

MINUTES:

JSE eCFD
COMMITTEE MEETING
THURSDAY, 26 SEPTEMBER 2013 AT 12h00

<u>PRESENT:</u>	Mr. M. de Wet	(Chairman)
	Ms. K. Pillay	(JSE)
	Ms. K. Chipane	(JSE)
	Mr. G. Nicola	(JSE)
	Ms. M. Vreulink	(JSE)
	Mr. D. Fourie	(RMD)
	Mr. B. Swanepoel	(Trademar)
	Mr. P. Dube	(Investec)
	Mr. E. Smit	(EDI)
	Mr. M. Weetman	(Vunani)
	Mr. C. Horsfall	(Imara)
	Mr. N. Ashok	(Nedbank)
	Mr. K. Myburgh	(Nedbank)
	Mr. N. Tania	(RMB)
	Mr. R. Heine	(RMB Morgan Stanley)
	Mr. S. Gule	(Iress)
	Mr. G. Ward-Able	(Credit Suisse)
	Mr. W. Donald	(Sungard)
	Mr. M. Pholohane	(Monentum)
	Mr. R. Kruger	(STT)
	Mr. D. Marais	(STT)
	Mr. S. Basson	(Synthesis)
	Mr. T. Berman	(Afrifocus)
	Mr. B. MacCullum	(RMB)

APOLOGIES: Mr. Adam Bunkell (Sanlam Trade), Mr. G. Lampen (Sanlam Trade)

1. **WELCOME & APOLOGIES**

Mr. M. de Wet welcomed all attendees to the meeting.

2. **CONFIRMATION OF MINUTES:**

The minutes of the meeting held on 6 May 2013 were confirmed.

3. **MATTERS ARISING:**

There were no matters arising.

4. **eCFD TRADING STATS UPDATE**

Ms. K. Pillay gave the Committee a brief overview of the eCFD trades and statistics for September 2013. There were 18 000 contracts traded and 1,8 million value traded since eCFDs were launched.

She also advised the committee that Investec and RMB Morgan Stanley are currently the eCFD market makers and thanked them for their support.

Mr. de Wet also advised the Committee that because the product is still in its prototype phase, the current stats are not a true reflection of the interest in eCFDs. He indicated that software providers are crucial to the success of the product and most providers are currently still in the development phase to cater for this new product.

5. **eCFD SOFTWARE UPDATE**

Ms. K. Pillay advised the Committee that the product is currently in the prototype phase and that the idea was to get the product to market as soon as possible to prove the concept and subsequently co-produce the product with the market. For every underlying, the team has had to create multiple contract codes for each interest rate which has been admin intensive and thus with the next software upgrade, the system will reflect one contract code per underlying, with an option to select the base rate and specify the interest spread (positive/negative) as an input. This will make the process of booking the trades a lot simpler.

With regard to the testing of the new version of the eCFDs, a software update has been received by the JSE, and is currently in the first phase of internal testing. They are also looking at making it available on the external testing environment to enable the market to test the solution.

Mr. de Wet advised that the instrument can only be booked by doing report only trades and not on the central order book. The Exchange will look into working with the software providers to automate the process of executing in the Equity Spot market and reporting back onto the Equity Derivatives market.

There will only be one base rate for now which will be SAFEY(Safex overnight rate), but in future, there will be an option to use other interest rates such as Prime, JIBAR, SABOR, etc. The Committee accepted the decision to continue to use SAFEY as a base rate for now.

6. **eCFD EXPIRY DATE**

With CFDs being perpetual instruments in nature in the OTC world, Mr. de Wet advised the Committee that because all current futures instruments have an expiry, the Exchange has had to create an expiry date for the eCFD prototype.

After a few consultations and previous eCFD meetings, the team came to a realization that from a market point of view there is a requirement for an expiry date and there are mechanisms that exist in the CFD world that assist with risk management of OTC CFDs which are not inherent in the futures market. Part of the software upgrade was to ensure that there is a capability of either having an expiry date or not.

The Committee had an open discussion about having an expiry date and some committee members were opposed to this as it is meant to be perpetual in nature.

A member advised that he is of the opinion that an expiry date is required, and with this being a new product, there are still a lot of issues that the Committee can unearth, however, a 12 month expiry would be ideal and the product could be priced up adequately and still be competitive with a 12 month expiry. He also raised the fact that “abandonment” functionality would create instability in the product.

Another issue raised was that funding overnight and borrowing for one year or more may be an issue and not as competitive as per OTC CFDs. It was also noted that while margins will offset, the individual instruments at different rates will be displayed as separate positions in the system.

Mr. de Wet advised the member that the product is still new and that as the product grows a lot of issues will be ironed out and addressed, and after deliberating, it was agreed that the expiry would be one year pecked on the March close out in line with the current single stock futures.

7. **eCFD FUNDING SPREAD FOR BROKERS**

The Committee was given a brief explanation on how the Exchange proposes brokers can share in the funding spread with the aid of a presentation. The proposal illustrates how the parties involved in the transaction would be linked, how the fees would be charged, as well as how the transactions would appear in the books of all parties involved.

It was noted that while the link between the client, broker and market maker is useful, it does not create contractual arrangements between the client and the market maker.

8. **eCFD MARKET MAKER BROKERAGE** (Contd. from previous agenda item)

The Committee was advised that this is a proposed solution and that the Exchange will still review it and provide feedback and possibly even a different solution at a later stage.

In conclusion the Committee noted that it would be useful if the product allowed brokers to take a turn on the funding and borrowing rates. It was also noted that it will be useful if the system automatically created the legs associated with this process.

9. **eCFD JSE TRADING FEES**

It was noted that eCFD fees have to be in line with Single Stock Future fees. One reason for this is to avoid cannibalisation where the market moves to trading one product as opposed to another solely because of fees.

The JSE looked into how CFDs are charged locally as well as at other exchanges in the market and found that it is usually a case of a transaction fee being charged, as well as an additional fee on the position and/or a management fee.

In line with SSFs, the Exchange will charge a 1.75 bps transactional fee and the brokers and market makers involved will earn the entire interest rate spread. This solution will ensure consistent pricing, and when comparing how other exchanges such as the Australian Exchange charge on these products, this proposal seemed to be significantly less.

It was noted however, that depending on one's holding period, one product will be cheaper or more expensive than the other when comparing Single Stock Future fees to eCFDs as there would be less rolling in eCFDs.

It was also noted that the OTC market offering is significantly cheaper with regard to fees. The Committee members' stance is that there has to be some sort of incentive for moving from the OTC space to the Exchange.

It was agreed that the Exchange will give this more thought but the cannibalisation between SSFs and eCFDs remains a problem associated with this proposal.

10. **GENERAL / NEW IDEAS**

No points were discussed under this agenda item.

11. **Close**

Mr. M.de Wet thanked the Committee and closed the meeting.

The meeting concluded at 13h48

“READ CONFIRMED”

CHAIRMAN