

DEBT MARKET

Frequently Asked Questions

2014



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THE JOHANNESBURG STOCK EXCHANGE - FIXED INCOME TRADING

Are fixed income securities traded at the JSE, informal OTC or other exchange?

Government and corporate Bonds are traded on both the JSE and OTC. Unlisted bonds are traded OTC.

Is the Bond Exchange of South Africa (BESA) still the main exchange to trade listed fixed income?

When The Bond Exchange of South Africa (BESA) was acquired by the Johannesburg Stock Exchange (JSE), it lost all independence. The BESA became a wholly-owned subsidiary of the JSE on June 22 2009, the operative date of the scheme of arrangement in terms of which the JSE acquired the entire issued share capital of BESA. On May 9, 2011, the JSE launched Nutron, its new automated trading system for bonds. The former trading platforms, BTB and Yield-X, have been decommissioned. In 2010, subsequent to the merger with BESA, Yield-X was rebranded the Interest Rate and Currency (IRC) market.

Who owns the JSE? Who owns BESA?

The JSE is publically listed entity. As a result of the merger between the JSE and the Bond Exchange (BESA) in June 2009, the JSE is now responsible to the FSB for governing, controlling, managing and regulating the affairs of the BESA and its Authorized Users and to maintain an orderly market for trading in Securities.

What are the principal regulations governing business on the exchange?

As an exchange, the JSE is licensed annually by the Financial Services Board (FSB) in terms of the SSA (Securities Services Act).

Who is responsible for enforcing these regulations?

The JSE is also a self-regulating organization (SRO) and regulates its members by means of rules and directives that are written in terms of the SSA (Securities Services Act). The rules cover operational risk, financial risk and legal risk. The JSE also has various tools and processes to manage these risks, as well as capital adequacy requirements of the members and margining of trading activities.

What are the exchange's trading hours for fixed income securities?

Market opens at 7:00 and closes at 18:00 SA time.

Is the JSE a full member of the World Federation of Exchange? Or an affiliated member?

The JSE became a member of the World Federation of Exchanges in 1963.

Under what circumstances can the exchange halt trading on fixed income instruments?

The JSE does not have distinct policy in place, as such they go on a case by case basis (confirmed by the JSE).

How many times have any of these events occurred in the past twelve months?

There has only been one instance of a suspension. This First Strut bond was suspended due to the issuer filing bankruptcy.

Which bodies/offices have the power to approve a listing?

A company seeking a JSE listing must make public, a document that gives full and fair disclosure of the business. The increasing complexity of international reporting standards also translates into a very stringent set of requirements to enable listing on the JSE. Details of the information required can be provided by the JSE on request. In October 2003, the JSE launched an alternative market called Alt X. This market caters to small and medium-sized companies and listing requirements are less stringent.

Is there a recent history of the listing rules being waived?

No, The JSE do not waiver listing rules.

If yes, under what circumstances?

N/A

How many times has this occurred in the last 12 month period?

N/A

What disaster recovery procedures exist at the exchange?

The JSE has a continuity management policy and recovery arrangements in place to ensure business continuity in the event of a disaster. This includes the ability to resume operations in an offsite location. These arrangements are reviewed by the JSE regulator and tested. A full test is conducted at least annually.

How many trading members are there?

There are 50 trading members.

What types of entities are allowed to trade in Fixed Income instruments?

Please refer to the attached JSE Membership Requirements.

Can these entities trade as principle and/or agent?

Yes they can trade as both.

What authority sets the requirements for membership?

Please refer to the attached JSE Membership Requirements.

Are there instances of these requirements being waived? If yes, please explain

No, the JSE are stringent on the listing requirements.

What are the principal requirements for membership?

Please refer to the attached JSE Membership Requirements.

Are there any controls to ensure ongoing compliance with member requirements?

Yes there are. The JSE has a surveillance team that look at trading activity.

Does membership require a locally incorporated Subsidiary?

All members currently have to be local (reside in South Africa).

What proportion of the membership are true local firms?

All the firms have to be local.

What proportion of fixed income trades result in fails?

The JSE has a no fail rate environment.

PRIMARY MARKET

Please describe the participation process for non-resident investors in the primary market of corporate and government bonds.

SA Government Bonds are issued through Primary Dealers only. Any purchaser of SA Government bonds must contact one of the primary dealers to put a bid into the auction. They may also contact other non-PD members of the JSE to submit orders with a PD, thereby disguising their name from a PD.

What type of auction is conducted for Government instruments and Corporate bonds (Dutch or other)?

Tenders are to be submitted electronically using the Bloomberg auction system up to 11h00 of the day of the auction. Should technical problems arise that prevent one or more Primary Dealers from submitting their bids via Bloomberg, the annexed Auction Emergency Procedures as agreed between the South African Reserve Bank, the National Treasury and Primary Dealers will be followed.

As funding agent of the National Treasury, the Banks conduct switch auctions in government bonds for which the following terms and conditions apply:

- The switches will be conducted on a cash-neutral basis.
- Both source and destination bonds will be valued at their all-in (dirty) prices.
- Tenders should be submitted in terms of yield.
- Only Primary Dealers in South African Government Bonds are eligible to participate in these auctions on a voluntary basis.
- The SARB reserves the right to switch nothing or less than the announced amount.
- There will be no limitation on the number of tenders for each security.
- Switch auctions will be conducted on a multiple-yield basis, where successful tenders will be switched at the yield they bid.
- The bidding format would be as follows:
 - The SARB will announce an indicative yield for the source bond on offer at 10:30.
 - Primary Dealers will then be allowed to tender a quantity for the source bond in minimum amounts of R10 million and multiples of R5 million thereafter, and at yields for the new destination bond to the nearest 0,005%.
 - These yields will be evaluated by the SARB against its undisclosed fair market value.
- The Bank will retain the option not to switch any bonds which are perceived to be priced out of line with recent market trends.
- Settlement will take place on a T + 3 bases.

On the day of the auction:

- At 10:30 the Bank will publish an indicative yield for the source bond involved in the switch auction.
- Between 10:30: and 11:00 the Primary Dealers will be allowed to tender to switch a nominal amount of the source bond into the destination bond by submitting yields for the destination bond.
- Bids must be submitted using the electronic auction system.
- By 12:00 the Bank will aim to publish the results of the switch auction. These would include the highest, lowest and average yields of the destination bond which were successful; the nominal amount of the source bond that will be switched; and the nominal amount of the destination bond that will be issued as a result.

How often and when do auctions take place?

Auctions will be held on Tuesdays. Where a Tuesday falls on a holiday, the auction date will be the following business day.

Can bids be cancelled once entered into?

The National Treasury retains the right to amend the conditions pertaining to auctions to ensure orderly, fair and competitive auctions at all times.

Are bids competitive or non-competitive?

30% of the amount of each bond on auction is available on a non-competitive basis until 11h00 (South African time) of the second business day following the day on which the auction was held. The non-competitive bids are allocated at the rate of the single price auction.

What systems are used to support trading in primary market? Are they automated or manual?

Tenders are to be submitted electronically using the Bloomberg auction system up to 11h00 (South African time) of the day of the auction. Should technical problems arise that prevent one or more Primary Dealers from submitting their bids via Bloomberg, the annexed Auction Emergency Procedures are agreed between the South African Reserve Bank, the National Treasury and Primary Dealers will be followed.

Are there limitations on trading imposed by the system? (Excluding price fluctuation limits)

Participation in auctions will be restricted to the panel of primary dealers. Auctioning of bonds will take place in terms of the calendar of regular auctions, which will be announced at the beginning of each financial year.

In what form are assets received from the auction process?

Electronic

How many days after trade date does settlement take place?

T+3 is the normal settlement cycle although bonds may be booked for any settlement date, including T+0 (this has a narrow defined window)

Can alternate settlement periods be arranged?

See previous response

When does cash move in the auction process?

T+3, i.e. the normal settlement cycle

When are securities received from the auction process?

T+3

Is there a pre-matching process in place between counterparties (manual or automated)?

Yes. Trades are done in an "OTC" style, i.e. bilaterally between counterparties but in terms of the Financial Markets Act these transactions are not legally binding until they are matched on the trading system of a licensed exchange.

What are the settlement finality rules as to when settlement becomes irrevocable? Are they clear and endorsed by local law?

There are 2 settlement environments, one for on-exchange reported transactions and a second for non-residents. Both environments are SFIDVP and endorsed in law. The key difference between the two environments is that the on-exchange is a net, no-fail settlement method, whilst the settlement for non-residents is gross settlement and settlement roll/fail is allowed.

If an issuer fails are there any mechanisms or systems for the unwinding of a transaction?

The settlement is bilateral in nature and the unwinding of a transaction would be between the two parties. Any buyer of a bond where an issuer declared bankruptcy between execution and settlement would remain liable for the full consideration as negotiated in the original transaction.

Is the movement of cash and stock linked?

Settlement is SFIDVP

REGULATIONS

What are the main regulations the authorities will use to discipline members?

The Financial markets Act and the Rules and Directives of the JSE

Is there a history of members of the exchange being suspended or terminated?

Please contact the JSE market Regulation team for this

Are the regulations well established, tried and tested?

Yes, the JSE has been voted the best regulated securities market in the world by the WEF, 3 years in a row.

How many times has this occurred in the last 12 month period?

Please contact the JSE market Regulation team for this

Which body controls the trading sessions?

The JSE, or any other regulated exchange if there was one, i.e. each exchange governs its own trading session

Which bodies/offices have the power to suspend trading or place restrictions on trading?

The regulated exchange, e.g. the JSE

Under what circumstances would this occur?

It depends on whether it is a single instrument of the whole market. the powers are enshrined in the Rules and Directives for each market (see www.jse.co.za for more details)

Have there been instances of suspensions or restrictions occurring of pro-longed periods?

For single instruments, yes, for the whole market, No

How many times has this occurred in the last twelve month period?

Once for a single issuer and zero for the whole market.

TAXATION

What taxes applies to investment on fixed income securities?

For locals, it depends on the entity. Pension funds are tax-exempt, most other entities are taxed on a yield-to-maturity basis. There are currently no withholding taxes on interest for foreigners. Please refer to the SARS website for more details and consult a tax advisor.

Is there a need for a local tax agent to be appointed or for a local taxation registration to be filed?

The JSE has no authority to consult on tax and hence for all tax related queries a tax consultant needs to be consulted

DEPOSITORY

Do any links exist between Euro-clear, DTC and/or Cedel?

We currently have no links from a clearing house or CSD perspective to these entities. However, EuroClear does act as a ICSD for global clients

If an exchange participant fails are there any mechanisms or systems for the unwinding of a transaction?

Yes, this is managed by the Guarantee Fund. The Guarantee Fund may also be utilised, subject to the JSEs rule 11.60.6.1, for the purpose of reducing the risk of claims or the quantum of claims against the Guarantee Fund. The important part of the Rules is the reference to the exclusive funds – which shall at no time be lower than R30m. The total claims against a defaulting member may not exceed the exclusive funds.

The Guarantee Fund shall be maintained and be made available primarily for the purpose of 11.60.1.1 Paying compensation to a trading member or a client as a result of a settlement default by a trading member arising out of a transaction in bonds; and 11.60.1.2 Facilitating settlement of a transaction in bonds to avoid an imminent settlement default by a trading member, provided the relevant bond transaction was not executed on the central order book or has been not been accepted for risk management purposes as contemplated in these rules

Would this typically involve sharing costs among exchange members?

No, there are no losses sharing arrangements.

Is the movement of cash and stock simultaneous?

The South African market dictates a “simultaneous, final and irrevocable and final delivery versus payment” settlement of transactions, thus the client will be credited with proceeds on actual settlement date of trade.

Is there a legal basis for netting? If so, what type of netting is recognized (bilateral / multilateral??)

In 1990 the Exchange adopted the G30 standard of trade netting for the settlement of most types of transactions concluded on the Exchange. This netting procedure, which was implemented in 1995, dramatically reduces settlement risk and simplifies the settlement process.

In what circumstances might netting be triggered?

For each Member registered with the Exchange, the Exchange system determines the netted funds and securities movements for a particular settlement day by summing individual trades to be settled on the same day. This Nett position, rather than the individual trades, is settled via the appointed Participants.

In the netting process, the Exchange system calculates the amount of securities to be delivered or received by each buyer and seller as well as the amount of money to be exchanged across

- Settlement Date
- Security
- Broker/ Member who reported trade
- Principal
- Participants
- Settlement Account

Are partial settlements permitted in the market?

No, partial settlement is not permitted in the South African Market.

Is use of the Central Depository mandatory for listed and unlisted fixed income securities?

Yes, if the securities is issued in dematerialised form it must be settled through the CSD.

How often does ones bank reconcile with the depository and by what method (by issue, or aggregate position level)? Is this automated or manual?

It is an automated process done on a daily basis, by issue.

GUARANTEE FUND / INVESTOR RECOURSE

Is there a guarantee fund or other mechanism covering fixed income broker default? Please explain the guarantee fund

Yes, the creation of the Guarantee Fund is a statutory obligation in terms of the SSA. It has been established to cover losses incurred as a result of settlement defaults/default events arising due to one party to the transaction being unable to fulfil its settlement obligations. The purpose of the Guarantee Fund is to maintain market stability and to reduce systemic risk in line with the object of the SSA.

At what level is the guarantee set and how is it funded?

It is the intention that the net assets of the Fund shall at all times be at least R50 million or such other amount as the Registrar may determine from time to time, after consultation with the trustees. Should the net assets of the Fund at any time fall below R50 million, the trustees shall levy contributions from members sufficient to bring the net assets of the Fund to R50 million.

Who is able to benefit from guarantee fund (i...e. local brokers, investors, etc)?

A JSE member that has sold securities on behalf of their client is required, in the event that the trade fails and if the counterparty intended to deliver those securities on, to buy-in the securities on the market. The JSE member has the right to recover any related costs from his client. It is not possible to claim from the JSE's Guarantee Fund.

How are compensation payments calculated (i.e. pro rata, FIFO basis, Percentage of claim, etc.)?

All claims must be met on a pro rata basis in proportion to the total claims by all members and clients lodging claims in respect of a settlement default.

Is there a complaint mechanism for investors? Who administers it?

The guarantee fund is for JSE members to claim against. If an investor has an issue with the member firm, the investor can file a complaint to JSE surveillance or directly to the FSB.

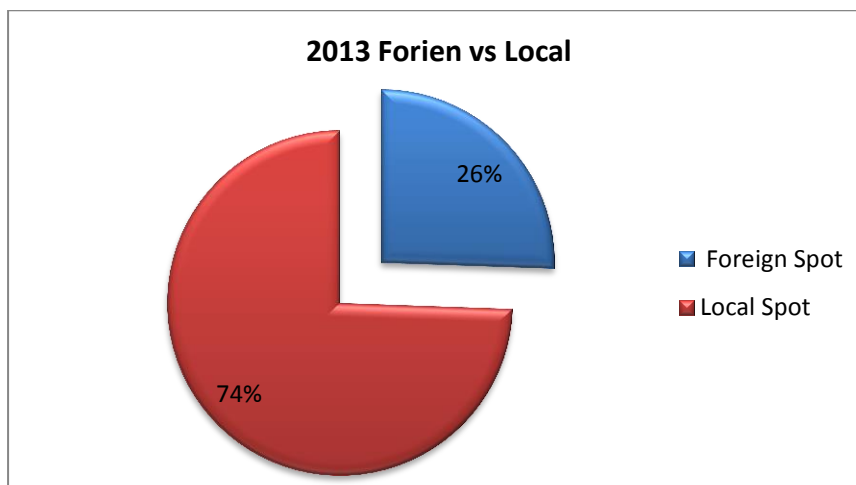
GENERAL MARKET INFORMATION

What is the market capitalization of the local fixed income market (corporate & government bonds)?

Total market capitalization is ZAR 1,370 billion

What percentage of market capitalization do overseas institutional investors hold?

Unfortunately the JSE does not have this information available. Foreigners comprise 25 % of our turnover a year however foreign investors also trade unlisted Rand Bonds OTC.



Are the majority of fixed income securities traded on-exchange or OTC?

All members have to trade listed bonds via the exchange. They cannot trade listed bonds OTC. Other fixed income instruments like Swaps and FRAs do trade OTC however. Foreign investors also trade OTC in Rand Bonds.

How many corporate instruments are available?

1,386

How many government instruments are available?

94

How many of those are actively traded?

In terms of the government debt 21 bonds have more than 100 trades a month. For corporate debt 38 bonds have more than 25 trades per month and 56 bonds have more than 10 trades a month.

What is the average daily traded value of corporate bonds on the exchange?

ZAR 8 million

Are these bonds traded over the counter?

All listed bonds are traded on exchange.

What is the average daily traded value of Government bonds on the exchange?

24 million

Are market prices of bonds supported by local vendors?

Yes JSE uses Bloomberg, Thomson Reuters and INET Bridge.

Have there historically been problems with pricing feeds?

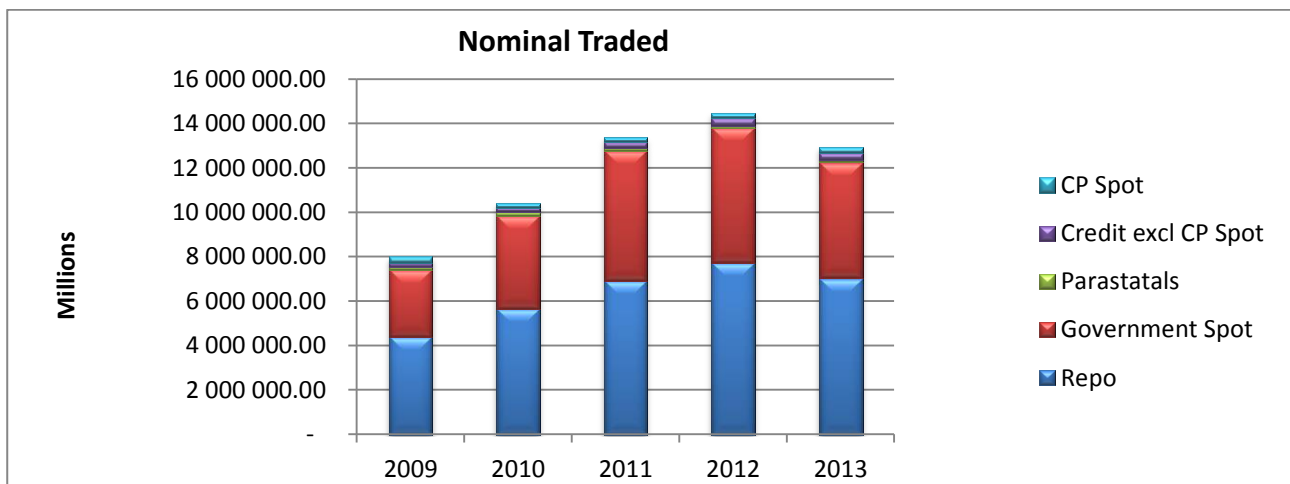
Yes, on occasion the prices have not been live (as confirmed by the JSE).

Are there any foreign ownership restrictions affecting the asset prices through separate listing or premium / discounts?

No there are none.

Yearly Turnover Figures

Nominal Traded	2009	2010	2011	2012	2013
Total Spot	3 604 079 641 694.00	4 729 185 250 721.00	6 461 010 283 504.00	6 756 887 918 819.00	5 899 309 647 672.00
Repo	8 803 400 239 087.00	11 364 056 045 120.00	13 857 683 844 371.00	15 442 559 913 257.00	14 092 486 079 532.00
Government Spot	3 021 279 937 279.00	4 173 818 562 970.00	5 865 651 692 115.00	6 086 341 869 134.00	5 229 228 418 040.00
Parastatals	150 521 376 993.00	151 253 948 206.00	125 958 104 432.00	100 784 816 966.00	112 123 672 783.00
Credit excl CP Spot	153 066 629 788.00	195 671 071 665.00	263 960 891 530.00	347 116 610 329.00	298 697 743 609.00
CP Spot	279 211 697 634.00	208 441 667 880.00	205 439 595 427.00	222 644 622 390.00	259 259 813 240.00



FOREIGN OWNERSHIP LIMITS / DISCLOSURE REQUIREMENTS

Are there any restrictions on foreign ownership of fixed income products?

There are no foreign ownership restrictions.

If there are restrictions, what are the effects of breaching foreign ownership restrictions?

N/A

What disclosure and reporting rules apply to significant fixed income holdings?

N/A

If disclosures apply, what are the effects of non-disclosure?

N/A