

MARKET NOTICE

Number: 114/2020
Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
 Cash Bonds Market
 Bond ETP Market
Date: 31 March 2020

SUBJECT: INTRODUCTION OF CLOSING PRICE REVIEW PROCESS FOR EXCHANGE TRADED FUNDS

Name and Surname: Mark Randall
Designation: Director – Information Services

Dear Client

As you know, the Covid pandemic has caused extreme market conditions which resulted in unforeseen and unforeseeable circumstances and events in all the JSE's markets such as the increased volatility in the equities market.

The JSE is committed to ensure fair, efficient and transparent markets in all the securities listed and traded on its exchange. These objectives are supported through our strategic commitment to build better markets by facilitating price discovery, promoting best execution and taking the necessary steps to protect investors.

The JSE's closing price methodology for Exchange Traded Products (Segment ZA06) has been designed to reflect prevailing price levels in the market, and uses the following hierarchy of inputs:

1. Mid of the Best Bid / Best Offer at 16:50
2. Last AT/UT during the trading day
3. Previous Close

In normal market conditions, the application of this methodology is effective and it appropriately identifies prevailing price levels. The events of the last few weeks and the unique and exceptional circumstances that are driving current market volatility clearly indicated that, in many scenarios, the "mid of the double" does not accurately reflect the prevailing price of Exchange Traded Funds ("ETFs").

These scenarios are typically related to the increased prevalence of volatility auctions and price monitoring extensions in the ETF market itself, as well as in the underlying JSE Equity Market. There have been instances in the past few weeks where extreme market conditions made it impossible for market makers to post an accurate double, as well as instances where market makers were withdrawing their orders during auction activity in the ETF or underlying instruments. This resulted in numerous occasions where “mid of the double” did not accurately reflect the value of the ETFs in question. Having considered all these facts and circumstances, and in accordance with the JSE’s regulatory duties and responsibilities, the JSE has decided that, until further notice, the closing prices for ETFs calculated in accordance with the closing price methodology will be reviewed and possibly amended in the event that the designated market maker of an ETF advises the JSE that they were unable to sustain a bid and offer at 16:50, resulting in the closing price not accurately reflecting the prevailing price of the ETF.

If the JSE concludes that, upon review, the closing price as determined by the closing price methodology should not be applied, the JSE will, as set out in the operational procedures below, use and refer to the ETF Net Asset Value (NAV) to determine the closing price of the ETF. The NAV is a commonly understood metric in the ETF context, and is already published on a daily basis by ETF Issuers. Furthermore, the inputs and calculation of a NAV are independently verifiable. Market participants are advised that the review and price amendment process mentioned above will be effective from **31 March 2020**. There are no changes to any of the trading hours or session times for ETFs. The review and price amendment process only impacts Exchange Traded Funds and will not be applied to any other listed instruments in the ZA06 segment.

Operational Process for the ETF Market Maker to request using NAV as the ETF Closing Price

1. The indicative closing price will be determined by the JSE Trading Engine immediately after 16:50 and published through the market data gateways by 16:55. This price level will be based on the following hierarchy of inputs: Mid BBO -> Last AT / UT -> Previous Close.
2. The designated Market Maker must contact the JSE by email on marketmakers@jse.co.za if they are not able to fulfil their market making responsibilities at 16:50 as a result of volatility auctions, price monitoring extensions or related market scenarios in either the ETF itself or the underlying JSE Equity Market. This notification must be received by 17:00 and will form the basis for the JSE to consider using the fund NAV as the most appropriate closing price level. Verification of the email can be made telephonically to 011 5207294.
3. The Market Maker will provide the JSE with the NAV for the ETF.
4. The JSE will consider the request in the context of the closing price methodology. If approved, the JSE will update the indicative price on the market data gateway to reflect the provided NAV. This will be the revised closing price for the day and will reflect as such on all end of day data products and publications.

Notwithstanding the implementation of the review and price amendment process described above, market makers are requested to closely monitor their orders towards the end of the trading day to assist in ensuring that a reflective closing price can be determined by applying the standard closing price methodology, with minimal need for intervention by the JSE in reviewing and manually amending closing prices.

Should you have any queries regarding this notice, please contact valuations@jse.co.za or the Client Service Centre on CustomerSupport@jse.co.za or 011 520 7777.

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