MARKET NOTICE

Johannesburg
Stock Exchange

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

Number:	**332/2021**
Relates to:	☐ Equity Market
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Date:	10 August 2021
SUBJECT:	**IMPLIED SPREAD CALCULATION FOR JSE LISTED FLOATING-RATE NOTES**
Name and Surname:	Mzwandile Riba
Designation:	Head – Data Solutions

1. INTRODUCTION

JSE listed floating-rate notes (FRNs) are traded referencing a spread to JIBAR. These instruments are priced off the ZAR Swap Curve with the coupons determined and discounted off that curve. The pricing effectively considers the differential between the spread when the instrument was issued (to calculate the coupons) and the mark-to-market (MTM) spread for calculating the discount factors.

Very important to the calculation of the daily closing price for FRNs is the capturing of the MTM spread when any FRN instrument trades. Without an updated spread, the FRN prices cannot be updated accordingly. In a large proportion of captured FRN trades, the spreads to JIBAR are not captured by members and thus not updated accordingly.

In line with going live with calculating implied spreads for fixed rate corporate bonds, to their companion bonds, an implied spread calculation will be implemented for floating rate notes as well.

2. CALCULATION OF THE IMPLIED SPREAD

The calculation of the implied spreads will use as inputs, the 3pm JSE ZAR Swap Curve and the trade data as is normally compiled at 16h00 on any trading day. The trade data comprises the last trade on each traded corporate bond instrument (above the minimum trade amount of R1million nominal), captured after 16h00 the preceding trading day and by 16h00 on the trading day in question.

The calculation considers the all-in price (AIP) as captured by trading members and backs out the implied spread using the 3pm JSE ZAR Swap Curve. This calculation also ensures that all the latest reference data pertaining to the FRN is captured. This includes the last JIBAR fixing and all coupon dates including books closed dates.

3. VALIDATIONS AND OTHER CONSIDERATIONS

From testing the solution with actual trade data, a few observations have been made regarding the booking of FRN instruments. It is unfortunately the case that once the trade detail snapshot has been taken (at 16h00 on any trading day) that any corrections that are made, will not be picked up due to this timing constraint.

- It is often the case that members book spreads incorrectly in the AIP field. This would mean that any implied spread that is calculated will be rather large in absolute terms. The implied spread will be ignored in these instances.
- Often members seem to omit the spread where it is the same as the prevailing MTM spread. In these instances, it has been observed that a calculated implied spread will generally be within 3 basis points of the prevailing spreads.
  - 4bps is thus set as a minimum move from the prevailing spread to capture a change via the implied spread methodology.

4. IMPLEMENTATION

The implied spread calculation will be implemented as a solution from **Tuesday, 17 August 2021**. While this may not be a perfect solution, the intention is to get as close as possible to what would be a traded spread. The ideal situation is where trading members capture the correct spreads, at the point of trade, to ensure the calculation of the correct closing prices in line with market activity.

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