
MARKET NOTICEJohannesburg
Stock ExchangeTel: +27 11 520 7000
www.jse.co.za**Number:** 411A/2016**Relates to:** Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives**Date:** 26 July 2016**SUBJECT:** PROPOSED AMENDMENTS TO EQUITIES DIRECTIVE BI – NEW STOCK ACCOUNT FOR HEDGING TRANSACTIONS**Name and Surname:** Shaun Davies**Designation:** Director: Market Regulation

Members are advised that the proposed amendments to the JSE Equities Directives, attached as Annexure A, were adopted by the JSE Executive Committee on 26 July 2016.

JSE Equities Directive BI deals with the various types of accounts that a member maintains on the BDA system. Directive BI 5 deals specifically with the different types of stock accounts that members are required to use to identify the nature of their proprietary trading activity.

Directive BI 4 states that a member is required to maintain separate arbitrage accounts on which all arbitrage activity is to be recorded and Directive BI 5 includes a “Stock account – arbitrage” as the type of stock account that would be used for this purpose.

The JSE recognises that Directive BI 5 does not adequately cater for all of the different types of proprietary trading activity that a member could engage in, in terms of the Account Descriptions and associated Account Identification codes provided for in that directive. Furthermore, the JSE has identified that Arbitrage stock accounts are being used by members for purposes other than those for which Arbitrage accounts were originally intended, with certain adverse consequences.

The original intention in stating in Directive BI 4 that “all arbitrage deals shall be routed” through separate arbitrage accounts was that deals in which a member was buying an equity security in one market and selling it either in another market or to a participant in another market (being the JSE and a foreign market) were to be booked to arbitrage accounts. However, a number of members appear to have used arbitrage stock accounts to also record deals in which the member buys or sells an equity security on the JSE either as a hedge against a position in a listed or over-the-counter derivative or in taking advantage of a price



difference between the equity security and a listed derivative for which the equity security is the underlying security.

Apart from the use of arbitrage stock accounts for derivatives hedging not being what was originally intended by Directives BI 4 and BI 5, the use of arbitrage stock accounts for this purpose has also adversely affected the calculation of the Strate Settlement Fee charged to members. Transactions on arbitrage stock accounts are not included in the calculation of the Strate Settlement Fee as, if used for the purpose for which they were originally intended, the purchases and sales on arbitrage accounts should net to zero and the fee would be charged on the settlement transaction on the account of the foreign counterparty with whom the member has traded. Charging the Strate Settlement Fee on the purchases and sales on the arbitrage account, in this instance, would result in a triple charge for a single settlement and hence the transactions on the arbitrage account are not included in the fee calculation. However, if an arbitrage stock account is used, for example, to record hedging transactions against derivatives positions, those transactions would not result in a settlement on another account that would attract the Strate Settlement Fee but would instead result in a settlement on the arbitrage account, which would incorrectly not attract the Strate Settlement Fee as all transactions on arbitrage stock accounts are excluded in the fee calculation.

In order to provide members with Stock Accounts on BDA for which the Account Description more accurately reflects the nature of the member's trading activity, and to address the incorrect calculation of the Strate Settlement Fee when arbitrage stock accounts are used for a purpose other than that for which they were originally intended, the JSE proposes to add a new Stock Account in Directive BI 5 in which all derivatives hedging transactions should be recorded.

Arbitrage stock accounts should then only be used when a member is buying or selling an equity security on the JSE and executing an opposite transaction in that security with a foreign counterparty, resulting in a net position of zero on the arbitrage account. We propose to amend Directive BI 4 to clarify the purpose for which arbitrage stock accounts are to be used and to amend the Account Description in Directive BI 5 to "Stock accounts - foreign arbitrage". Consequential amendments are also proposed for Directive BI 6.

Unless written objections are lodged within 10 days of this notice, in terms of rule 2.60.3, the proposed amendments to the equities directives will come into effect on 5 September 2016.

Should you have any queries regarding this notice, please contact Shamila Keshav on (011) 520 7200 or at shamilak@jse.co.za

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