

MARKET NOTICE

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Stock Exchange

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Relates to:

- Equity Market
- Equity Derivatives Market
- Commodity Derivatives Market
- Currency Derivatives Market
- Interest Rate Derivatives Market
- Bond Market
- Bond ETP Market

Date: 2 February 2023

SUBJECT: SUPPLEMENTARY NOTE TO THE FINANCIAL SECTOR LEVIES BILL MARKET NOTICES

Dear Client

In the interests of providing full information to all affected stakeholders, this Market Notice is being issued by the JSE on behalf of both the JSE and JSE Clear, as it pertains to the levies imposed in the Financial Sector Levies Bill on both market infrastructures, and the impact of those levies on various fees and levies charged by the JSE and JSE Clear.

Following the Market Notices issued in [25 November 2022](#) and [30 January 2023](#), advising market participants about the impact of the levies imposed in the Financial Sector Levies Bill on various fees and levies to be charged by the JSE and JSE Clear from April 2023, the JSE and JSE Clear would like to provide further information to explain how the various levies in the Levies Bill are being apportioned to each of the secondary markets operated and cleared by the JSE and JSE Clear respectively.

Background

The Financial Sector Levies Bill has been promulgated and will come into effect on a date to be determined by the Minister and published in a Gazette. We are anticipating that the effective date of the levies in the Levies Bill will be 1 April 2023. Under the Levies Bill, the JSE as a licensed exchange, and JSE Clear as a licensed independent clearing house and central counterparty, are required to pay levies to cover the costs of the operations and functions of the Prudential Authority, the FSCA, the Financial Services Tribunal, and the Ombud Council, to the extent that those operations and functions pertain to the JSE and JSE Clear respectively.

The levies imposed on the JSE under the Levies Bill are, in aggregate, substantially higher than the levies previously imposed by the FSCA in respect of the FSCA's oversight of the JSE and the FSCA's market abuse function, which were fixed amounts per annum. The introduction of the Twin Peaks regulatory framework has resulted in the establishment of new Authorities, whose activities in relation to the various financial market infrastructures need to be funded through

levies. Historically, the JSE has not had to pay any levies in respect of the functions of the Prudential Authority, the Financial Services Tribunal, and the Ombud Council.

JSE Clear, as a recently licensed independent clearing house and central counterparty, is also having to pay a significant amount in levies to the various Authorities for the first time, having previously not been subject to any levies as an associated clearing house.

The levies imposed on the JSE in respect of the Prudential Authority and the FSCA are calculated as a percentage of 'the turnover value of trades for the quarter preceding the levy period', subject to a floor and a cap, and are payable quarterly in arrears. The levy imposed on the JSE in respect of the Financial Services Tribunal is calculated as a percentage of the total levies payable to the Prudential Authority and the FSCA and is payable annually in arrears. The levy imposed on the JSE in respect of the Ombud Council is calculated as a percentage of the total levy payable to the FSCA and is payable annually in arrears. Levies on JSE Clear are imposed in respect of the same Authorities as applicable to the JSE, based on a percentage of 'the value of the trades cleared for the quarter preceding the levy period', and are also subject to a floor and a cap.

In addition, a special levy of 7.5% of the total levies paid to the FSCA, the Financial Services Tribunal, and the Ombud Council is payable to the FSCA by the JSE and JSE Clear on an annual basis for a period of two years, and a special levy of 7.5% of the total levies paid to the Prudential Authority is payable to the Prudential Authority by the JSE and JSE Clear on an annual basis for a period of two years.

The JSE's approach to apportionment of the new Levies

Under the new Levies Bill, the Authorities do not impose the levies on the JSE and JSE Clear per asset class or market. For levy purposes, the JSE and JSE Clear are simply treated as single market infrastructures and are levied according to the total value of all trading and clearing activity across all markets operated and cleared by the JSE and JSE Clear respectively. This is regardless of the fact that the scope and intensity of the functions performed by the various Authorities may not, in certain respects, be proportionate to the value of the trading in each market operated and cleared by the JSE and JSE Clear respectively.

For example, the value of trading in bonds on the JSE is significantly higher than the value of trading in cash equities, and therefore the levies imposed by the Authorities on the JSE are derived more from the JSE's bond trading than from the JSE's cash equities trading. However, we are aware that the scope and intensity of certain of the functions performed by the Authorities, such as the FSCA's market abuse function, is heavily weighted towards the JSE's cash equities market and much less so towards the bond market, given the number of regulatory issues in each of those markets. This has required the JSE to consider the most appropriate way of apportioning the various levies to the relevant markets, given that the value of trading per market is not an accurate reflection, in certain cases, of the Authorities' regulatory efforts across each of the markets.

The JSE has historically recovered most of the FSCA levies imposed on the JSE through an Investor Protection Levy ('IPL') applied by the JSE to trades in the cash equities market. The JSE initially took a decision to only recover the FSCA levies through a levy on trades in the cash equities market, and not through trades in the other JSE markets, for two reasons. Firstly, the JSE took the view that trades in the equity derivatives market usually result in trades in the underlying cash

equities market. Applying a levy to equity derivative trades could arguably have resulted in a form of double counting, as a market participant could be paying a levy in respect of their equity derivative trade and their cash equity trade. Therefore, a decision was taken not to apportion part of the FSCA levies to the equity derivative markets.

Secondly, knowing from experience that the scope and intensity of the FSCA's oversight and market abuse functions are heavily weighted towards the JSE's cash equities market, the JSE took the view that it was not pragmatic to apportion a relatively small portion of the FSCA levies to each of the other markets. However, the significant increase in the levies payable by the JSE to the various Authorities under the Levies Bill relative to the levies previously payable to the FSCA, has required the JSE to reconsider its approach to apportioning the various new levies across its different markets. It is no longer considered appropriate and fair to only recover levies from the cash equities market, noting that the market participants in all the JSE markets benefit from the regulatory functions performed by the various Authorities, in terms of safer markets and enhanced investor protection.

The JSE's approach to apportioning the various new levies to the different markets is based on a reasonable estimate of the scope and intensity of the regulatory effort applied by the various Authorities as they perform their functions in respect of the different markets operated and cleared by the JSE and JSE Clear. For example, we estimate that the cash equities market will continue to generate at least 90% of the market abuse investigations undertaken by the FSCA, and that the FSCA's market abuse work will continue to account for approximately two thirds of the FSCA's costs in relation to the JSE. This results in the JSE continuing to apportion a high percentage of the new FSCA levy to the cash equities market. The remaining portion of the FSCA levy, and the levies relating to the other Authorities, have been apportioned to the various markets based on the JSE's best estimate of the scope and intensity of the regulatory effort applied by each Authority in relation to each market, even though the Authorities view the JSE as a single, unified entity from a levy point of view, and not as an operator of individual markets.

The significant increase in levies payable by the JSE under the Levies Bill, and the revised approach to apportioning the levies across the various JSE markets, translates into an increase in the IPL applicable to the cash equities market, and to an increase in various fees in the other markets, as stipulated in the Market Notices issued on 30 January 2023. The introduction of an IPL for the non-cash equity markets, to recover the levies apportioned to those markets, will introduce unnecessary complexity from a systems point of view, and therefore the recovery of the levies apportioned to those markets is instead being incorporated in the existing fees applicable to those markets.

JSE Clear

JSE Clear will recover the levies imposed under the Levies Bill by increasing the interest charge on margin held. All margins posted by derivatives members are invested and managed by JSE Clear according to its investment mandate. Interest is remitted, net of the interest consideration (JSE Clear rule 6.1.4), monthly to clearing members in relation to the margin held in respect of positions held by exchange members and its clients. JSE Clear will increase the basis points charged by 5 basis points across all derivative markets.

The price list will be available at <https://www.jse.co.za/services/other-services/technologies/price-lists>

For queries relating to the various levies imposed through the Levies Bill, please contact Anne Clayton, Head of Public Policy, at AnneC@jse.co.za

All questions relating to the JSE's recovery of the various new levies may be directed to the Client Service Centre on CustomerSupport@jse.co.za or JSE Clear on ClearOps@jse.co.za

This Market Notice is available on the website at <https://clientportal.jse.co.za/communication/jse-market-notices>