
MARKET NOTICEJohannesburg
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Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives

Date: 16 October 2017

SUBJECT: **PROPOSED AMENDMENTS TO THE EQUITIES RULES AND DIRECTIVES - BLOCK TRADES AND OFF ORDER BOOK PRINCIPAL TRADES**

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Designation: Director: Market Regulation

Members are advised that the proposed amendments to the JSE Equities Market (IRC) rules and directives, attached as Annexure A, were adopted by the JSE Rules Committee on 16 October 2017.

The purpose of the proposed amendments is to revise the parameters that determine the minimum size and therefore eligibility of Block Trades and Off Order Book Principle Trades for submission to the JSE equities trading system.

The previous fixed value-based method of establishing the eligibility of transactions for submission as Block Trades or Off Order Book Principal Trades was replaced in November 2014 with trade size parameters that are presently quantity based and calculated as a multiple of the Exchange Market Size (EMS) for each equity security, depending on the JSE trading segment into which it is categorised. In the intervening period it has been established through feedback from market participants that the current quantity based parameters for determining Block Trade and Off Order Book Principal Trade eligibility are not as easy to apply in practice as was originally intended. Therefore the rule and directive amendments now propose a move back to a value based model for the determination of eligibility, using values that will be easier for all market participants to calculate.

The JSE has also noted that the current criteria for the reporting of large off book trades are materially misaligned to international standards for so-called large-in-scale pre-trade transparency waivers, including the European MiFID 2 requirements. Whilst we recognise that the landscape for the trading of listed securities in Europe is significantly different to the local landscape, we believe that it is still important to take cognisance of international standards and practices as we continuously develop and adapt our local requirements, taking into account local market conditions and practices. The result of our review of international standards is that the proposed amendments to the Block

Trade and Off Order Book Principal Trade criteria have the general effect of reducing the value of trades that qualify to be reported as Block Trades and Off Order Book Principal Trades.

The minimum transaction value for each security will not be fixed for a period, as is currently the case where EMS is only calculated quarterly. The proposed rule and directive amendments introduce an Average Daily Value (ADV) method of computation, which is the average value of daily trading in each equity security, as calculated by the JSE on a rolling 12 month basis, with a specified percentage of ADV being the criterion for Block Trade and Off Order Book Principal Trade eligibility for each JSE trading segment, subject to specified caps and floors.

In using ADV as the criterion in determining the minimum trade size, we have had to cater for the fact that certain equity securities currently (or may in future) have an ADV that is so high that applying a minimum value of a specified percentage of ADV to those securities would result in an unreasonably high minimum trade size. In order to address this issue, in JSE trading segments ZA01 and ZA02 the minimum transaction value is capped at R100 million. Therefore, if 30% of the ADV for a particular security is, for example, R120 million, the minimum value of a Block Trade or Off Order Book Principal Trade in that security will be R100 million and not R120 million.

In order to ensure that the objectives of operating an order book are not compromised and that pre-trade transparency waivers are applied appropriately, we have also proposed introducing absolute minimum value trade sizes for each JSE trading segment. This essentially applies a floor to the ADV calculation and ensures that for the less liquid securities with a relatively low ADV, the minimum off order book trade sizes are set at a reasonable level.

In addition, we are proposing that the eligibility criteria for Block Trades and Off Order Book Principle Trades should be substantially aligned and have drafted the amendments accordingly. The current differences between the criteria for the two off book trade types are not significant and the proposed new method of calculating minimum trade values for both trade types negates the reasons for there to be any differences.

We have, however, retained the approach of not applying any minimum value to an Off Order Book Principal Trade with a foreign professional market participant, to cater for the established practice whereby foreign professional market participants (who are largely the foreign equivalents of our exchange members) trade, in effect, as market counterparties on a principal basis with JSE members rather than on an agency basis (generally in dual listed shares). This cross border market activity would be negatively impacted if we were to apply minimum off book trade sizes or require that these principal trades be effected through the order book.

Unless written objections are lodged within 10 days of this notice, in terms of rule 2.60.3, the proposed amendments to the rules will be submitted to the registrar for his approval and the proposed amendments to the directives will come into effect on the date of approval of the rules.

Should you have any queries regarding this notice, please contact Paul Hartzenberg on (011) 520 7584 or at paulh@jse.co.za

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