

To: Market Participants
From: JSE Valuations Department
Date: 15 September 2016
Subject: Note from the JSE IR Valuations Advisory Committee (“AC”) Meeting Held on Thursday, 15 September 2016

1. Background

The JSE IR Valuations AC held a meeting on Thursday, 15 September 2016. The AC’s mandate is to provide advisory services with the objective to discuss, review and make recommendations on methodologies, operational principles and communication practices relating to the valuation of interest rate instruments.

On the agenda for the day was the AC governance framework, the feedback since the last meeting, AC Roadmap as well as the valuations rules for vanilla Government bonds.

2. Committee Governance Framework

A note on the Governance Framework, regarding members’ introductory letters and the committee Terms of Reference, was tabled for discussion. The AC proposed an amendment to the introductory letter. The final Terms of Reference document will be published on the JSE website.

3. Valuations Committee Roadmap

A note on the valuations committee roadmap was tabled for discussion. The AC discussed the principles around the role of the Exchange in providing bond valuations. The AC agreed that it was not the role of the JSE to provide a true economic fair value of listed bonds as a market service, particularly where this approach would include modelling credit risk and other fundamental valuations. JSE valuations should be based solely on market data. In addition to a “last traded price” approach, there was scope to increase the range of market data considered and to use this input in a mark-to-model approach. Providing an enhanced valuation alongside the existing last traded price would allow market participants to use the data according to their own preferences and requirements.

The AC reviewed the full list of valuations concerns received from market participants, and noted that some were broad principles impacting a range of bonds, where others were related to specific bond types. The AC confirmed the approach of working through the pricing methodology and formulae for all bonds, starting with the most liquid government bonds and then working through the less liquid issues at future meetings.

4. Valuation Rules for Vanilla Government Bonds

The AC discussed the current methodology applied for the valuation of the benchmark bond and liquid government bonds, as well as a number of concerns with the existing approach. The JSE presented an alternative approach to the pricing of these bonds and discussed the proposed methodology in detail. The AC approved the proposed methodology.

The JSE will publish a market consultation document with the details of the proposed change to the MTM methodology for the benchmark bond and liquid government bonds. This will allow the broader market to comment on the proposal before a final methodology decision is taken.

5. General

The JSE has access to a rich set of market data and this data should be accessible to market participants. While the data is currently available through a range of data products and reports, not all users may be fully aware of

the data points available, and there may be demand for the JSE to provide further analysis on the data. The AC requested an overview of the trading, pricing and reference data that is currently published by the JSE to the market at the next meeting.

The next AC meeting will be held on 27 October 2016.

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