

MARKET NOTICE

Number: 130A/2019
Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
Date: 24 April 2019

SUBJECT: APPROVED AMENDMENTS TO THE DERIVATIVES RULES AND DIRECTIVES – ITaC 1(B)
AND (C)

Name and Surname: Shaun Davies
Designation: Director - Market Regulation

Members are referred to Market Notice 376/2018 dated 2 October 2018, which contained proposed amendments to the derivatives rules and directives.

The amendments were made necessary by the imminent completion of phases 1(b) and 1(c) of the ITaC project, which will deliver enhancements to the equity derivatives and currency derivatives markets, and includes the addition of new trade types.

While the proposed amendments in Market Notice 376/2018 included rule additions and amendments that sought to enable the JSE to accept certain listed securities as collateral, these particular amended and additional rules have not been advanced for approval by the FSCA at this time and the JSE will engage further with the FSCA in this regard.

The FSCA has, in terms of section 71(3)(c) of the Financial Markets Act, approved the amendments to the derivatives rules with effect from 29 April 2019.

The amendments that have been approved are:

The principle of best execution is set out in new rule 7.15 (Trading with or on behalf of clients – best execution) and requires that members act in the best interests of their clients at all times, while adhering to the terms and conditions of the mandate or agreement in place between them. To achieve this, members must conduct all transactions in derivative securities through the order book of the JSE, unless the negotiation of a transaction and its reporting to the JSE trading system is in the best interests of the client, and the transaction qualifies as an off book transaction in terms of the off book trade types set out in new rule 7.114 (Off book trading) and the off book trade criteria set out in updated rule 7.115 (Off book trading criteria).

The functionality of the system has facilitated the introduction of two new proposed reported trade types, being Roll Trades and Strategy Trades. Roll trades will enable members to close out a position in a futures contract for an expiry date and to open a position on the same terms for a later expiry date, provided that the rolling of the position in this way is in the best interests of the client. Strategy Trades will provide members with the ability to link two or more transactions in options or futures in one or more underlying instrument in the JSE trading system and in so doing give effect to the investment strategy of the member or its client.

Rule 7.60.2 that deals with client registration has been expanded to include all of the mandatory details that are required to be completed and submitted to the JSE by members when registering a client account.

Rule 7.181 (Trade cancellations and price adjustments) has been amended to reflect the manner in which erroneous trades will be cancelled when the new system is implemented. The updated processes to be followed in respect of the cancellation of a trade, which has been sanctioned by the Director: Market Regulation, are set out in the proposed amendments to the Trade cancellations and Trade Adjustments directive. References to trade price adjustments have been removed from the derivatives rules and directives in relation to equity derivative transactions, as the functionality of the relevant ITaC system and the associated processes in respect of error trades are not able to accommodate requests from members for the adjustment of the price of a trade in equity derivatives as an alternative to trade cancellation. Rules 7.181.9 and 7.181.10, however, retain the ability of the Director: Market Regulation to adjust the price of a trade in commodity derivatives, if he determines that the cancellation of the trade would have a detrimental effect on the counterparty to the error trade.

The terminology in respect of “on book” and “off book” transactions, which previously referred to “on-ATS” and “off-ATS” transactions in the derivatives rules and directives, has been harmonised with the equities and IRC rules and directives, which refer to on book and off book transactions; and references to the systems of the JSE, which previously referred to the specific markets on which particular securities were traded, now reference the JSE trading system. References to “order book” will be preceded by “central” where appropriate and references to “clearing house” will be replaced with “JSE Clear” where necessary.

Rule 4.10.5 has been inserted to cater for trading in the so-called global market securities which are available to trade in both the equity derivatives and commodity derivatives markets. These securities will continue to trade on the Nutron trading platform utilised by commodity derivatives members but equity derivatives members will be granted access to the Nutron trading platform to trade specifically in these global market securities.

The ITaC system will allow for the itemisation of the trading fees charged by members for their services and, as such, new rule 8.80.5 specifies that fees must be separately charged and may not be included in the price of the transaction. This rule excludes transactions in commodity derivatives that are assigned by a member to another member or the client of another member, however, as these assignments are effected on Nutron, which does not have the necessary functionality for the itemisation of fees.

We attach hereto the following documents:

- Board Notice 70 of 2019 containing the FSCA's approval.
- The approved amendments to the JSE derivatives rules and directives.

Should you have any queries regarding this notice, please contact Paul Hartzberg on (011) 520 7584 or at paulh@jse.co.za

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