authorised dealers as approved by SARB) and a separate fee structure to the users of the market (price takers).

This concept was unanimously agreed to at the meeting.

Proposed fee changes:

The commitment given to the Currency Derivatives Market seven years ago was that as long as liquidity was increasing, fees would be reduced. Last year did see an increase in liquidity. However despite this, revenue was 2% lower than 2013. As such, we are reluctantly implementing a fee increase.

1. **User model**
   a. **Futures and Options on standard and Any-Day contracts**

All prices below are exclusive of vat

Currency Futures and Any Day Futures			
Contracts Band	Current Fee per contract	Proposed Fee per contract	Difference
1- 499	R 1.07	R 1.16	R 0.09
500 -999	R 1.03	R 1.11	R 0.09
1000 - 2999	R 0.93	R 1.01	R 0.08
3000 - 4999	R 0.88	R 0.95	R 0.07
5000 - 7499	R 0.80	R 0.87	R 0.07
7500 - 9999	R 0.49	R 0.54	R 0.04
10 000 and Above	R 0.30	R 0.32	R 0.03
Capp per deal	R 39 473.68	R 43 000.00	R 3 526.32
Any Day Minimum fee per deal	R -	R 1 000.00	

All prices below are exclusive of vat

Currency Options and Any Day Options			
Contracts Band	Current Fee per contract	Proposed Fee per contract	Difference
1- 499	R 0.54	R 0.58	R 0.04
500 -999	R 0.51	R 0.56	R 0.05
1000 - 2999	R 0.46	R 0.51	R 0.04
3000 - 4999	R 0.44	R 0.47	R 0.04
5000 - 7499	R 0.40	R 0.44	R 0.04
7500 - 9999	R 0.25	R 0.27	R 0.03
10 000 and Above	R 0.15	R 0.17	R 0.02
Capp per deal	R 39 473.68	R 43 000.00	R 3 526.32
Any Day Minimum fee per deal	R -	R 1 000.00	

As can be seen above, the JSE will increase fees across all bands by approximately 8% which in practice means that increases will be fairly low – between **R0.02c** (when trading above 10,000 contracts) and **R0.09C** in the pure retail space (under 500 contracts traded per deal).

b. Implementation of Minimum fees for Any-Day contracts

At the advisory committee meeting held on 17 November 2014, it was agreed (but not implemented) that:

- A minimum of 200 contracts is required to list an Any-Day expiry;
- For all Any-Day expiry contracts loaded/traded, a minimum fee of R1,000 per deal will be applied. If the trade is however allocated, then the R1,000 will be pro-rated amongst the allocated accounts; and
- The minimum fees to be applied on the Any-Day contracts align with the existing fees of the "Currency Can-do Structures'.
- The implementation of the minimum will take place on 01 June 2015.

c. Maxi Futures and Options contracts

The number of Maxi contracts (100 000 contract size) bands will be collapsed from 7 to 2, resulting in a decrease in fee per contract for deals between 50 and 74 contracts.

All prices below are exclusive of Vat

Currency Maxi Futures			
Contracts Band	Current Fee per contract	Contracts Band	Proposed Fee per contract
1 - 4	R 107.02	0 -49	R 132.00
5 - 9	R 102.63		
10 - 29	R 92.98		
30 - 49	R 87.72		
50 -74	R 79.82	50 and above	R 66.00
75 - 99	R 49.12		
100 and Above	R 29.82		
Capp per deal	R 39 473.68	R 43 000.00	

All prices below are exclusive of Vat

Currency Maxi Options			
Contracts Band	Current Fee per contract	Contracts Band	Proposed Fee per contract
1 - 4	R 53.51	0 -49	R 66.00
5 - 9	R 51.75		
10 - 29	R 46.49		
30 - 49	R 43.86		
50 -74	R 40.35	50 and above	R 33.00
75 - 99	R 24.56		
100 and Above	R 14.91		
Capp per deal	R 39 473.68	R 43 000.00	

d. Can-Do contracts

The Can Do billing model will change from a sliding scale to a flat fee per contract basis, with a minimum fee of R1,000.00 per deal.

All prices below are exclusive of vat

Can Do	
Proposed Fee per contract	
Flat Fee	R 1.00
Minimum Fee per deal	R 1 000.00
Capp per deal	R 43 000.00

2. **Provider model**

The new model below is evidence that the JSE has recognized that the fees for the providers need to be changed quite aggressively to ensure the continuous growth of the market.

All prices below are exclusive of Vat

Currency Futures and Options	On Screen		Off Screen		Maxi On Screen		Maxi Off Screen		Assign Send		Maxi Assign Send	
Fee per contract	R	0.18	R	0.36	R	18.00	R	36.00	R	0.18	R	18.00
Can Do and Any Day minimum fee	R	1 000.00	R	1 000.00	R	1 000.00	R	1 000.00	R	-	R	-
Capp per deal	R	22 000.00	R	22 000.00	R	22 000.00	R	22 000.00	R	0.18	R	18.00

In order to qualify for the on-screen fee incentive the provider will have to meet the below qualifying criteria:

- All contracts will be divided into two categories, namely liquid and illiquid contracts:
    - **Liquid contracts:**
        - Where there are at least two providers making two-way prices on-screen in both the near and middle expiries.
        - These contracts and expiries form a part of the obligation to earn the beneficial pricing incentive.
    - **Illiquid contracts:**
        - Where there are not at least two providers making two way prices on-screen and/or prices only in the near contract.
        - These contracts and expiries do not form a part of the obligation to earn the beneficial pricing incentive; however if a provider meets the minimum criteria in one of these expiries, the beneficial pricing will be applied.

- The contracts that make up these two groups will be reviewed and agreed by the JSE and Providers on a quarterly basis.
- Example of the contracts/expiries that would make up the group based on recent order data:
    - **Liquid contracts (currently):**
        - United States Dollar
        - United States Dollar – Maxi
        - Euro
        - British Pound
        - Australian Dollar
        - Swiss Franc
        - Japanese Yen
    - **Illiquid contracts (currently):**
        - Danish Krone
        - Nigerian Naira
        - Zambian Kwacha
        - Kenyan Shilling
        - Canadian Dollar
        - Chinese Renminbi
        - Turkish Lira

- The minimum qualifying criteria to which the providers will need to commit are as follows:
    - Must make two-way prices in the **near expiry of every liquid currency contract.**
    - Must make two-way prices in the **middle expiry of every liquid currency contract.**
    - Measurement will take place from start of day at 09h00 up until market close at 17h00.
    - Between **09h00 – 10h00** and between **16h00- 17h00,** providers must make prices for a **minimum of 95% of each period for the trading month.**
    - Between **10h00 – 16h00,** providers must make prices for a **minimum of 80% of this time period for the trading month (and not including the two periods above).**
    - Maximum spread of **250** points for **liquid contracts**, per expiry and per contributor.
    - The above will be monitored per Currency contract and per expiry.
    - On close out day the contract will be monitored up until the close of the contract (16h00 or 17h00 depending on daylight saving time).
    - If a provider does not meet the market making minimum qualifying requirements on a specific expiry, the highest possible fee will be charged to the Provider across all relevant trades in that expiry (contract), eg R0.36c.

If the providers do not meet their on-screen obligations they will pay the maximum possible fee (e.g. R0.36c per contract) as if they had traded a report only trade. The maximum fee is still lower than the average of the sliding scale that was applied previously. The JSE will invoice providers at the end of each month based on how they traded and whether obligations were met or not.

The proposed provider model requires substantial development within the JSE – to build the monitoring obligations, the calculation of the new fees to be applied and the relevant invoicing to the banks (via the clearing banks), as well as testing of all the processes. It is envisaged that this will be concluded by end-June 2015.

For this reason, while the model is being developed and implemented for the providers, they too will be charged the 8% increase along with the rest of the market. The banks will continue to receive their rebates but once the new model is implemented all rebates will be terminated.

The provider model has been discussed independently with each bank.

The JSE will be implementing the new fee model effective **1 June 2015**.

To conclude, it is important to note that for the model review the analysis was based on trade data for the full year 2014 and no member's fees increased beyond 8% when applying the new model to the 2014 dataset. In addition, fee structures will be reviewed on an ongoing basis to ensure the viability of the market and its participants. Reviews will include discussions with providers and other key participants. On the basis of these reviews, the model can and will be revisited where needed.

If you have any questions, as always please contact me on 011 520 7470 or Cindy Pillay on 011 520 7689 alternatively email us at WarrenG@jse.co.za and CindyP@jse.co.za

This Market Notice will be available on the website at ***https://www.jse.co.za/redirects/market-notices-and-circulars***