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## EXPLANATORY NOTE ON THE DRAFT AMENDMENTS TO THE RULES AND DIRECTIVES FOR THE EQUITIES MARKET

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### 1 Introduction

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- 1.1 The rationale for the amendments to the Equities Rules and Directives relates to the introduction of the new equities trading system by the JSE due to be implemented on 2 July 2012.
- 1.2 This explanatory note will highlight the most significant provisions that we wish to bring to the members' attention to assist members to identify the potential impact of the new rules and directives on their firms.
- 1.3 Some of the new terms, definitions and provisions have been introduced simply to align the rules and directives with the operation of the new trading system and the terminology generally used in securities markets to describe certain concepts.

### 2 New Definitions and terminology

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- 2.1 The term "period" in some provisions and definitions has been replaced with the term "session".
- 2.2 "Contra trade", "Post contra trade" and "trade correction" have been replaced by the collective term "trade cancellation". There are however some new terms that are used to describe certain types of trade cancellations.
- 2.3 A new definition of "off book trade" has been introduced to replace the concept of "reported transactions". Consequently, the definition of "on book trade" has been introduced to provide a clear distinction between central order book transactions and transactions negotiated off the central order book and submitted to the trading system.

### 3 Authorisation and Approvals – Section 3

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#### 3.1 Operational requirements-Rule 3.50

This provision has been revised to make reference to the operational requirements to be complied with by members authorised to operate as Trading Service Providers. The current rule 3.50 refers to these requirements as trading system requirements and indicates that the specific requirements are set out in the directives. However, there are currently no specific requirements in the directives. The proposed requirements have now been introduced and are listed in Directive BT 4.3.

#### 3.2 Resignation of registered securities traders-Rule 3.150.6

This provision introduces a requirement for a member to notify the JSE should any of its registered securities traders leave the employ of the member, thus enabling the JSE to ensure, inter alia, that the trader's access to the trading system is revoked timeously.

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## 4 JSE Equities Trading System – Section 6

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### 4.1 On book transactions

4.1.1 The new trading system still makes provision for both a central order book and the ability for the submission of transactions which are negotiated off the central order book (off book trades) to the trading system. The rules state that transactions in equity securities must be conducted through the central order book unless they qualify as off book trades. See rule 6.10.

4.1.2 New rule 6.10.4 relating to the matching of on book trades specifically describes the order of priority in which orders in the central order book are matched.

### 4.2 Off book transactions

4.2.1 Rule 6.30 makes provision for the different types of off book transactions.

4.2.2 The attention of members is drawn to the provisions of rules 6.10.2 and 6.10.3, the effect of which is that an off book trade (even if the terms have been agreed by the parties) will not be recognised as a valid trade in terms of the rules unless both legs of the transaction have been submitted to the trading system and the trading system has matched and confirmed them. This is not a new concept but it has now been expressly stated in the rules for clarity purposes.

4.2.3 In Rule 6.30.5, two additional off book trade types relating to trade cancellations have been included, namely, “Next day cancellation of a published off book trade” and the “Next day cancellation of a non-published off book trade”. These trade types are defined fully in rules 6.40.11 and 6.40.12 respectively.

4.2.4 Members should note that in terms of rule 6.30.5, block trades will no longer be restricted to single member trades.

### 4.3 Circuit breakers-Rule 6.10.8

Although currently in effect in the existing trading system, the rules are silent on the issue of circuit breakers. This new provision simply confirms that circuit breakers are a feature of the equities trading system and describes the purpose of a circuit breaker. It is the intention of the JSE to introduce additional parameters in the circuit breakers in the new trading system in order to align with the methodologies adopted in many other international markets. Currently we only apply a dynamic circuit breaker but in the new system we will have dynamic and static circuit breakers.

### 4.4 Trading Times and Sessions

Rule 6.20 deals with trading times. Provision has been made for the different times and sessions in Directive BU.

### 4.5 Trade Cancellations

Rule 6.50 makes provision for the cancellation of on book and off book trades and Directive BT 7 provides for the process which must be observed by members in effecting trade cancellations. The process is very similar to the current process.

#### 4.6 Source of orders

New Directive BT 6.3 requires a member to identify the person within the member firm who has provided an order to a registered securities trader to be entered into the trading system if the person has not entered the order themselves.