

MARKET NOTICE

Johannesburg
Stock Exchange

Tel: +27 11 520 7000
www.jse.co.za

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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 August 2022

SUBJECT: COMPANION BONDS FOR FIXED RATE CORPORATE BONDS

Name and Surname: Mzwandile Riba

Designation: Head - Pricing Solutions

1. INTRODUCTION

The mark-to-market (**MTM**) valuation of South African corporate bonds is a challenge, due to the illiquid nature of the instruments that are listed in this market. The JSE makes use of a yield-to-maturity (**YTM**) to determine the all-in-price (AIP) and all other related values for all fixed rate bonds. The lack of secondary market trading activity makes it difficult to establish the yield inputs for all corporate bonds in general on a daily basis. This is especially the case with fixed rate bonds where, from a JSE perspective, the YTM is the market input used in their daily closing price determination. With little or no trade data in general, the yield may thus not change even in the wake of observed volatility in the fixed income market.

The JSE has, over the years, made use of a companion bond (a government bond of the same or longer term to maturity – based on all listed government bonds at the time) plus a **pricing spread** to determine the daily MTM yield to maturity for the fixed rate corporate bond. In some instances, some fixed rate bonds are issued without a companion bond, leading to stale prices until another yield is observed from a broker quote or trade (which seldom happens) as per the current cascading MTM process for corporate bonds. The use of a companion bond has allowed the JSE to at least capture changes to interest rates that may be observed in the market. The YTM on the corporate bond is simply the YTM on the companion bond plus the prevailing pricing spread.

2. ASSIGNMENT OF A COMPANION BOND TO ALL FIXED RATE CORPORATE BONDS

The JSE will assign a companion bond to all fixed rate corporate bonds that are currently listed at the exchange. The companion bond is chosen to be of the same or longer term to maturity as the underlying fixed rate corporate bond. The implementation of the process will be such that the valuations remain constant from the prevailing valuations, at market close, the day before the adjustment is made. An indication of the full set of fixed rate bonds that will be assigned a companion bond is as shown in **Appendix 1** below. This illustrates the adjustments if they were implemented today based on yesterday's (1 August 2022) closing prices. Going forward, the Valuations team will conduct an audit of existing corporate bonds on a periodic basis to ensure that a companion bond has been assigned.

The MTM spread is changed via the observation of an eligible trade or a live broker quote as per the JSE's MTM rules for corporate bonds.

3. IMPLEMENTATION

The assignment of companion bonds as described above will occur on **Monday, 15 August 2022**. While this is not the perfect solution in capturing the MTM yield for the instruments in question, the market moves better captured as interest rate market conditions change. The final set of companion bond spreads will be published on **Monday, 15 August 2022** and be used at the close on that day.

4. APPENDIX 1

Bond Code	ISIN Code	Maturity	Coupon	Current MTM Yield	Companion Bond	Companion Bond MTM	Calculated Spread (Basis Points)
ABF004	ZAG000165507	30-Jun-26	9.65	9.650	R186	9.06	59.0
ASN469	ZAG000169764	31-Jan-23	9.395	9.395	R2023	6.95	244.5
ASN470	ZAG000169772	31-Aug-24	10.905	10.905	R186	9.06	184.5
ASN486	ZAG000170473	28-Feb-25	10.63	10.630	R186	9.06	157.0
ASN522	ZAG000171828	31-Jul-24	9.1	9.100	R186	9.06	4.0
ASN525	ZAG000172008	31-Jul-24	11.05	11.050	R186	9.06	199.0
ASN530	ZAG000172271	31-Jul-24	11	11.000	R186	9.06	194.0
ASN532	ZAG000172636	31-Jan-24	10.5	10.500	R186	9.06	144.0
ASN538	ZAG000172842	31-Jan-24	10.5	10.500	R186	9.06	144.0
ASN545	ZAG000173170	31-Jul-23	10.6	10.600	R186	9.06	154.0
ASN557	ZAG000173527	31-Jan-24	10.47	10.470	R186	9.06	141.0
ASN558	ZAG000173717	31-Jan-24	10.55	10.550	R186	9.06	149.0
ASN595	ZAG000175340	31-Jan-23	9.22	9.220	R2023	6.95	227.0
CLN379	ZAG000116922	20-Mar-24	10.55	10.980	R186	9.06	192.0
CLN516	ZAG000149873	15-Sep-22	9.96	9.960	R2023	6.95	301.0
CLN517	ZAG000149865	30-Oct-22	10.01	10.010	R2023	6.95	306.0
CLN524	ZAG000150798	09-Sep-22	9.2	9.200	R2023	6.95	225.0
CLN562	ZAG000157249	12-Nov-25	10.16	10.190	R186	9.06	113.0
CLN597	ZAG000160904	24-Nov-24	9.16	9.160	R186	9.06	10.0

CLN603	ZAG000161407	05-Aug-24	8.745	8.745	R186	9.06	-31.5
CLN609	ZAG000162223	30-Apr-23	9.32	9.320	R186	9.06	26.0
CLN697	ZAG000169350	28-Feb-25	8.875	11.195	R186	9.06	213.5
CLN698	ZAG000169467	31-Aug-24	8.875	11.455	R186	9.06	239.5
CLN702	ZAG000169590	31-Mar-24	8.25	10.860	R186	9.06	180.0
CLN705	ZAG000169723	31-Aug-24	8.875	11.100	R186	9.06	204.0
CLN710	ZAG000170713	31-Jan-25	8.5	11.195	R186	9.06	213.5
CLN711	ZAG000171018	31-Jan-24	8.5	11.155	R186	9.06	209.5
CLN717	ZAG000171422	31-Jan-24	8.5	11.355	R186	9.06	229.5
CLN720	ZAG000171638	31-Jan-25	8.5	11.525	R186	9.06	246.5
CLN721	ZAG000171869	31-Jan-24	8.5	11.470	R186	9.06	241.0
CLN723	ZAG000172073	31-Jan-24	8.5	11.350	R186	9.06	229.0
CLN730	ZAG000172669	31-Jan-24	8.5	10.940	R186	9.06	188.0
CLN731	ZAG000172941	31-Jan-24	8.5	10.775	R186	9.06	171.5
CLN732	ZAG000173576	31-Jul-24	8.5	10.675	R186	9.06	161.5
CLN736	ZAG000175308	31-Jan-23	8	9.250	R2023	6.95	230.0
CLN740	ZAG000175803	31-Jan-23	8	9.510	R2023	6.95	256.0
CLN754	ZAG000177759	31-Jul-23	7.4	7.400	R186	9.06	-166.0
CLN766	ZAG000179136	31-Jul-23	7.4	7.400	R186	9.06	-166.0
CLN771	ZAG000180472	31-Aug-22	7	10.390	R2023	6.95	344.0
CLN772	ZAG000180480	31-Aug-22	8.875	10.880	R2023	6.95	393.0
CLN781	ZAG000181843	19-Aug-25	10.65	10.650	R186	9.06	159.0
CLN833	ZAG000186776	31-Jan-30	9.65	9.650	R213	10.765	-111.5
FRBZ03	ZAG000080029	10-Dec-24	0	8.670	R186	9.06	-39.0
FRC272	ZAG000151564	30-Jan-23	9.584	9.584	R2023	6.95	263.4
FRC282	ZAG000154063	27-Feb-23	3.54	3.570	R197	0.84	273.0
FRC286	ZAG000156548	27-Feb-23	3.4	3.400	R197	0.84	256.0
FRC397	ZAG000185117	31-Mar-23	8.33	8.330	R186	9.06	-73.0
FRC401	ZAG000185703	19-Jan-27	10.5	10.500	R2030	10.45	5.0
FRC404	ZAG000186065	19-May-26	12.96	12.960	R186	9.06	390.0
FRC405	ZAG000186107	19-Jan-27	11.1	11.100	R2030	10.45	65.0
FRC409	ZAG000186529	23-Sep-25	11.15	11.150	R186	9.06	209.0
FRS280	ZAG000180423	31-Mar-32	9.53	9.530	R2035	11.155	-162.5
IBL222	ZAG000185869	13-May-25	8.05	8.050	R186	9.06	-101.0
IBL224	ZAG000186008	17-May-25	8.4	8.400	R186	9.06	-66.0
IBL232	ZAG000187402	24-Jun-25	8.95	8.950	R186	9.06	-11.0
IVC186	ZAG000172040	21-Dec-22	7.4	7.400	R2023	6.95	45.0
IVC194	ZAG000176538	31-Jul-23	5.725	7.230	R186	9.06	-183.0
IVC200	ZAG000178211	31-Aug-22	7.45	7.450	R2023	6.95	50.0

IVC202	ZAG000180167	31-Aug-22	7.39	7.390	R2023	6.95	44.0
IVC206	ZAG000182122	29-Nov-22	6.1	6.100	R2023	6.95	-85.0
IVC215	ZAG000184946	04-Apr-23	6.7	6.700	R186	9.06	-236.0
IVC216	ZAG000185422	22-Apr-25	8.45	8.450	R186	9.06	-61.0
IVC217	ZAG000186354	02-May-23	7.2	7.200	R186	9.06	-186.0
IVZ097	ZAG000185646	04-Aug-22	0	6.150	R2023	6.95	-80.0
IVZ099	ZAG000186263	01-Sep-22	0	6.200	R2023	6.95	-75.0
IVZ101	ZAG000186545	04-Oct-22	0	6.250	R2023	6.95	-70.0
IVZ105	ZAG000188160	13-Oct-22	0	6.250	R2023	6.95	-70.0
IVZ106	ZAG000188483	25-Aug-22	0	6.150	R2023	6.95	-80.0
T17A31	ZAG000174921	21-Feb-26	7.21	7.210	R186	9.06	-185.0
T17A32	ZAG000181488	21-Feb-26	7.72	7.720	R186	9.06	-134.0
TH15A3	ZAG000148685	21-Nov-22	9.82	9.820	R2023	6.95	287.0
TH16A3	ZAG000161688	21-Aug-24	8.49	8.490	R186	9.06	-57.0
TH16A9	ZAG000172511	21-Aug-24	5.76	5.760	R186	9.06	-330.0
TR5A31	ZAG000176488	20-Jun-26	7.61	7.610	R186	9.06	-145.0
TRA4A8	ZAG000163502	13-Apr-24	8.62	8.620	R186	9.06	-44.0

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