
MARKET NOTICE

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Stock Exchange

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Number: 430/15
Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
Date: 14 July 2015

SUBJECT: EQUITY DERIVATIVES MARKET PRACTICE - TAKING TURN

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Dear JSE Client

As discussed at the 3 July 2015 Financial Derivatives Advisory Committee (FDAC) meeting, the implementation of the Integrated Trading and Clearing (ITaC) project will see the equity derivatives market further align with international best practice with regards to trading, deal management and statistic calculations of agency and principal trades.

Principal and agency trading will remain in its current forms. Principal trading refers to transactions concluded by a member for its own account and agency trading refers to transactions concluded by a member as an agent on behalf of its clients on the JSE's markets. A member that concludes transactions as an agent on behalf of its clients does so in accordance with the provisions of the applicable client agreement.

Currently the equity derivatives market system does not block members from changing the trade price when conducting deal management activities of allocate, assign and tripartite when acting in a principal capacity. These deal management activities generally relate to transactions concluded by a member as an agent, and do not usually refer to principal trading activities. This practice has led to some uncertainty in the market as it could be interpreted that members that acted as an agent, are allowed by the system to record the transaction not as an agency transaction, but as a transaction concluded by the member as a principal. This in turn reflects that a member made a profit (turn) on an agency transaction in circumstances where commission or a fee should have been charged.

The JSE, as regulator of its exchange, is obliged to ensure a fair, efficient and transparent market in the securities listed and traded on its exchange. A foundational cornerstone of these regulatory duties and responsibilities is the principle that all transactions concluded on the JSE's markets are recorded in the JSE's systems in a manner that reflects the true nature of the transaction. In addition hereto and in accordance with international best practice of proving best execution relating to price discovery and price transparency, it is imperative that agency transactions are recorded as such and not "booked" as principal transactions. This will also result in less uncertainty in the market in respect of the VAT payable on the commission or fee charged for agency transactions.

In accordance with this, the JSE's new equity derivatives systems will allow members to book trades as agent or principal on the trading system.

The new JSE clearing system for equity derivatives will offer functionality for members trading in their capacity as agent to allocate, assign and tripartite trades to clients through deal management at the same price, with commission charged outside of the JSE system. If required, the JSE is open to exploring options which may support or facilitate the processing of commissions.

In a principal capacity, trades facilitated for clients would have already been reported to the new trading system at the appropriate price associated with that trade. The new clearing system will not cater for taking of a turn when performing any deal management of principal transactions.

Members are reminded that if they acted in a principal capacity, the current equity derivatives systems allows members to book a principal trade through the trading system as a new trade with the appropriate price associated with that trade.

For any principle or regulatory concerns, or feedback, please email the Equities & Equity Derivatives team EDM@jse.co.za or contact Gregori Nicola on GregoriN@jse.co.za or 0115207376.

If you would like to be part of ITaC working group meetings where ITaC system and process implications are discussed, please email ITaC@jse.co.za or contact Sandra Borrageiro on SandraB@jse.co.za or 0115207384.

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