

MARKET NOTICE

Johannesburg
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: 23 February 2023

SUBJECT: REPLACING THE R2023 GOVERNMENT BOND WITH THE R186 AS A COMPANION BOND FOR CORPORATE BOND VALUATIONS

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INTRODUCTION

The JSE is responsible for the valuation of all instruments listed at the exchange. Part of the universe of listed instruments are the numerous corporate bonds that fixed income market participants invest in. The diverse funding requirements of corporates lead to a market typified by the many different types of interest and capital repayment profiles that corporate bonds can adopt. While this flexibility is a positive attribute for different issuers, it does lead to a lack of liquidity per instrument, resulting in the infrequent observation of market prices.

The idea of companion bonds exists as method for providing non-static and market consistent closing prices for corporate bonds. A companion bond is generally a government bond that is similar in nature (generally with regard to duration) to the corporate bond it is linked to.

While the list of available government bonds still includes the R2023, some inconsistent market activity in this instrument has led to some difficulties in observing reliable market prices on the Electronic Trading Platform (ETP) for Primary Dealers (PD's) and elsewhere.

IMPORTANCE OF THE TRADED “SPREAD TO A COMPANION BOND” FOR MTM PURPOSES

The use of companion bonds requires for a spread between the traded yield-to-maturity (YTM) on a corporate bond and an observed, live YTM to its companion bond to be captured at the point of trade using the following formula:

$$\text{Traded Spread} = \text{Traded (YTM on the Corporate Bond)} - \text{Live (YTM of the Companion Government Bond)}$$

The traded spread is fixed until a future date when it is again observed via an eligible trade in the corporate bond or an available indicative double on one of the electronic vendor platforms. The YTM for the daily closing price of the corporate bond is taken as the closing YTM on the underlying companion bond plus the latest available traded spread. The YTM is then used to calculate the All-in Price, the Clean Price and all the other metrics of the corporate bond that are published by the JSE.

R186 TO REPLACE THE R2023 AS A COMPANION GOVERNMENT BONDS

Bond Code	ISIN Code	Maturity	Coupon	Companion Bond	BP Spread	MTM	All in price	Clean Price	Accrued Interest
R186	ZAG000016320	21-Dec-26	10.5			8.520	108.26891	106.31275	1.95616
R2023	ZAG000096165	28-Feb-23	7.75			7.550	99.97932	100.00055	-0.02123
					MTM Difference	0.970			

CHANGES TO THE CORPORATE BOND BP SPREAD VALUE, AS A RESULT OF THE CHANGE IN COMPANION BOND.

The R186 is one of the 5 obligatory bonds that the PD’s have agreed with National Treasury to provide bids and offers for, at all times on the bond ETP.

This option, while presenting a more reliable basis for companion bond market data, does present a duration mismatch between the slightly longer dated R186 to the bonds currently linked to the R2023.

Bond Code	ISIN Code	Maturity	Coupon	Companion Bond	BP Spread	MTM	NEW Companion Bond	NEW BP Spread	MTM	All in price	Clean Price	Accrued Interest	MTM Process Methodology
ABN67	ZAG000102559	28-Feb-23	7.75	R2023	161	9.160	R186	64	9.160	99.89972	99.98465	-0.08493	Illiquid Methodology
ABS18	ZAG000139668	26-Sep-23	9.84	R2023	58	8.130	R186	-39	8.130	105.04556	100.97477	4.07079	Illiquid Methodology
AHF5A3	ZAG000154899	21-Aug-23	9.862	R2023	213.5	9.685	R186	116.5	9.685	100.19853	100.11747	0.08106	Illiquid Methodology
AIR02	ZAG000052838	30-Apr-23	11.68	R2023	100	8.550	R186	3	8.550	104.25265	100.50865	3.744	Illiquid Methodology
AIR04	ZAG000116369	29-May-24	9.25	R2023	285	10.400	R186	188	10.400	100.86806	98.66327	2.20479	Illiquid Methodology
ASN469	ZAG000169764	31-Jan-24	9.395	R2023	259.5	10.145	R186	162.5	10.145	99.9571	99.33935	0.61775	Illiquid Methodology
ASN595	ZAG000175340	31-Jan-24	9.22	R2023	242	9.970	R186	145	9.970	99.94519	99.33894	0.60625	Illiquid Methodology
BID11	ZAG000155136	15-Nov-23	9.6	R2023	104	8.590	R186	7	8.590	103.34536	100.68892	2.65644	Illiquid Methodology
CLN315	ZAG000103615	20-Mar-23	10.065	R2023	32	7.870	R186	-375	4.770	102.419	100.985	1.434	Issuer Valuated
CLN362	ZAG000112194	20-Mar-24	10.55	R2023	205.5	9.605	R186	108.5	9.605	105.49782	100.95987	4.53795	Illiquid Methodology
CLN365	ZAG000112319	20-Mar-24	12.98	R2023	425	11.800	R186	18.7	8.707	109.086	104.001	5.085	Issuer Valuated
CLN384	ZAG000118076	20-Sep-24	12.035	R2023	205	9.600	R186	-202	6.500	108.789	104.074	4.715	Issuer Valuated
CLN496	ZAG000146515	04-Sep-24	10.07	R2023	170	9.250	R186	73	9.250	100.92255	101.14326	-0.22071	Illiquid Methodology
CLN560	ZAG000156985	20-Dec-23	5.13	R2023		7.550	R186	3	8.550	136.069	135.128	0.941	Issuer Valuated
CLN765	ZAG000178518	31-Jul-23	8	R2023		7.550	R186	105	9.570	92.69435	92.16832	0.52603	Issuer Valuated
COJ05	ZAG000054339	05-Jun-23	12.205	R2023	267	10.220	R186	170	10.220	103.18445	100.47594	2.70851	Illiquid Methodology
COJG01	ZAG000116708	09-Jun-24	10.18	R2023	376	11.310	R186	279	11.310	100.79886	98.6513	2.14756	Illiquid Methodology
COT01	ZAG000104480	03-Apr-23	9.11	R2023	213.5	9.685	R186	116.5	9.685	103.51129	99.91721	3.59408	Illiquid Methodology
DV23	ZAG000019779	27-Feb-23	10	R2023	-20	7.350	R186	-117	7.350	99.93963	100.02182	-0.08219	Illiquid Methodology
DV24	ZAG000112608	18-Feb-24	9.69	R2023	138	8.930	R186	41	8.930	100.85791	100.69862	0.15929	Illiquid Methodology
ECN24	ZAG000129685	14-Mar-24	9.95	R2023	161	9.160	R186	64	9.160	105.24411	100.80069	4.44342	Illiquid Methodology
FRX23	ZAG000104969	28-Feb-23	7.75	R2023	-11.98	7.430	R186	-109	7.430	99.91864	100.00357	-0.08493	Illiquid Methodology
GRT17	ZAG000140039	17-Oct-23	10.15	R2023	117.9	8.729	R186	20.9	8.729	104.47283	100.85776	3.61507	Illiquid Methodology
IBL60	ZAG000112566	17-Feb-24	10.255	R2023	166	9.210	R186	69	9.210	101.15297	100.9563	0.19667	Illiquid Methodology
IVC186	ZAG000172040	21-Dec-24	7.4	R2023	60	8.150	R186	-37	8.150	100.05838	98.74057	1.31781	Illiquid Methodology
IVC200	ZAG000178211	31-Aug-23	7.45	R2023	65	8.200	R186	-32	8.200	99.551329	99.632973	-0.0816438	Illiquid Methodology
IVC202	ZAG000180167	31-Aug-23	7.39	R2023	59	8.140	R186	-38	8.140	99.55186	99.63285	-0.08099	Illiquid Methodology
IVC212	ZAG000184011	27-Feb-23	6.1	R2023	165	9.200	R186	68	9.200	99.92444	99.97458	-0.05014	Illiquid Methodology
NAM03	ZAG000138462	01-Aug-23	10.06	R2023	162	9.170	R186	65	9.170	101.02003	100.38611	0.63392	Illiquid Methodology
NBK13A	ZAG000114232	19-Mar-24	9.73	R2023	116	8.710	R186	19	8.710	105.25036	101.03847	4.21189	Illiquid Methodology
NBK26A	ZAG000133513	10-May-23	10.68	R2023	60	8.150	R186	-37	8.150	103.60497	100.50338	3.10159	Illiquid Methodology
NBK28A	ZAG000136201	02-Aug-23	10.01	R2023	110.5	8.655	R186	13.5	8.655	101.18988	100.58654	0.60334	Illiquid Methodology
NBK30A	ZAG000142266	20-Feb-24	9.6	R2023	119	8.740	R186	22	8.740	100.90208	100.79687	0.10521	Illiquid Methodology
NBK31A	ZAG000155060	09-Nov-23	9.41	R2023	96	8.510	R186	-1	8.510	103.36068	100.60213	2.75855	Illiquid Methodology
RW23	ZAG000111246	10-Dec-23	9.51	R2023	190	9.450	R186	93	9.450	102.00367	100.02351	1.98016	Illiquid Methodology
SBS27	ZAG000112772	20-Feb-24	10.13	R2023	136	8.910	R186	39	8.910	101.24053	101.12952	0.11101	Illiquid Methodology
SBT203	ZAG000155714	03-Dec-23	10.395	R2023	185.5	9.405	R186	88.5	9.405	103.06164	100.69785	2.36379	Illiquid Methodology
SNT03	ZAG000135138	12-Apr-23	11.77	R2023	169.5	9.245	R186	72.5	9.245	104.63932	100.28603	4.35329	Illiquid Methodology
SSN041	ZAG000140005	13-Oct-23	9.795	R2023	140	8.950	R186	43	8.950	104.0931	100.49713	3.59597	Illiquid Methodology
TL25	ZAG000146408	04-Sep-24	9.57	R2023	162	9.170	R186	65	9.170	100.34988	100.55963	-0.20975	Illiquid Methodology
TN23	ZAG000061003	06-Nov-23	10.8	R2023	202	9.570	R186	105	9.570	104.06138	100.80659	3.25479	Illiquid Methodology
TRA4A4	ZAG000157538	13-Apr-24	9.225	R2023	140	8.950	R186	43	8.950	103.66624	100.27953	3.38671	Illiquid Methodology

GOING FORWARD

The JSE will implement this change on Wednesday the 23rd of February 2023. Importantly, the JSE will keep the resultant yields (and in turn the prices) of the corporate bonds constant by changing the spreads currently captured in the valuations system.

This document is not confidential and should be distributed as widely as possible to all stakeholders.

Should you have any queries regarding this notice, please contact valuations@jse.co.za

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