Johannesburg Stock Exchange

Trading and Information Solution

JSE Guidance Note

Volume – Guidance Note Reported Trading Derivative Markets

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1. OVERVIEW

The purpose of this document is to provide an overview of Reported Trading for the Derivatives Markets. Reported trading is conducted through the Post Trade Gateway. Refer to the Volume 03 – Post Trade Gateway document for additional information.

The JSE Trading System segregates these trade sub-types in order to identify them for the purpose of statistics and reporting, fee charges, clearing and settlement related validations, and any other post trade related transaction.

Information regarding the above functionality is available in the **Trading API Volumes** located on the JSE website at https://www.jse.co.za/services/itac.

For the ITaC 1B/C implementation, the following subset of trade sub-types will be made available. These will be discussed in detail below:

- CFD Reported Trade (CD)
- Negotiated Trade (NT)
- Exchange for Physical (EP)
- Roll Trades (RT)
- Strategy Trade (SR)
- Price Adjust (PA)

2. REPORTED TRADE MATCHING

2.1 Matching Criteria

The following details submitted should be matched in an Off Book trade. Minimum mandatory requirements across all Reported Trading include the below.

Minimum Mandatory Matching Requirements for both parties

(a) Symbol

(b) Size of the trade

(c) Price of the trade*

(d) Trade sub type of the trade

(e) Trade reporting model of the trade

(f) Date and time the trade was agreed between the two firms

(g) Trade Identifier assigned to the trade by counterparties

*The "Price" of an instrument is either the *Price* for a Futures instrument; the *Premium* for a Naked Option or the *Volatility* for a Delta Option. This will be represented using the same field; however the trade method of the instrument will determine each of the options applicable.

Mandatory identifiers to be submitted per party

The following details are required to be submitted in a Reported trade (in addition to the matching details mentioned above).

(a) Submitting party identifiers included on the message

      i.   Firm

      ii.   Trader Group

      iii.   Trader ID

      iv.   Account

(b) Counterparty party identifiers included on the message

      i.   Counterparty firm ID

      ii.   Counterparty Trader Group

(c) Side of the submitting firm (i.e. buy or sell)

(d) Side of the counterparty firm (i.e. sell or buy)

(e) Trade report action

      i.   Submit

      ii.   Accept

      iii.   Decline

      iv.   Cancel

      v.   Notify

(f) Transaction identifier

      i.   New submission

      ii.   Withdrawal

      iii.   Response

The above identifiers are required to be submitted for every reported trade. There are specific criteria that are required in addition to these minimum requirements, when trading in specific instrument or when reporting specific trade types. These will be explained in detail below.

2.2 Additional Matching Criteria

2.2.1   Instrument Type

Naked Options

When trading a Naked Option (traded on Premium), the system will further match on the Underlying Price (Futures Price). This is denoted by Tag 810 *UnderlyingPx*.

Contracts for Difference (CFDs)

The Interest rate spread, which is the spread on top of the base rate, must be specified when trading a CFD. The JSE will publish the base rates which apply to a given base rate type to its clients. The actual base rate is not required to be specified by clients when submitting a trade. This is denoted by Tag 218 *Spread.*

When trading a CFD Instrument, a trade subtype of "CD" must be specified.

Forward Forwards

A Forward Forward contract is a report only trade made up of two trade legs in the same underlying currency, for two different expiry dates and traded simultaneously as a package. It is an agreement based on the exchange rate differential between 2 predetermined future dates. The contract expires on the 1st specified future date, with the closing price being the difference between the 2 individual dates' closing prices.

Trading a Forward Forward instrument will be categorized by the Instrument type FWDFWDFX Future.

2.2.2   Specific Trade Sub Types

Negotiated Trade – NT

The negotiated trade sub type will be used as the generic trade sub type for reported trades.
This trade type replaces the previous Report Only trade functionality in its simplest form.

Exchange for Physical - EP

A transaction negotiated privately in which a Futures contract for a physical item is exchanged for an actual physical good. This trade type is applicable to the Currency Derivatives Market.

The system will match the following for instruments if the submitted trade sub type is EP.

1. Tag 27106 *Rate* can be used to denote the Spot Rate in an EFP trade.
2. Tag 921 *StartCash*, the All in Price (Dirty Price) of the trade.

Roll Trades – RT

Roll trades are used to facilitate the closing out of a position in the near expiring contract and moving that position to a further dated contract. Because this will always constitute two reported trades, one selling and one buying, the trading system needs to be told how to link these. This is achieved by using the *StrategyLinkID* field, denoted by Tag 27100 and the *StrategyType* field, denoted by Tag 27110. The same *StrategyLinkID* (free text field) will be used to "link" these two reported trades together. This will ensure that JSE downstream systems are able to identify this as a roll trade. The *StrategyType* field must be

denoted as "Inverse Calendar Spread". If this is not specified correctly, this may result in the trader not receiving any billing benefit applicable to roll trades.

Strategy Trade - SR

Trades that include two or more legs that combined, create a certain strategy will be deemed to be strategy trades. These strategies are primarily traded On Screen, however the trading system can accommodate these in the form of Reported Trades. These standard JSE strategies include:

- Inverse Calendar Spreads
- Delta Options

Individual legs of these strategy trades need to be linked, demonstrating that a certain strategy was used. This is achieved by using the *StrategyLinkID* field, denoted by Tag 27100 and the *StrategyType* field, denoted by Tag 27110. The same *StrategyLinkID* (free text field) will be used to "link" these two reported trades together. This will ensure that JSE downstream systems are able to identify this as a strategy trade. The *StrategyType* field must be denoted as either "Inverse Calendar Spread" or "Delta Option". If this is not specified correctly, this may result in the trader not receiving any billing benefit applicable to strategy trades.

Note: Forward Forwards are not considered to be a strategy type as they are categorized as a separate instrument type.

Price Adjust - PA

A key component of market integrity is the assurance that once executed; a trade will stand and will not be subject to cancellation. However, if an onscreen trade is executed as a result of an error by a member or its client, there may be significant adverse consequences for the affected member or client and therefore it is appropriate in certain circumstances to correct such errors.

Therefore, the Director: Surveillance may, where a trade has been matched as a result of a clear error, instruct the affected member or members to execute a trade cancellation or effect a trade price adjustment.

The original trade will be cancelled as per standard procedure, and subsequently a reported trade will be booked at an adjusted price as instructed by the Director: Surveillance. A trade sub-type of "PA" must be specified.

Note: The Price Adjust trade sub-type may only be used on the instruction of the Director: Surveillance in the event of an onscreen trade cancellation.