

# Johannesburg Stock Exchange

## Post-trade and Information Services

### ITaC Position Paper

### Post-trade PP04 – Commissions



|                 |                           |
|-----------------|---------------------------|
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# JSE Commissions Solution

## Agenda



**Background**

**Summary of Commissions Service**

**Key Objectives and Features**

**High-Level Overview and Flows**

**General Mechanics**

**Front-End Considerations**

**Appendix A & B – Commission Scenarios**



# JSE Commissions Solution

## Background



- The current practice of ‘taking a turn’ in the derivatives markets refers to **changing of the price when assigning or allocating** a trade to another trading member or client (direct or tripartite)
- The practice of ‘taking a turn’ during assigns and allocations **limits the market from seeing true price execution without built-in commissions, and does not lend itself to international best practice**
- As part of the ITaC Project 1 go-live, the **new JSE Real-Time Clearing (RTC) system will not include the ability to ‘take a turn’** during the assignment or allocation of trades
- On the back of decommissioning the ‘take a turn’ functionality, the JSE has investigated various alternative solutions that would assist the market in settling commissions for agency trades **by acting as a payment clearing house**

### Document Purpose:

To provide a detailed overview of the JSE commissions solution that will be delivered as part of ITaC project 1

# JSE Commissions Solution

## Summary of Commissions Service



- The primary role of the exchange will be to act as a payment clearinghouse for settling daily net commission amounts across Clearing Members on T+1
- Daily commission amounts relating to give-up activity (i.e. between trading members and between trading members and tripartite clients) will be rolled up to the Clearing Member level and net amounts settled as part of the daily margin and fee settlement process on T+1
- Commission information will be provided to Trading and Clearing Members in order for them to do reporting, reconciliation, VAT invoicing as well as cash collections and payments at trading member and client levels
- Clearing Members, Trading Members and Independent Software Vendors (ISVs) will be required to develop the necessary front-end functionality to utilise the new JSE commission service
- Trading members will be required to actively monitor and manage their commission entries – JSE will not be liable for any mismanagement of commissions



# JSE Commissions Solution

## Key Objectives and Features



### Key objectives

- Ensure that commission amounts are aggregated with daily margin and fee amounts and settled across Clearing Members on T+1
- To avoid trading members having to develop their own commission settlement solutions requiring invoicing of other members/tripartite clients to obtain commissions owed

### Key features

- Provide the ability for trading members to capture their commissions against clients (direct and tripartite) and other trading members
- Provide trading members with the ability to cancel and reject incorrectly booked commissions
- Aggregate commission amounts to the CM level and settle net amounts across Clearing Members as part of the daily settlement process on T+1
- Provide clearing members and trading members with sufficient reporting information to facilitate their reconciliation, collections/payments and VAT invoicing processes

# JSE Commissions Solution

## High-level Overview



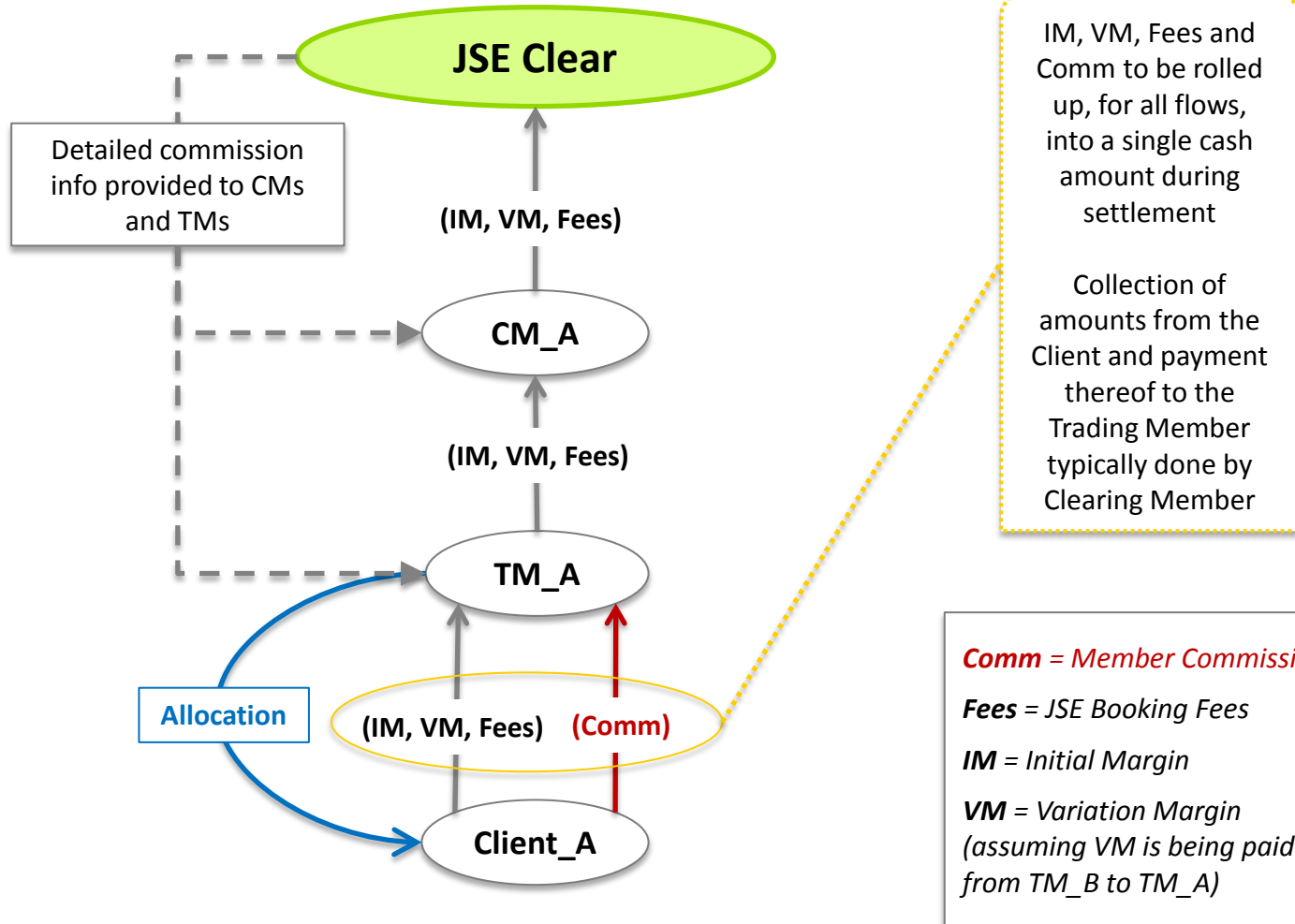
- Once trades are booked and deal managed, commission amounts are captured separately by initiating trading members
  - Entries can be captured at a deal level or aggregated by trading member or client
- Once captured, the commission is deemed confirmed i.e. no confirmation is required by the recipient trading member
- Recipient trading members are allowed to reject incorrect commissions captured against them before the end of the day
- Initiating trading members are allowed to cancel incorrect commission entries that were previously captured
- Commission notifications are sent to both the initiating and recipient trading members and associated Clearing Members upon a new, cancel or reject commission event
- Clearing Members and Trading Members will be able to download all commission entries at end-of-day in order to facilitate their reconciliation, invoicing and collection processes
- Commission amounts are aggregated to the CM level and net amounts are settled by the JSE as part of the daily settlement process

# JSE Commissions Solution

## Processing of Commissions on Agency Transactions Allocation (Member to Direct Client)



**Scenario:** Member to Direct Client, under same Clearing Member



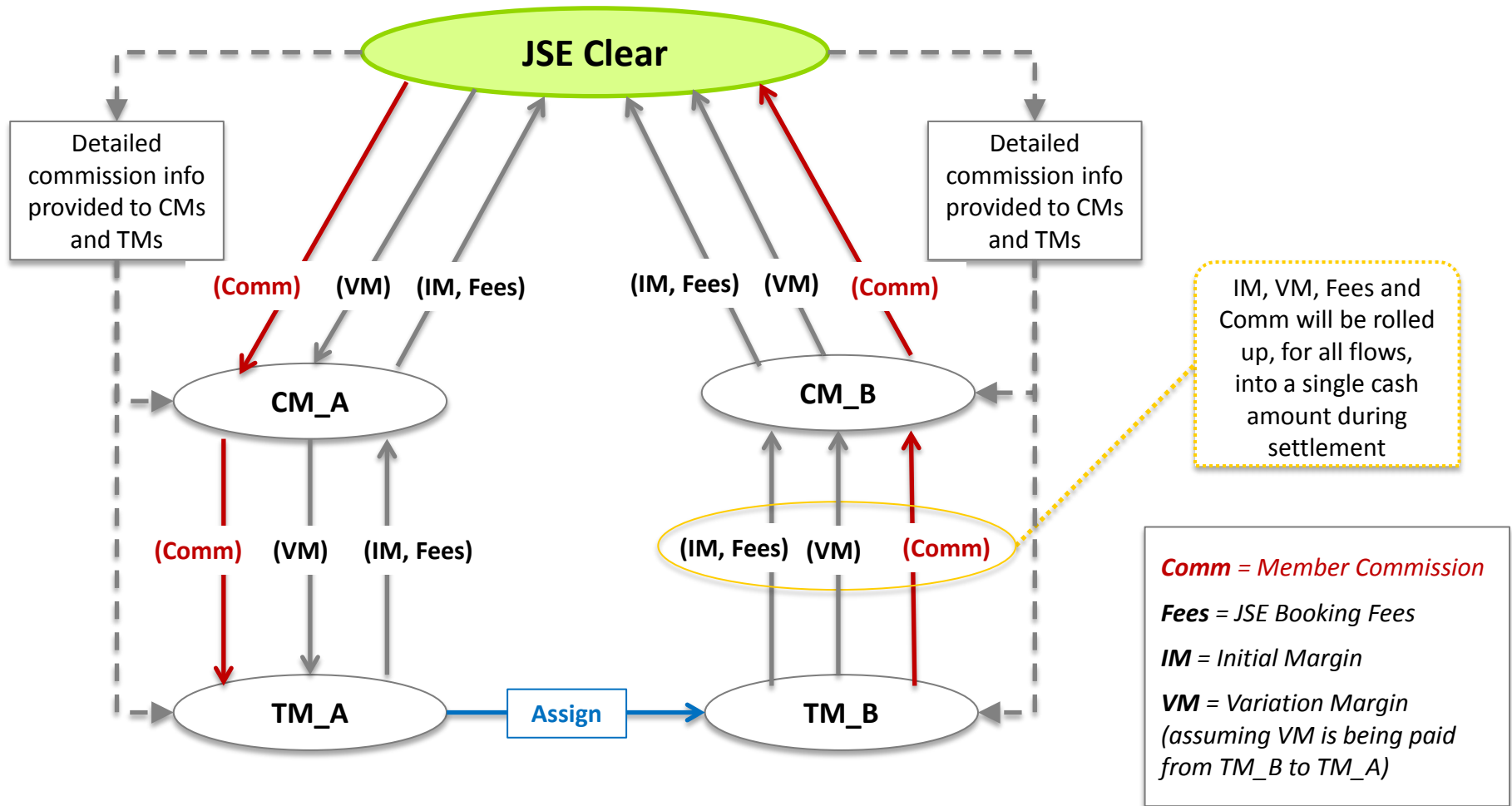
# JSE Commissions Solution

## Processing of Commissions on Agency Transactions

### Assign (Member to Member)



**Scenario:** Member to Member, under different Clearing Members

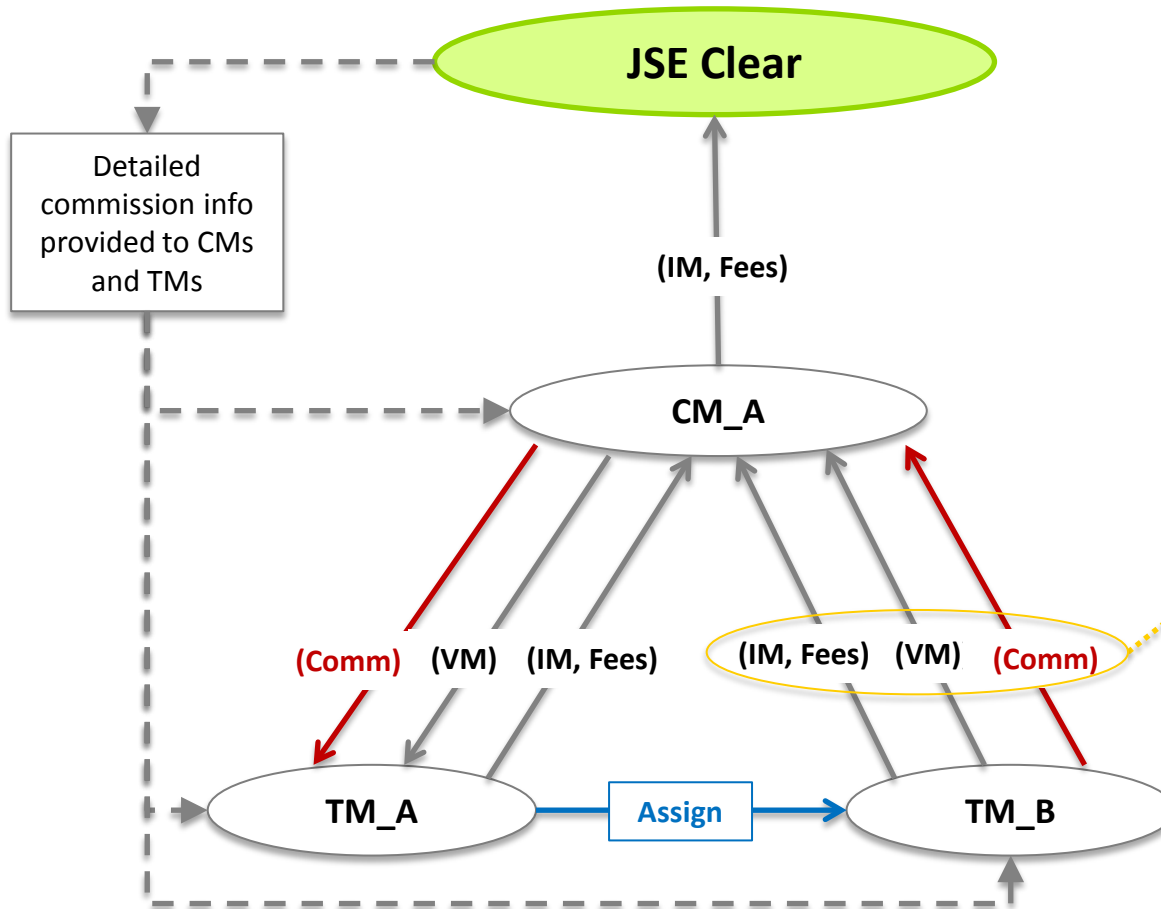


# JSE Commissions Solution

## Processing of Commissions on Agency Transactions Assign (Member to Member)



**Scenario:** Member to Member, under same Clearing Member



In the event that the TMs clear through the same CM, there will be no flow of commission between JSE Clear and the CM due to the zero net effect when rolling up to the CM level

IM, VM, Fees and Comm will be rolled up, for all flows, into a single cash amount during settlement

**Comm** = Member Commission

**Fees** = JSE Booking Fees

**IM** = Initial Margin

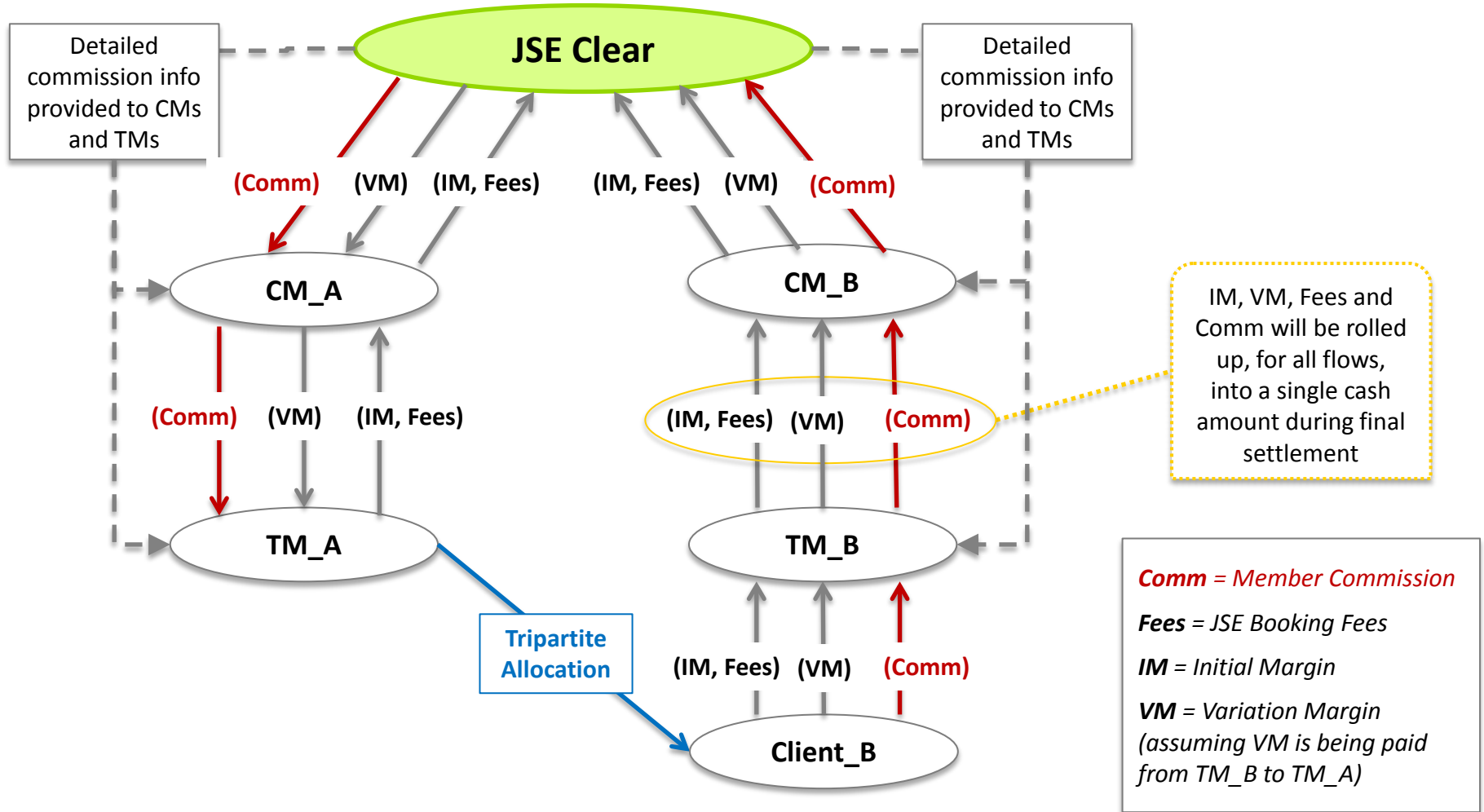
**VM** = Variation Margin  
(assuming VM is being paid from TM\_B to TM\_A)

# JSE Commissions Solution

## Processing of Commissions on Agency Transactions Tripartite Allocation (Member to Tripartite Client)



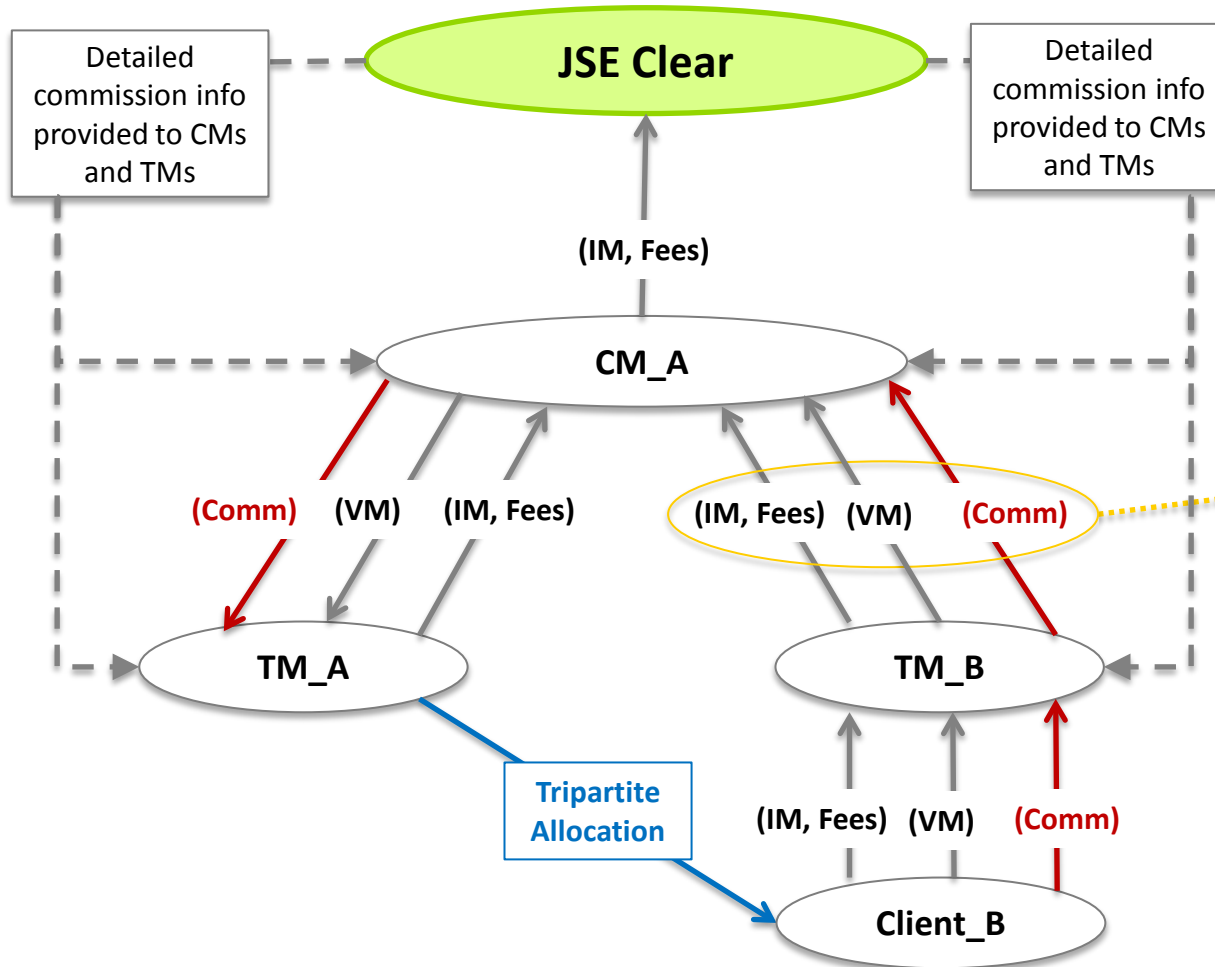
**Scenario:** Member to Tripartite Client, under different Clearing Members



# JSE Commissions Solution

## Processing of Commissions on Agency Transactions Tripartite Allocation (Member to Tripartite Client)

**Scenario:** Member to Tripartite Client, under same Clearing Member



# JSE

In the event that the TMs clear through the same CM, there will be no flow of commission between JSE Clear and the CM due to the zero net effect when rolling up to the CM level

IM, VM, Fees and Comm will be rolled up, for all flows, into a single cash amount during final settlement

**Comm** = Member Commission

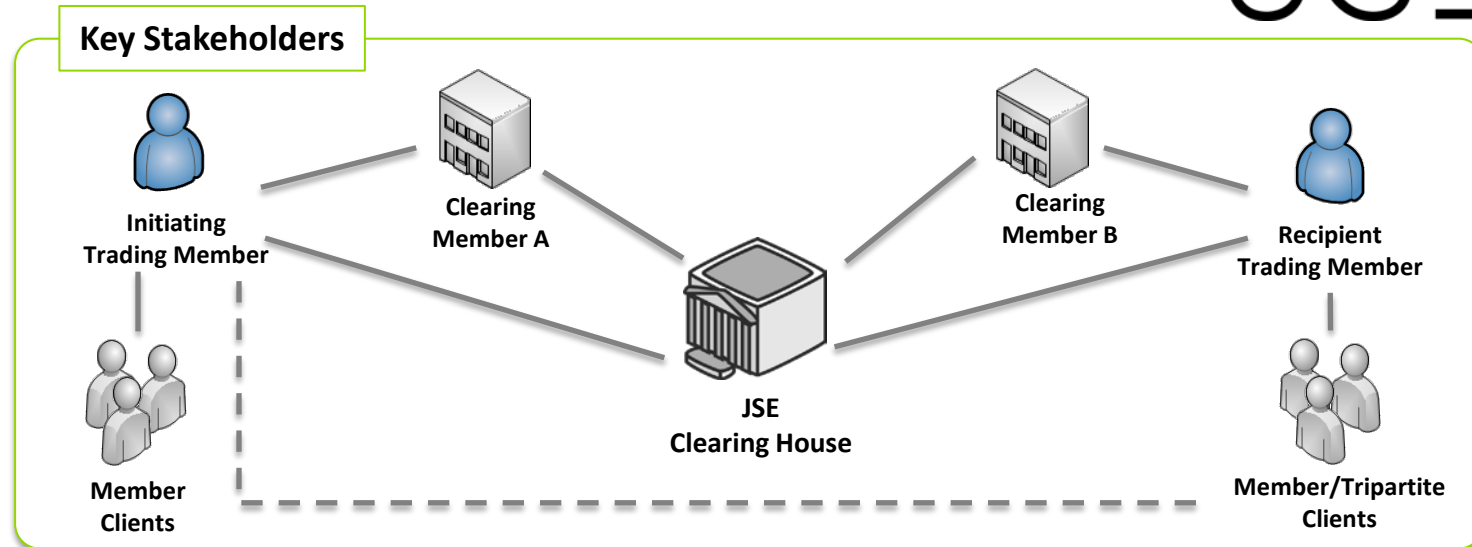
**Fees** = JSE Booking Fees

**IM** = Initial Margin

**VM** = Variation Margin  
(assuming VM is being paid from TM\_B to TM\_A)

# JSE Commissions Solution

## Key Stakeholders and Responsibilities



### Key Responsibilities

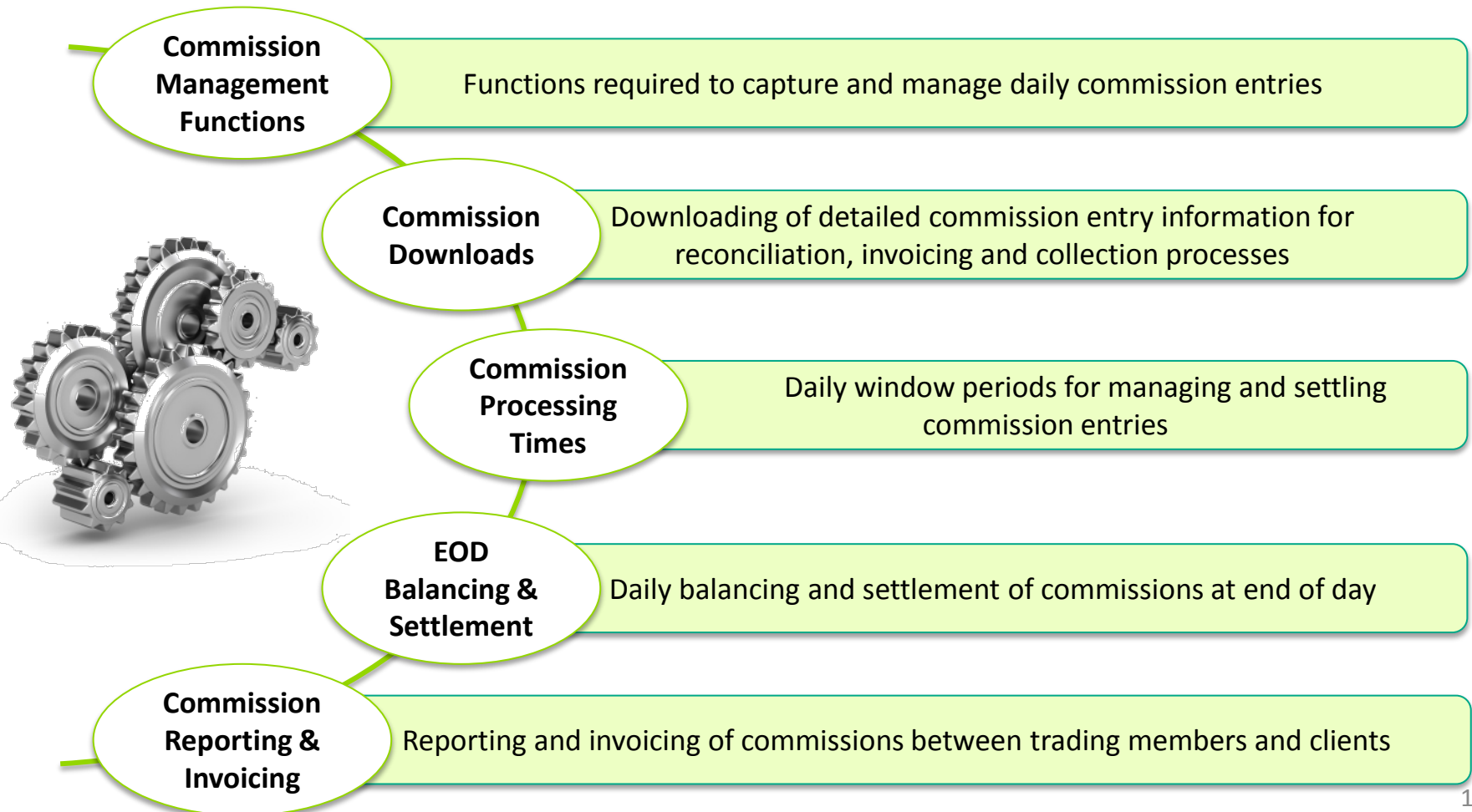
- **Initiating Trading Member** – Calculating and capturing new commissions; Cancelling incorrect commissions;  
*VAT invoicing of and cash collection from own Clients is typically done by the Clearing Member*
- **Recipient Trading member** – Monitoring and rejecting incorrect commissions
- **Clearing Members** – Reconciling daily commissions; cash collection and payment between own Trading Members and Clients and associated VAT invoicing
- **JSE Clearing House** – Facilitate commission management between Initiating and Recipient Trading Members; Provide detailed commission information to Initiating and Recipient Trading Members and Clearing Members; Facilitate net settlement of commissions across Clearing Members on T+1

# JSE Commissions Solution:

## General Mechanics



### General mechanics of the JSE commission solution:



# JSE Commissions Solution:

## General Mechanics – Commission Functions



### Capture New Commission

**Performed by:**

Initiating Trading Member

**Description:**

The ability for trading members to capture new commission entries against recipient trading members or clients (direct or tripartite)

### Commission Management Functions

#### Cancel Commission

**Performed by:**

Initiating Trading Member

**Description:**

The ability for initiating trading members to cancel incorrectly captured commission entries

#### Reject Commission

**Performed by:**

Recipient Trading Member

**Description:**

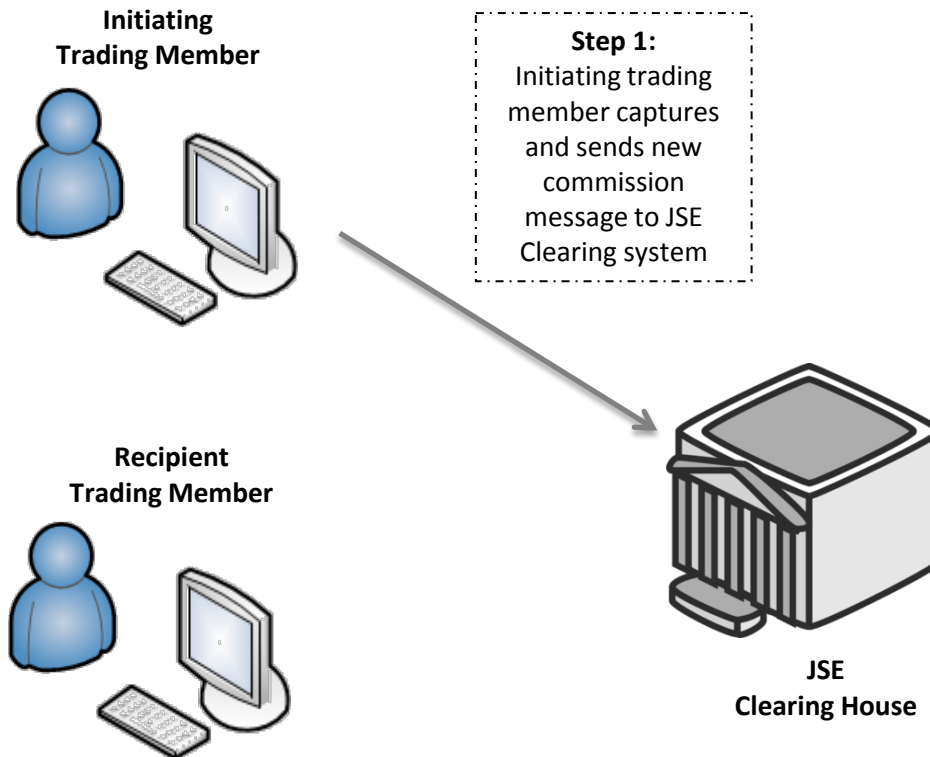
The ability for recipient trading members to reject incorrect or unknown commission entries that have been captured against them

# JSE Commissions Solution:

## Commission Functions – Capture New Commission



### Capture New Commission (Step 1 of 2):



#### Example: New Commission Message

##### **Market (mandatory):**

*<Relevant Derivatives Market>*

##### **Commission Amount (mandatory):**

*+ZAR10*

##### **Recipient Trading Member (mandatory):**

*Trading Member 2*

##### **Client Ref (optional):**

*ClientXYZ*

##### **Commission Ref (optional):**

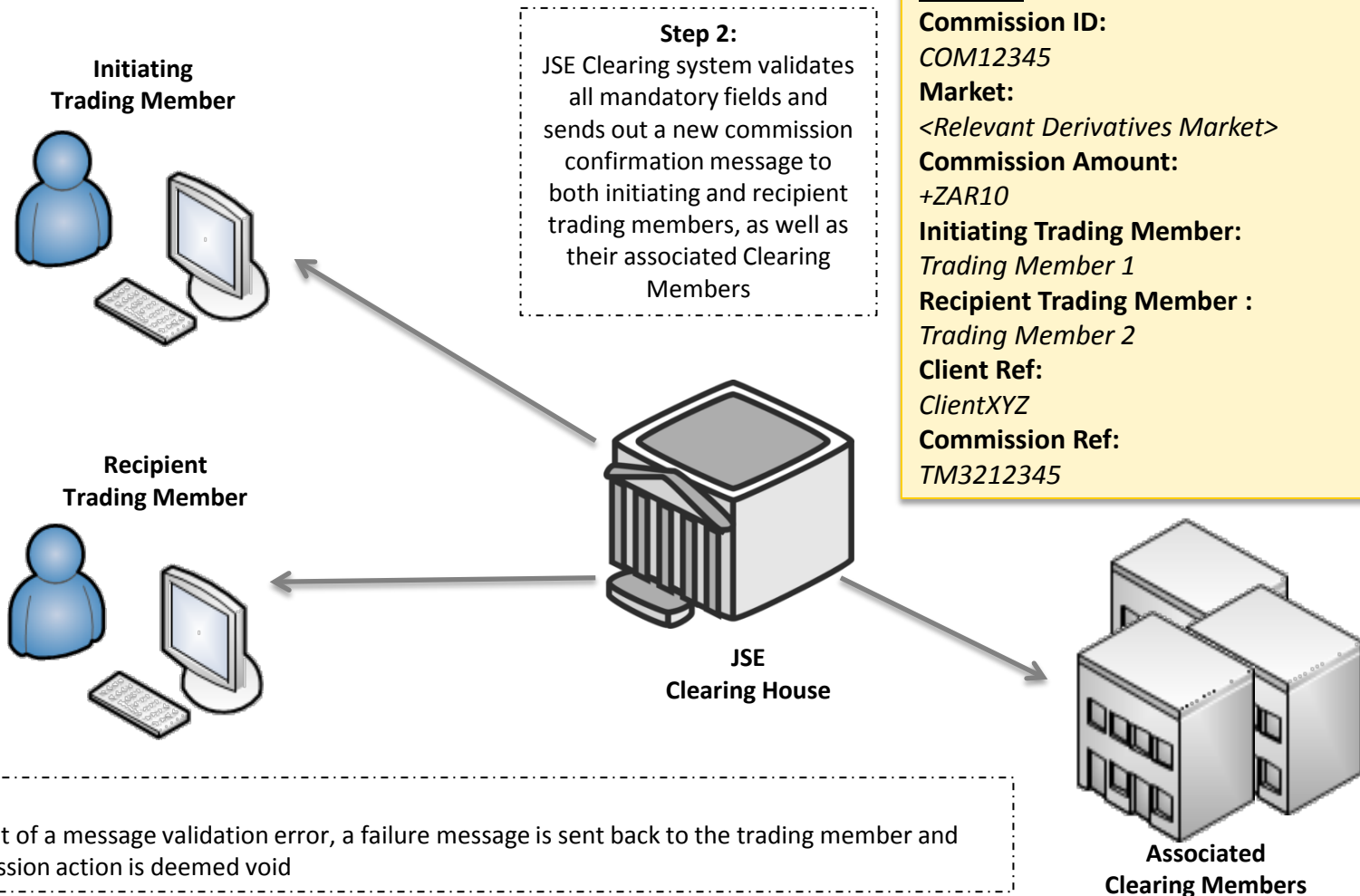
*TM3212345*

# JSE Commissions Solution:

## Commission Functions – Capture New Commission (cont.)



### Capture New Commission (Step 2 of 2):

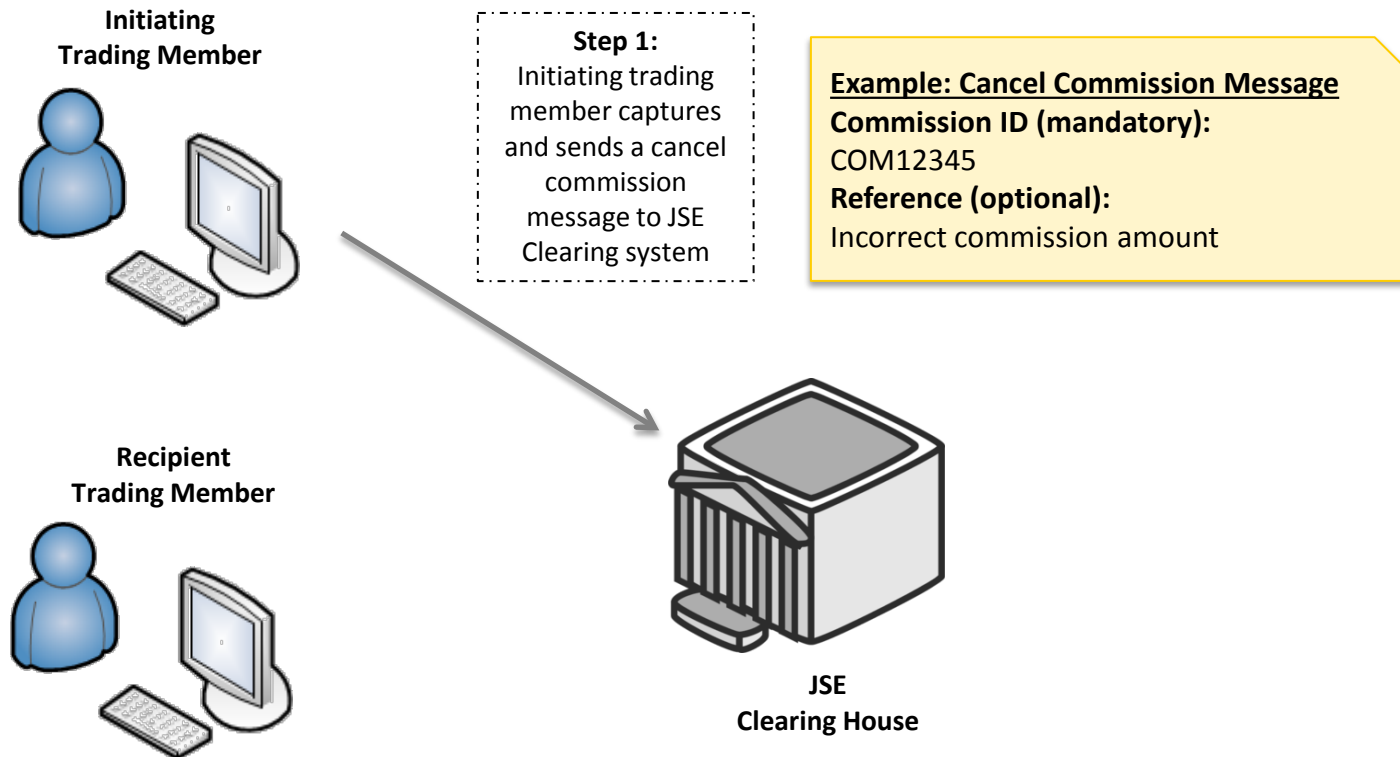


# JSE Commissions Solution:

## Commission Functions – Cancel Commission



### Cancel Commission (Step 1 of 2):



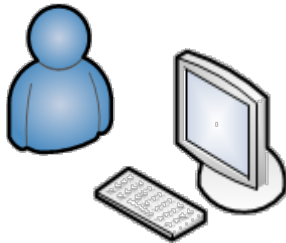
# JSE Commissions Solution:

## Commission Functions – Cancel Commission (cont.)

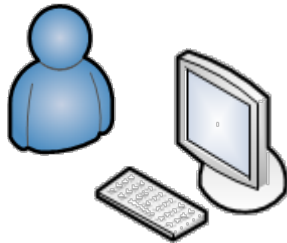


### Cancel Commission (Step 2 of 2):

Initiating  
Trading Member



Recipient  
Trading Member



#### Step 2:

JSE Clearing system  
validates all mandatory  
fields and sends out a  
cancellation confirmation  
message to both initiating  
and recipient trading  
members, as well as their  
associated Clearing  
Members.

#### Example: Cancellation Confirmation Message

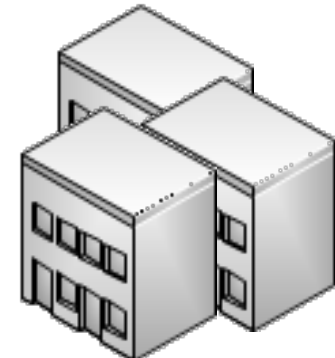
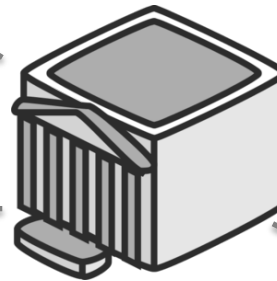
**Commission ID:**

COM12345

**Reference:**

Incorrect commission amount

JSE  
Clearing House



Associated  
Clearing Members

#### NOTE:

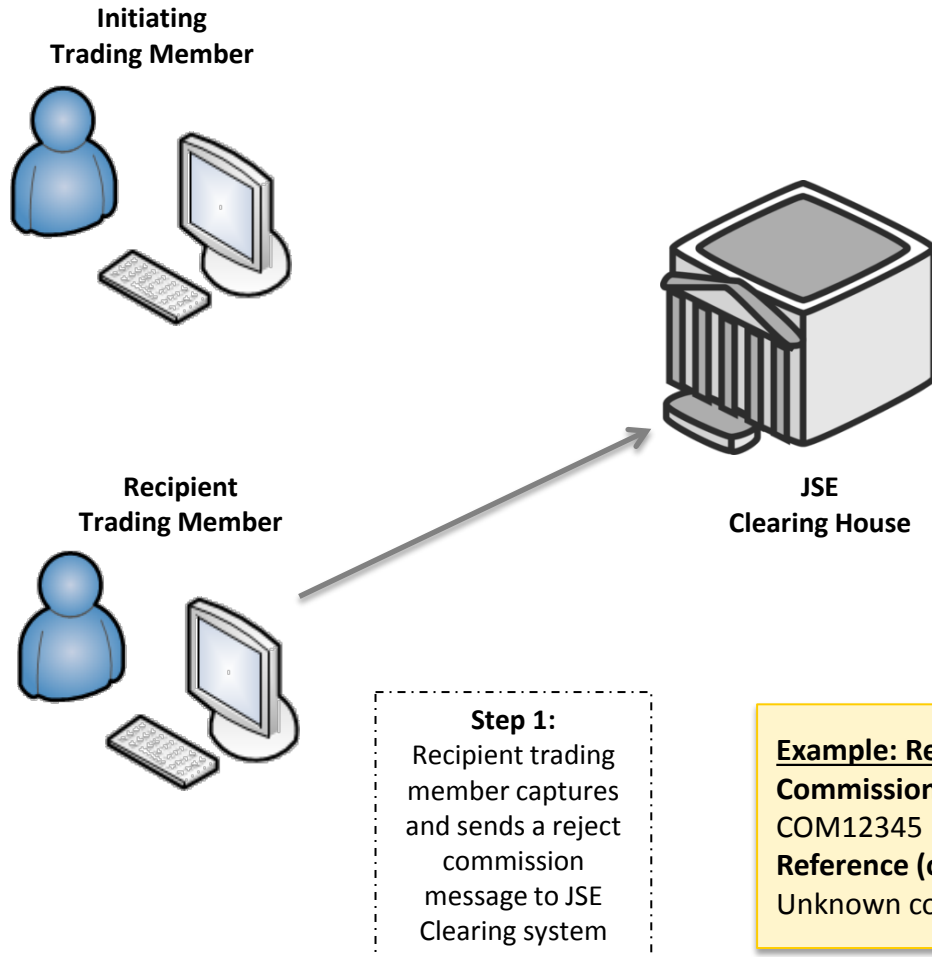
In the event of a message validation error, a failure message is sent back to the trading member and the commission action is deemed void

# JSE Commissions Solution:

## Commission Functions – Reject Commission



### Reject Commission (Step 1 of 2):



#### Example: Reject Commission Message

**Commission ID (mandatory):**

COM12345

**Reference (optional):**

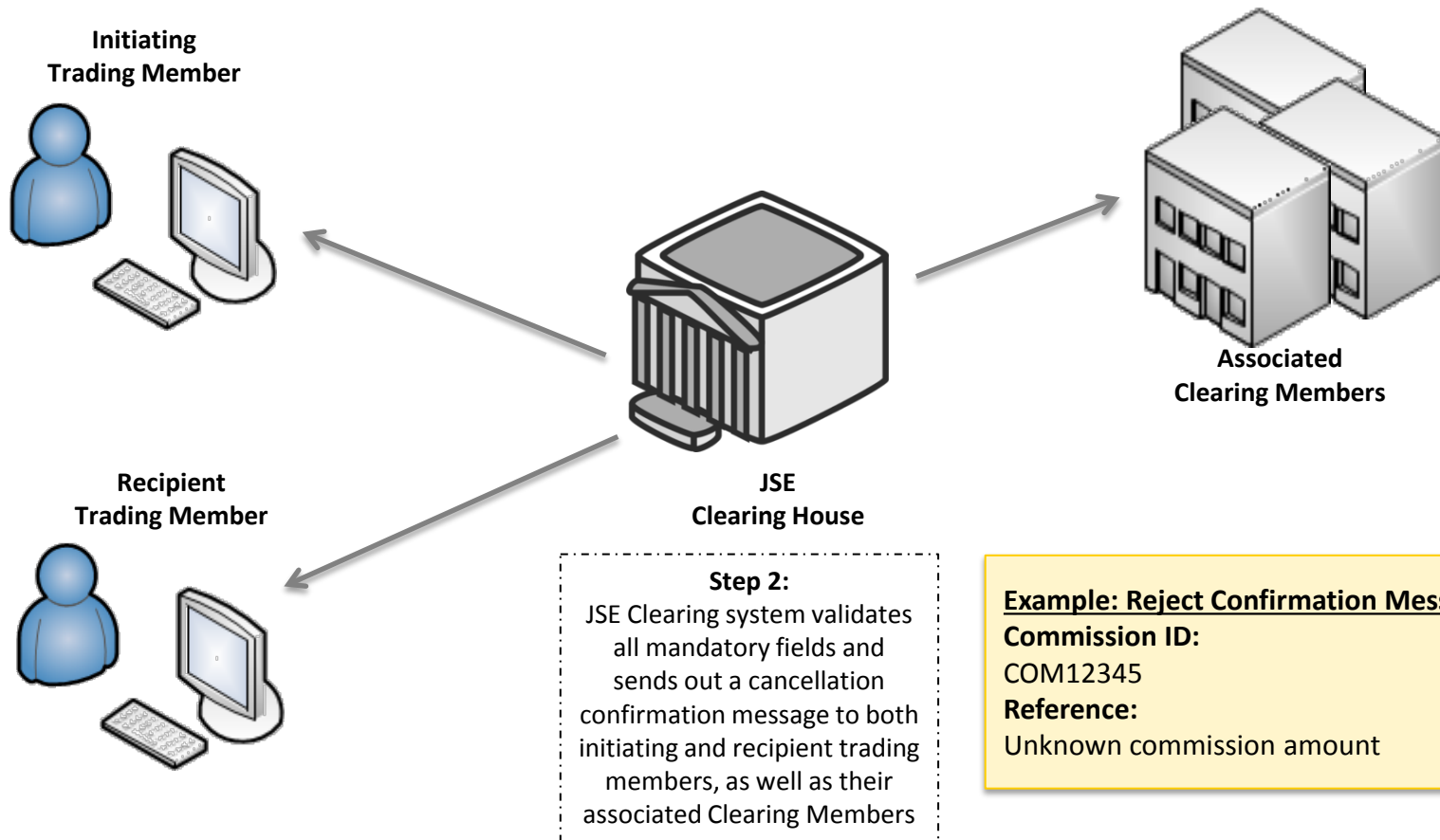
Unknown commission amount

# JSE Commissions Solution:

## Commission Functions – Reject Commission (cont.)



### Reject Commission (Step 2 of 2):



#### Example: Reject Confirmation Message

**Commission ID:**

COM12345

**Reference:**

Unknown commission amount

#### **NOTE:**

In the event of a message validation error, a failure message is sent back to the trading member and the commission action is deemed void

# JSE Commissions Solution:

## General Mechanics – Processing Times



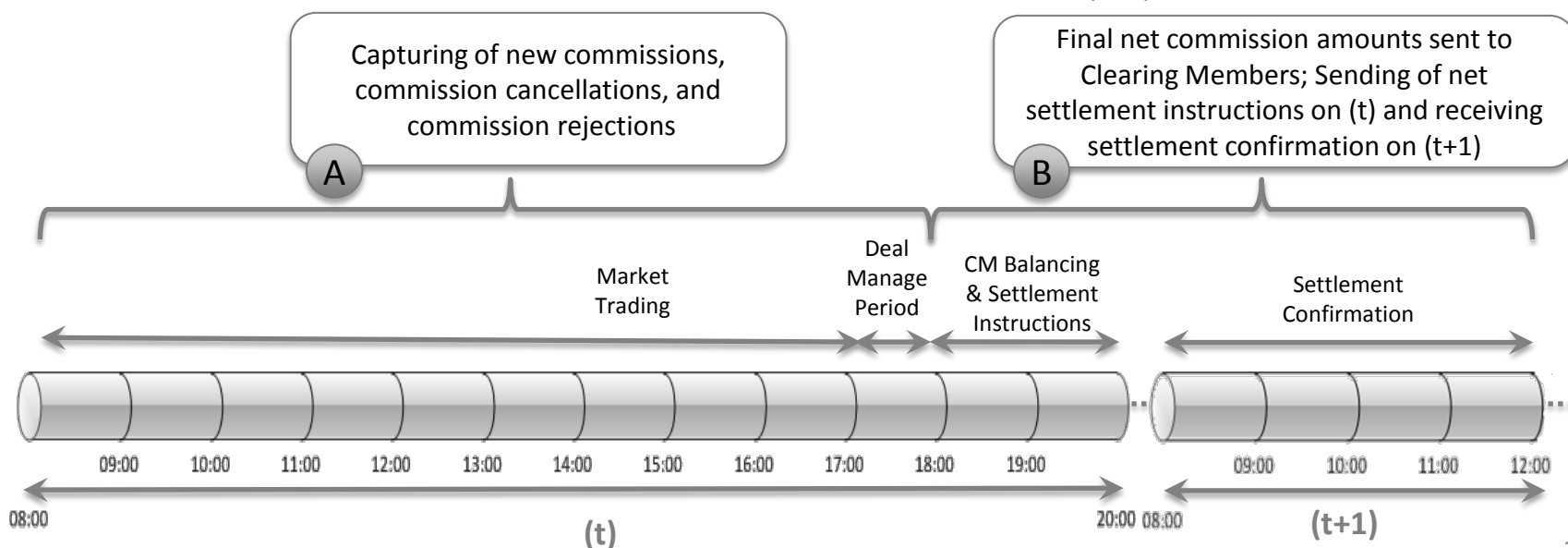
### Window Period A:

- All commission entries captured within this period will be settled as part of the daily settlement cycle. Any commissions not captured within this period, will need to be captured the following trading day
- Incorrect commissions that are not cancelled or rejected, will be settled as part of the daily settlement cycle. Commissions that were not corrected, can be corrected by capturing a new commission for the delta amount the following trading day

- During the Deal Management Period, all members must finalise their new commission entries and cancel or reject any incorrect\unknown commissions – no new, cancellations or rejections of commissions will be allowed post the Deal Management period

### Window Period B:

- Clearing members to receive final net commission amounts as part of the daily balancing cycle. Net commission amounts across Clearing Members to be settled on (t+1)



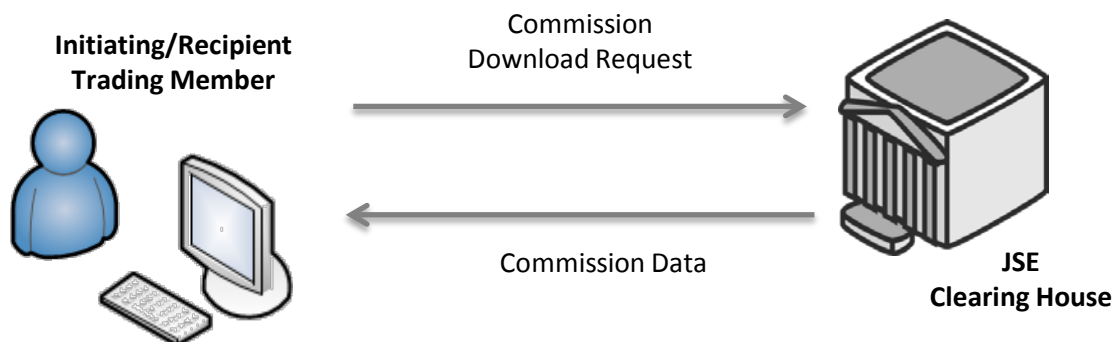
# JSE Commissions Solution:

## General Mechanics – Commission Downloads



### Commission Downloads

- In addition to the real-time commission confirmation messages received upon new, cancelled and rejected commissions, recipient and initiating trading members, as well as associated clearing members, will be able to download all their commissions data during the course of the trading day and at EOD
- The commission entries will include all necessary information in order for trading members and clearing members to do reporting, reconciliations, VAT invoicing and cash collection down to client level
- Commission downloads will also include canceled and rejected commission entries
- Commission downloads will only include commission entries for the day – entries to be refreshed at the start of each day



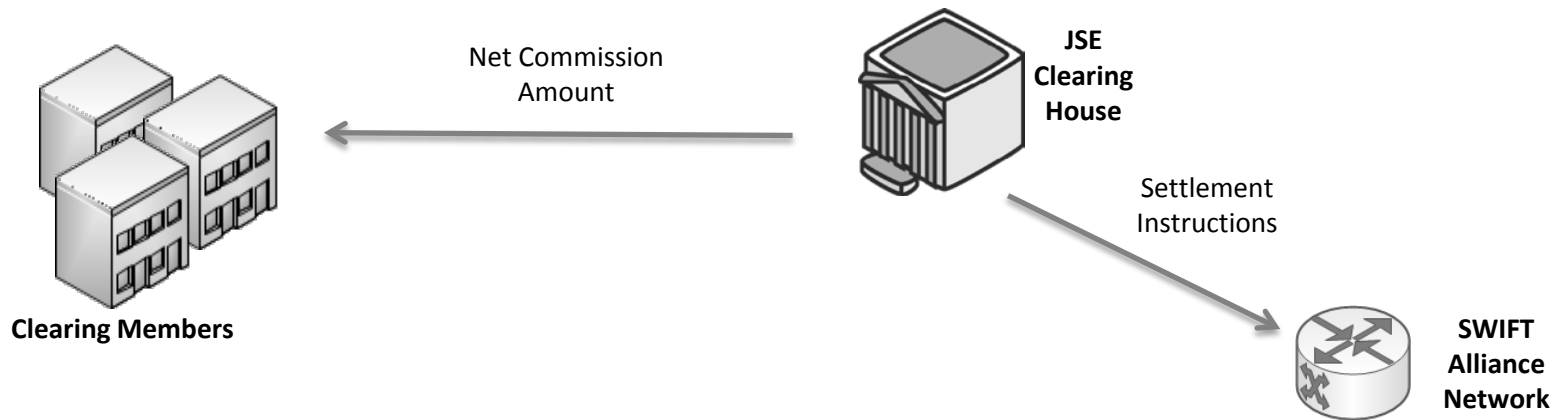
# JSE Commissions Solution:

## General Mechanics – End-of-Day (EOD) Balancing and Settlement



### End Of Day (EOD) Balancing and Settlement

- As part of the daily end of day process, the JSE clearing system will send the final net commission amounts to the Clearing Members
- The net commission amounts will be sent as part of the second balancing step that includes the booking fees and interest on margin amounts - first balancing is for daily margin amounts
- Once the second balancing process is complete, the settlement process is kicked off and all commission amounts are rolled-up with other cash amounts and settlement instructions are sent out



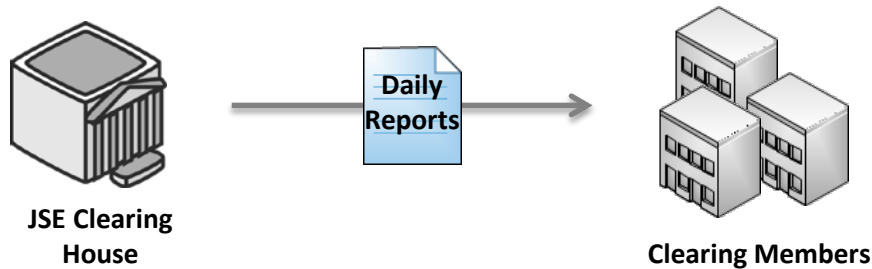
# JSE Commissions Solution:

## General Mechanics – Reporting and Invoicing



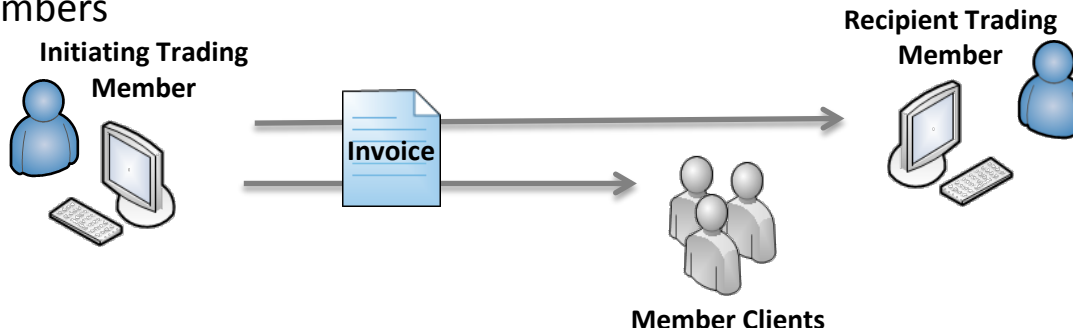
### Reporting

- Net commission amounts will be included in the Daily Account Summary reports that are available to each Clearing Member
- Information in the Daily Account Summary report will be at the trading member level



### VAT Invoicing

- Trading Members (or Clearing Members on their behalf) are responsible for generating and sending VAT invoices, for relevant fees and commissions, to their clients and associated trading members



# JSE Commissions Solution:

## Front-End Considerations



In order to fully utilise the new JSE commission service, Clearing Members, Trading Members and supporting ISVs will be required to develop the necessary front-end capabilities to manage their commissions. Depending on the cash collection and invoicing arrangements between the Clearing Member and Trading Member, some of the key developments may include:

### Clearing Member Front-Ends:

- Ability to receive and monitor real-time commission confirmation messages across trading members and clients
- Ability to aggregate commission amounts for each trading member and determine their net commission amount to be settled
- Ability to receive and reconcile net commission amounts (payable/receivable) from the JSE and perform necessary VAT invoicing and cash collection where applicable

### Trading Member Front-Ends:

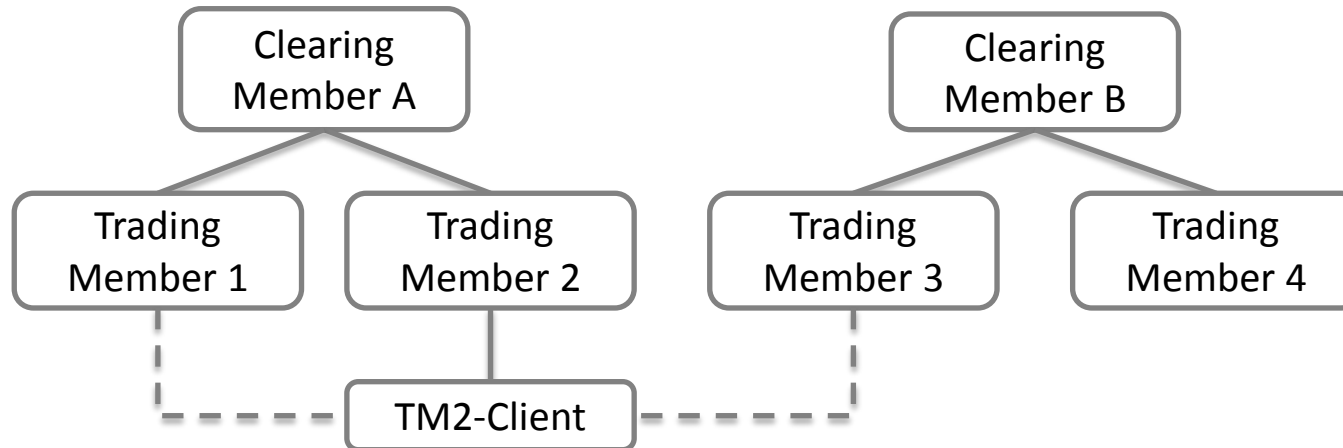
- Ability to automatically calculate and send new commission entries to the JSE, based on member defined commission structures (this can either be done in bulk at EOD or real-time as trades are booked and deal managed)
- Ability to cancel and reject incorrect commission entries
- Ability to actively monitor and alert (where and when applicable) the validity of all new commissions booked against the trading member or trading member's clients
- Perform necessary detailed commissions reporting and reconciliations at end of day
- Ability to generate and send necessary VAT invoices to trading members and clients

# JSE Commissions Solution:

## Appendix A – Commission Scenarios



### Market Structure:

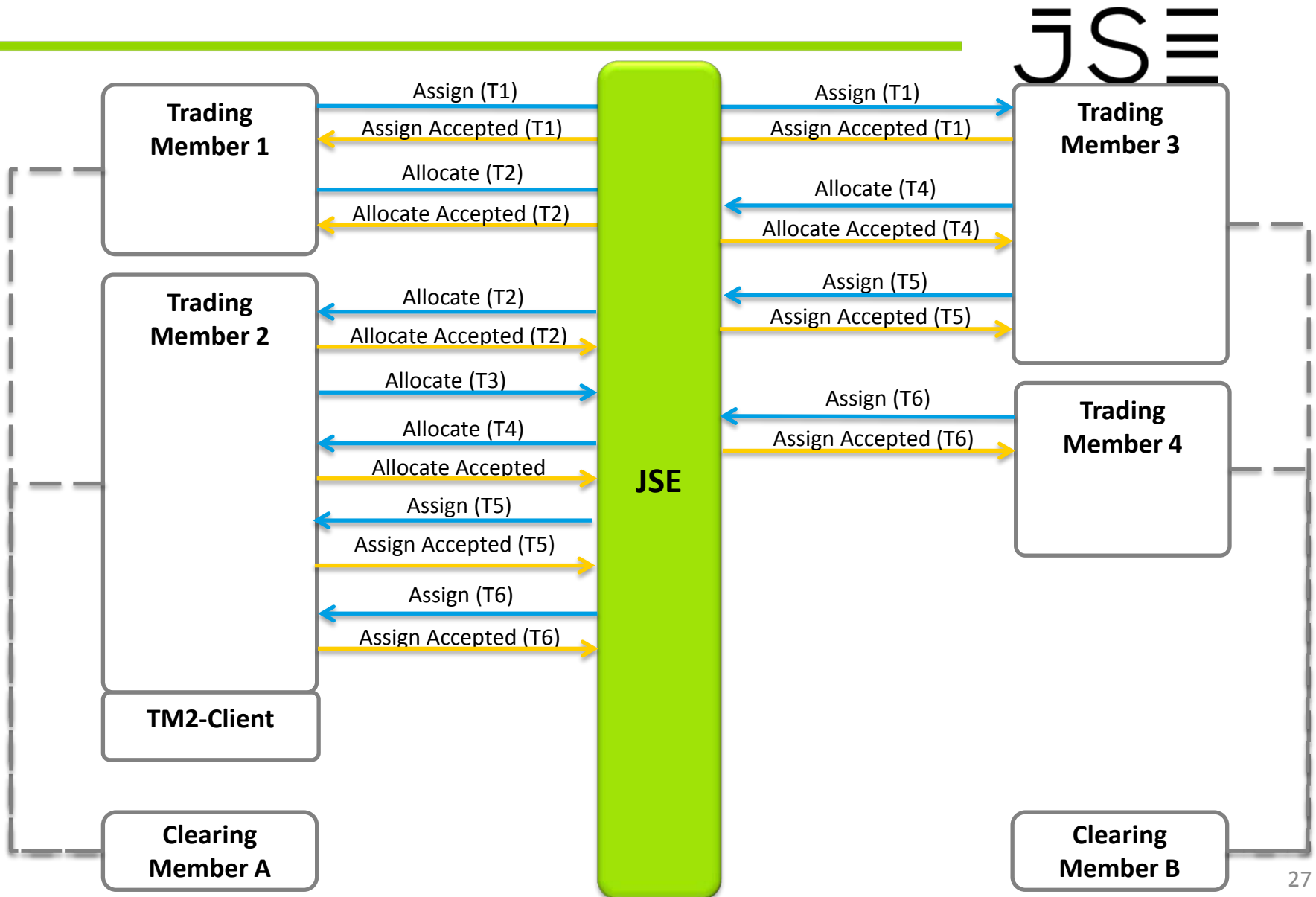


### Scenarios:

- a. TM1 assigns trade (T1) to TM3 and charges a R10k commission.
- b. TM1 tripartite allocates trade (T2) to TM2-Client and charges a R20K commission
- c. TM2 allocates trade (T3) to TM2-Client and charges a R5k commission
- d. TM3 tripartite allocates trade (T4) to TM2-Client and charges a R30K commission
- e. TM3 assigns trade (T5) to TM2 and charges a R50k commission
- f. TM4 assigns trade (T6) to TM2 and charges a R15k commission

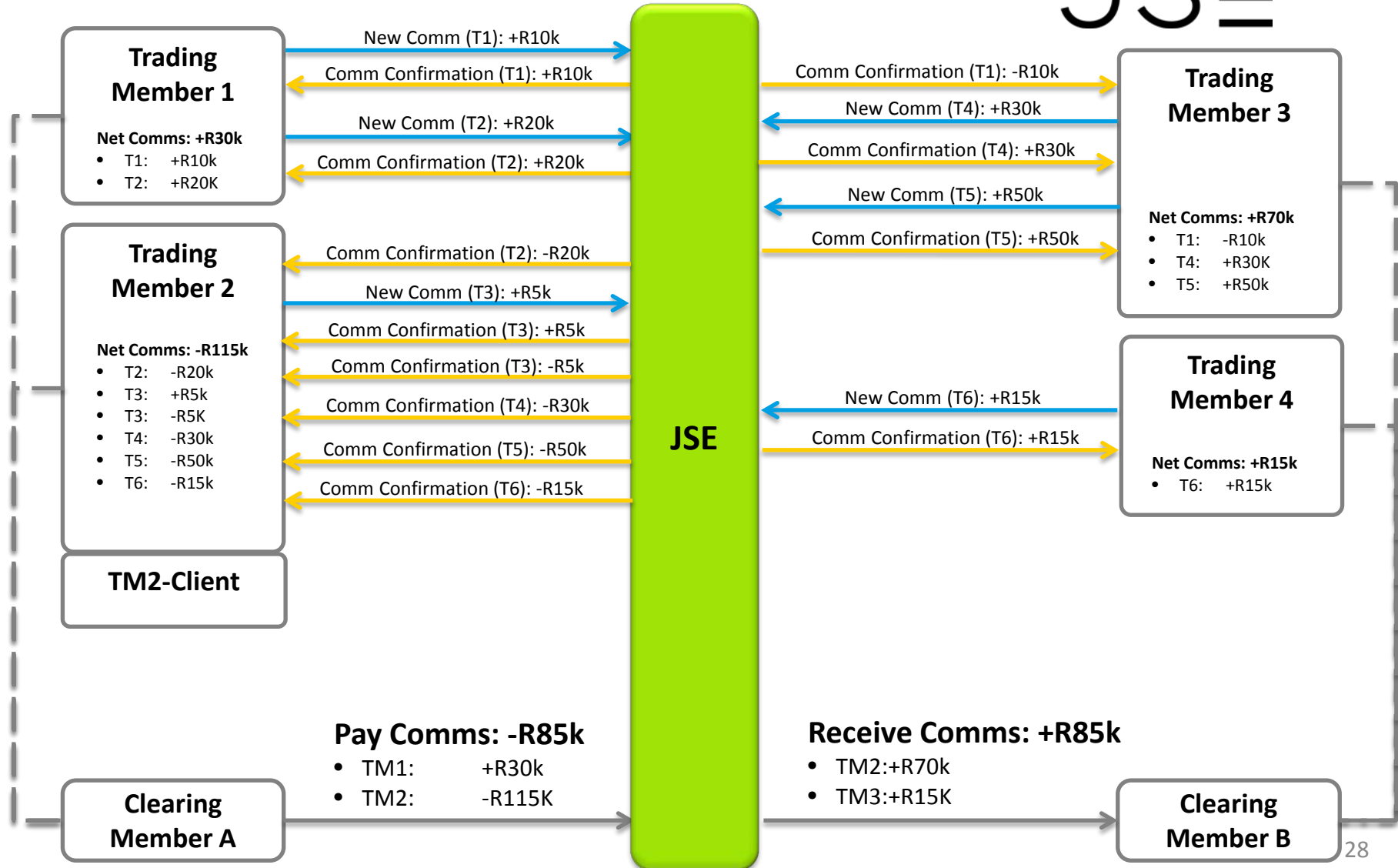
# JSE Commissions Solution:

## Appendix A – Commission Scenarios: Trade Flows



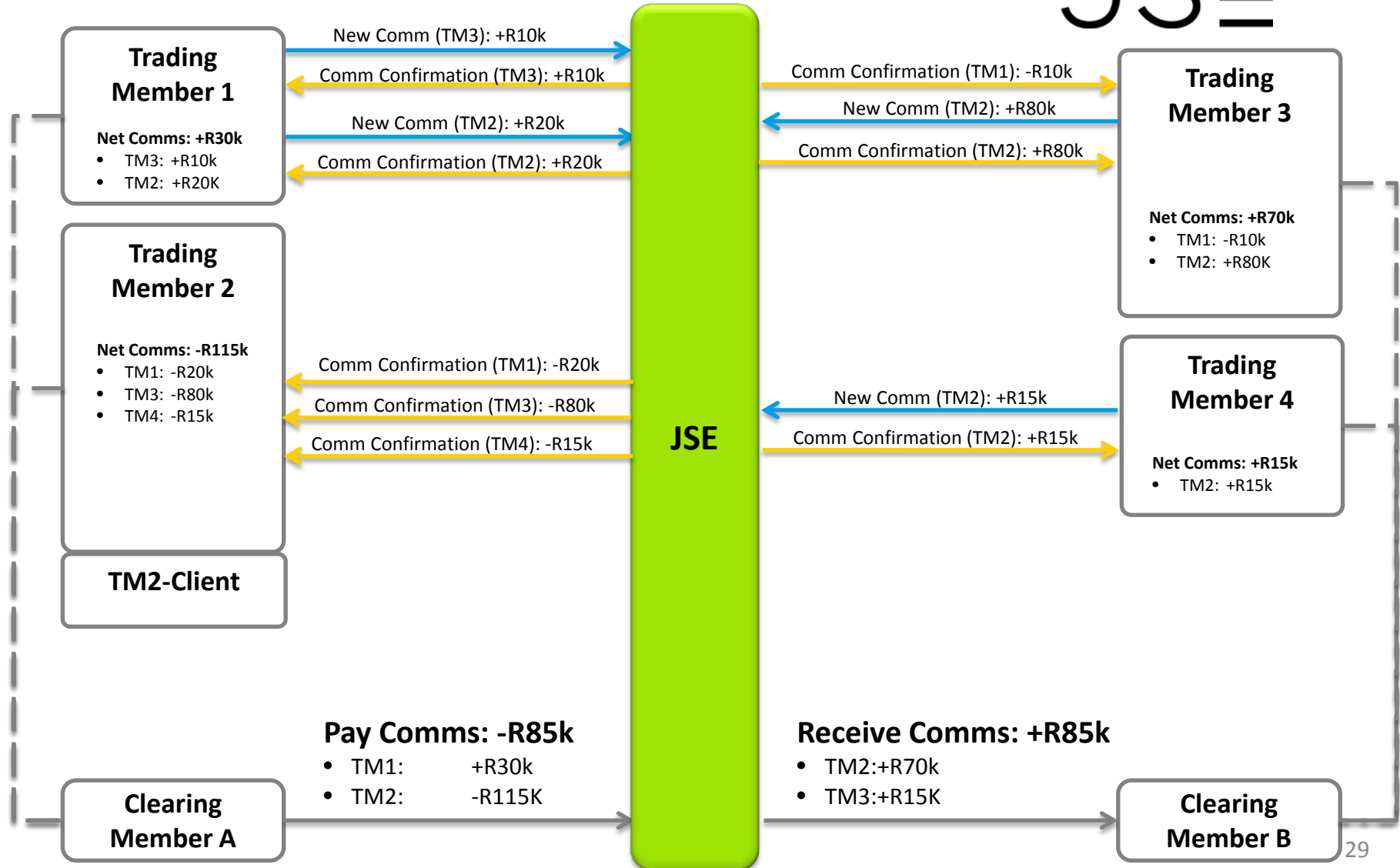
# JSE Commissions Solution:

## Appendix A – Commission Scenarios: Commission Flows (booked @ trade level)



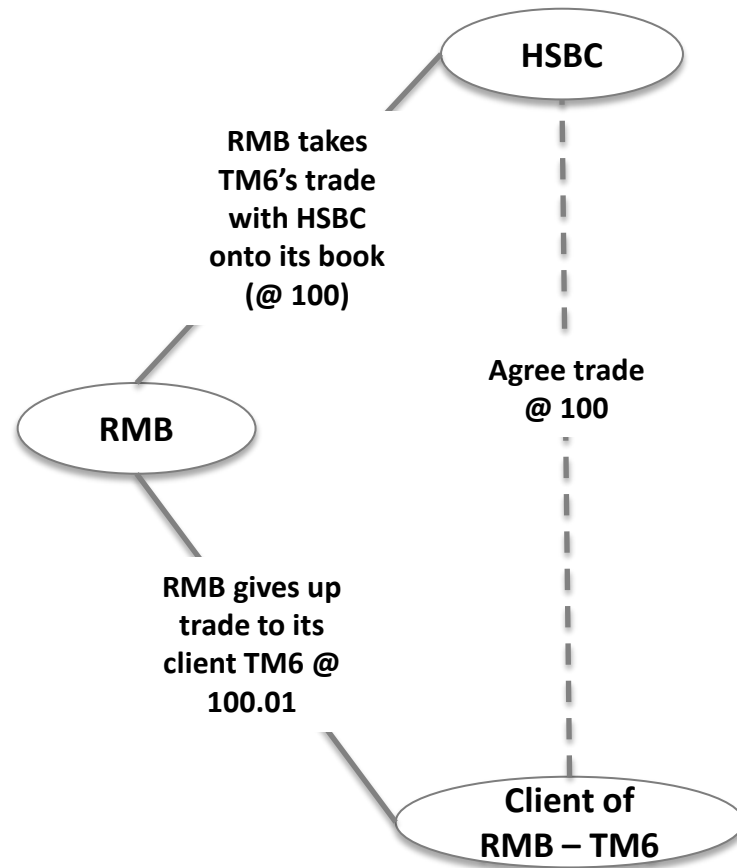
# JSE Commissions Solution:

## Appendix A – Commission Scenarios: Commission Flows (booked @ member level)



# JSE Commissions Solution:

## Appendix B – Example: Prime Broker with another member as client



### Current

| Event | Deal ID | Mem  | Client | B/S | Qty | Price  | Comm |
|-------|---------|------|--------|-----|-----|--------|------|
| Trade | 1       | RMB  |        | B   | 600 | 100    |      |
| Trade | 2       | HSBC |        | S   | 600 | 100    |      |
| Trade | 3       | RMB  |        | S   | 600 | 100.01 |      |
| Trade | 4       | TM6  |        | B   | 600 | 100.01 |      |

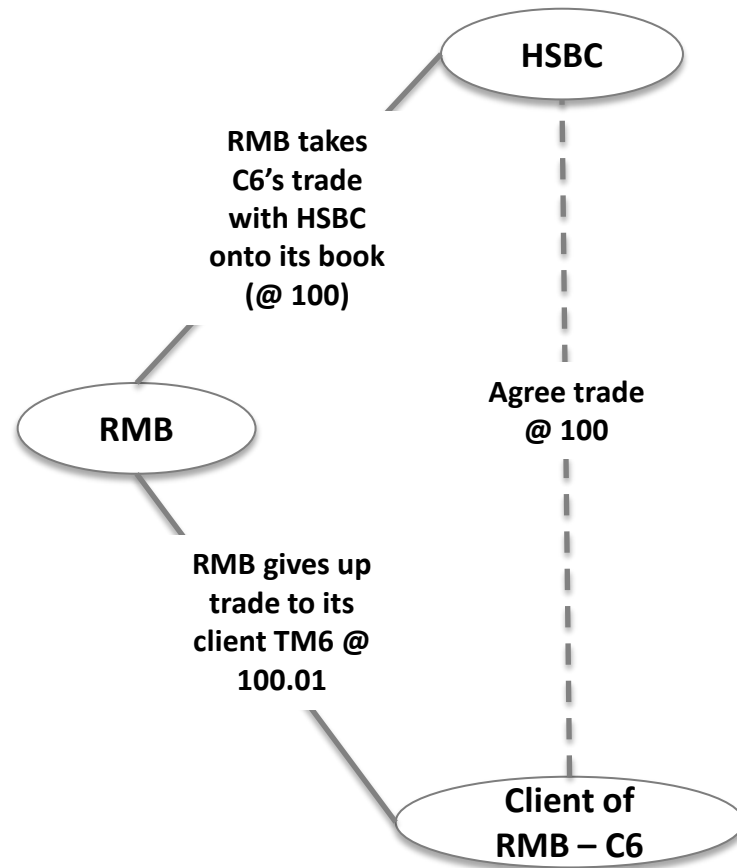
### Future

| Event  | Deal ID | Mem  | Client | B/S | Qty | Price | Comm |
|--------|---------|------|--------|-----|-----|-------|------|
| Trade  | 1       | RMB  |        | B   | 600 | 100   |      |
| Trade  | 2       | HSBC |        | S   | 600 | 100   |      |
| Assign | 3       | RMB  |        | S   | 600 | 100   | 6    |
| Assign | 4       | TM6  |        | B   | 600 | 100   | 6    |

RMB to book a new commission against trading member TM6

# JSE Commissions Solution:

## Appendix B – Example: Prime Broker with tripartite client



### Current

| Event | Deal ID | Mem  | Client | B/S | Qty | Price  | Comm |
|-------|---------|------|--------|-----|-----|--------|------|
| Trade | 1       | RMB  |        | B   | 600 | 100    |      |
| Trade | 2       | HSBC |        | S   | 600 | 100    |      |
| Trade | 3       | RMB  |        | S   | 600 | 100.01 |      |
| Trade | 4       | RMB  | C6     | B   | 600 | 100.01 |      |

### Future

| Event | Deal ID | Mem  | Client | B/S | Qty | Price | Comm |
|-------|---------|------|--------|-----|-----|-------|------|
| Trade | 1       | RMB  |        | B   | 600 | 100   |      |
| Trade | 2       | HSBC |        | S   | 600 | 100   |      |
| Alloc | 3       | RMB  |        | S   | 600 | 100   | 6    |
| Alloc | 4       | RMB  | C6     | B   | 600 | 100   | 6    |

RMB to book a new commission against client C6