



Market Notice

Number: Y1062
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Hedge fund strategy - cross over from Carries to Bond Futures

Introduction

In response to some of the BASEL 3 requirements and the resulting implications to Capital Markets, the JSE has embarked upon a strategy in conjunction with the Prime Broking Services and Clearing banks to position the market to respond to these changes. Bond Futures can be used to replicate a REPO position in the cash market as the two positions would have similar exposures to the underlying cash bond. Therefore there will be a 'cross-over' strategy where members of the market will trade Bond Futures in place of REPOs and have a waiver on trading fees for an interim period.

Although these two products are similar, there are additional benefits that arise from trading Bond Futures on the exchange:

- There is no counterparty credit risk, as the exchange acts as a counterparty to each trade through the entity of SAFCOM
- Settlement is guaranteed
- Non-standardised dates (Any-day expiry) can now be traded on the exchange
- Bond Future market makers have committed to providing pricing that reflects current market levels, so pricing will be reliable

How this will work

The JSE will provide hedge fund clients a zero fee period to encourage the movement from REPOs to Bond Futures. This will be effective immediately until the 28th February 2013, and will be reviewed at that date to determine if the period needs to be extended further or not.

- When a trade is executed as a crossover strategy, the member/clearing member/prime broker executing the trade on behalf of the hedge fund clients will have to inform the exchange since the process of zero fee-ing will be manual at the exchange
- The email address that trade details should be sent to is derivativestrading@jse.co.za
- Trade details to be sent to the exchange are the **exchange reference** viewable in the 'Derivatives View Trades' window:



Contract	Prin	Master Client	Buy/Sell	Qty	Price	Dealt at	Ref No	Exchange Ref	Version	Dealer	Time	Enter Time	Allocation Time	Seq No	Origin	SubAcc	Member	Capacity
07 FEB13 R157	RMBE		Buy	100	124.67267	5.48021	000003612	02B45023A	0	BHQ	14:25:37	14:25:37	00:00:00	200351326	OnScreen		RMBE	P

- Only the client legs will be zero fee'd

Current Fee Model

Once the fee waiver period is over, the normal trading fees will apply. Please refer to the below sliding scale for information on trading costs:

Bond Futures & Options

Bond Futures and Options

Bond futures and bond options are currently charged at R0.75 per contract, and the new fees applicable are as per below:

New sliding scale band (per deal)	Bond Futures Fees Per Contract	Bond Options Fees per Contract
0 - 249	R 0.70	R 0.70
250 - 749	R 0.65	R 0.65
750 - 1,499	R 0.55	R 0.55
1,500 - 2,499	R 0.45	R 0.45
2,500 - 4,999	R 0.35	R 0.35
5,000 - 7,499	R 0.30	R 0.30
7,500 and above	R 0.25	R 0.25

The fees are capped at R39,900 per deal to entice bigger contracts.

*All the above fees include VAT of 14%.

*One contract represents R100 000 nominal value

REPOs

Members of the JSE Interest Rate Market are charged R1,90 excluding Vat per leg for REPO transactions. This fee is all inclusive from a JSE perspective and covers regulations, settlement and trading components. The near leg and far leg of a repo are considered to be independent legs.

Please note

It is the obligation of the member to advise the exchange of the 'crossover' structure via the email group derivativetrading@jse.co.za.