

MARKET NOTICE

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 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
 Cash Bonds Market
 Bond ETP Market

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SUBJECT: CORPORATE BOND MARK-TO-MARKET PROCESS

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1. INTRODUCTION

The JSE marks corporate bonds to market according to their most recently observed spread to their respective companion bonds in the case of conventional bonds. In the case of floating rate notes, the JSE Valuations team ensures that corporates bonds are marked at their most recently observed spread to their related floating rate such as 3 month JIBAR. The purpose of this notice is to reiterate the information pertaining to the mark-to-market (MTM) process for listed corporate bonds.

The methodology adopted by the JSE is geared at using market data as far as possible in the process for establishing closing prices. The traded spread is a number that relates the traded **yield-to-maturity** to a companion bond. Companion bonds are generally government bonds that have a similar payment structure, duration and thus interest sensitivity to the corporate bond to which they are assigned. The smaller number of government bonds to listed corporate bonds does mean that these matches are seldom perfect in their design.

2. MARK-TO-MARKET METHODOLOGY

The mark to market methodology follows a waterfall process as described below:

- i. The last observed trade before or at 16:00 on any given day of minimum nominal amount of R1million is used as the starting basis for the MTM process. Trades that occur after 16:00 the previous day (up to market close) are also considered.
- ii. At 16:00 the Valuations team will also observe the bids and offers on available broker screens (see point 3. below for the list of broker screens currently in use for corporate bonds)

- a. If the traded spread observed in (i) above is between the best bid and best offer (assuming a bid offer spread is displayed on the broker screens for the particular corporate bond), the traded spread will be used as the MTM spread for the day.
 - b. If the best available spread on the bid is better (lower bid) than the traded spread then the bid spread is applied at the MTM on the day.
 - c. If the best available spread on the offer is better (higher offer) than the traded spread, the offer spread is applied as the MTM on the day.
 - d. In the absence of a trade against a particular corporate bond, the closing spread from the previous day's MTM process is used as the starting basis for this exercise
 - e. The process allows for there to only be a bid or an offer on screen. These will supersede the last observed trade or previous close if they are quoted at a better level as described above.
- iii. In the absence of trades or bids and offers on broker screens, the prevailing MTM spread (previous close) is applied as the MTM spread for current trading the day.

3. BROKER SCREENS CURRENTLY USED FOR CORPORATE BONDS

Third party data vendors like Bloomberg and Refinitiv allow brokers to display bids and offers on their respective platforms. The JSE has historically made use of this functionality as an additional tool to determining the MTM spreads on listed corporate bonds. The technology is viewed as a complementary tool by the JSE due to the illiquid nature of the market in corporate bonds. The screens are effectively used in conjunction with trade data as executed on the JSE's trading system.

To maintain pricing transparency, the JSE requires that the bids and offers on screen be executable at any given point when they are displayed. This condition is important to ensuring the determination of accurate market levels that reflect value for all participants. In the event that quoted prices are not executable, the JSE reserves the right to remove the broker as a contributor to the MTM process without notice. For the facilitation of the MTM process, the bids and offers are required to be up on screen for the full duration of an hour between **15h00** and **16h00** on a trading day in at least R1million notional, and must be publicly visible.

The following list of brokers is currently being used as active contributors to the MTM process:

Broker	Platform
RMB	Refinitiv
SASFIN	Bloomberg
Avior	Bloomberg
Standard Bank	Bloomberg
Prescient	Bloomberg

This list is subject to change without notice. The JSE Valuations may add additional broker sources that meet the criteria, and remove any source that no longer meets the criteria or is not actively updated. All JSE brokers that quote executable bid and offer spreads in the corporate bond space are encouraged to engage this process by informing the Valuations team of the platform and name of the page where they provide such quotes. The above stated conditions for providing quotes in this process must be adhered to at all times.

4. INCREASED ACTIVITY

The first two days of April has seen a dramatic increase in the number of corporate bonds quoted on broker screens (a total of **90** were used as direct inputs to the MTM process). This has in part been as a result of the general perception of increased credit risk in the market. The Valuations team has ensured that this additional information is incorporated in the MTM process. It is for this reason that members are encouraged to ensure that the correct pricing information is reflected as per the requirements for facilitating the correct MTM process. Members are thus encouraged to use all available platforms to capture key pricing information as frequently as is necessary for the process to provide for the more accurate determination of MTM values for corporate bonds.

5. CAPTURING OF CORRECT TRADE DETAILS

Communication has been ongoing between the JSE and trading members to ensure that traded spreads are captured correctly. **Spreads continue to be omitted from trade reporting in many cases.** It should always be considered that reported spreads are the primary input into the valuation of corporate bonds. It is thus of paramount importance that this key piece of information be captured accurately. If for any reason you are unable to capture a spread when reporting a trade in a corporate bond this should be escalated to the JSE.

Should you have any queries regarding this notice, please contact valuations@jse.co.za. This document is not confidential and should be distributed as widely as possible to all stakeholders.