

MARKET NOTICE

Johannesburg
Stock Exchange

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Number: 013/2021
Relates to: Equity Market
 Equity Derivatives Market
 Commodity Derivatives Market
 Interest Rate Derivatives Market
 Currency Derivatives Market
 Bond Market
 Bond ETP Market

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SUBJECT: INFLATION LINKED BOND MARK-TO-MARKET PROCESS

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1. INTRODUCTION

The JSE marks inflation linked bonds to market by initially capturing the relevant bond yields that will be used in the discounted cashflows model that is employed by the exchange. This is in accordance to the BESA formula as can be found in the at the following link, [Inflation Linked Pricing Bond Formula](#)

The exchange uses a combination of trade data and broker screens to established the **yield-to-maturity (YTM)** to be used in the calculation of the **mark-to-market (MTM)** on a daily basis.

2. MARK-TO-MARKET METHODOLOGY

The Valuations team sets out the methodology to follow the process below with the times as described below:

- i. The last observed trade before or at **16h00** on any given day of minimum nominal amount of **R5million** is used as the starting basis for the MTM process. The full day cycle will function in such a way that trades that occur after 16h00 on a particular day, will be used in the MTM for the following day's close.
- ii. While brokers may quote bond yields on their screens throughout the trading day, for the consumption of their clients, the JSE requires that brokers be up on screen for the period between **16h00 and 16h30**, in order for the exchange to use the same quoted rates in the daily MTM. This promotes the required transparency and

legitimacy of prices quoted by brokers and thus also used in the MTM process. In addition, the JSE sets the following requirements:

- a. Broker pages must be public and accessible by all market participants
 - b. Minimum quote size on both the bid and the offer be **R5million** notional
 - c. The yields be immediately tradeable on request by market participants
- iii. The Valuations team will at any time **between** 16h00 and 16h30 conduct a **random snapshot** of each of the applicable broker screens for their use in the MTM process. The randomness of this process is key in ensuring that participants are not able to time the posting of prices and their subsequent instant removal upon the completion of the snapshot process.
- iv. The trade data will be used in combination with the bids and offers from the brokers screens as follows:
- a. If the traded YTM on a particular bond as described in “i.” above is between the best bid and best offer (assuming a bid offer YTM is available for that particular instrument), the traded YTM will be used as the MTM YTM at the close.
 - b. From the broker screens, if the best available YTM on the bid is better (**lower bid yield**) than the traded YTM then the bid YTM is applied as the MTM on the day.
 - c. If the best available YTM on the offer is better (**higher offer yield**) than the traded YTM, the offer YTM is applied as the MTM on the day.
 - d. In the absence of a trade against a particular inflation linked bond, the closing YTM from the previous day’s MTM process is used as the starting basis for this exercise.
 - e. The on screen quotes **need not** be two-way quotes. Individual bids or offers are also considered in the process. These will supersede the last observed trade or previous close if they are quoted at a better level than the trade as described above.
- v. In the absence of trades in the JSE’s trading engine or bids and offers on broker screens, the prevailing MTM YTM (previous close) is applied as the MTM YTM for current trading the day.

3. CONTINUED USE OF BROKER SCREENS

Brokers display bids and offers on platforms provided by third party data vendors. The JSE has historically made use of these platforms as an additional tool to determining the MTM YTM on listed inflation linked bonds. The JSE views this technology as a complementary tool which is useful in the determination of correct market prices due to the relatively illiquid nature of the market in inflation linked bonds.

To the effect that the conditions set by the exchange are not met by brokers in the use of their particular quote data, the exchange reserves the right to discontinue use of that particular broker’s screens without notice. The JSE will endeavor to publish the list of brokers that do quote bids and offers for this purpose.

The JSE’s Valuations team may add additional brokers to the list on request via email at valuations@jse.co.za

A market hotline will be sent through the normal channels to update the list of brokers that contribute to both the inflation linked bonds MTM process and the corporate bonds MTM process should this change.

All stakeholders who make use of broker screens are also encouraged to contact the JSE through the Valuations team should any broker not comply with the conditions set by the JSE. These rates may then not be appropriate for use in the JSE's MTM process.

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

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