PROPOSED AMENDMENTS TO THE JSE EQUITIES RULES

General explanatory notes:

1. Words underlined with a solid line (___) indicate the insertions in the existing rules

2. Words in bold and in square brackets (**[   ]**) indicate deletions from the existing rules

Proposed amendments to the JSE Equities rules

Section 1: Interpretation and definitions

"algorithm"	means electronic order generating software whereby orders are generated for submission to the JSE equities trading system according to specific parameters, rules and conditions;
"direct market access" ("DMA")	means the process whereby an order is received electronically by a TSP from a client and then submitted electronically to the JSE equities trading system by means of a member trading **[an order entry]** application operated by the TSP, without the intervention of a registered securities trader;
"filters"	means part of a TSP's market access controls that comprise a set of computerised rules with variable parameters that determine automatically which orders or series of related orders meet a pre-defined set of criteria and can be submitted to the JSE equities trading system;
"member trading application" ("MTA")	means any system, software or program operated and controlled by a member **[which]** that submits data to and receives data from the JSE equities trading system**[;]**. A member trading application facilitates the submission of orders to the JSE equities trading system by a registered securities trader, as well as the submission of computer or system generated orders, including client order routing through DMA, and must comply with such requirements as the JSE may from time to time prescribe in these rules and directives;
["order entry application"	**means any system, software or program operated by a member which facilitates electronic submission of orders to a member trading application and which complies with such requirements as the JSE may from time to time prescribe in the directives;]**

Section 3: Authorisations and approvals

3.50   Requirements to perform trading services

> 3.50.1   An applicant for membership or a member may request authorisation to perform trading services provided that it can evidence, to the satisfaction of the JSE, that it is able to comply with the market access and associated operational requirements set out in the rules and directives.

3.50.1 amended with effect from 2 July 2012

3.50.2   An authorised TSP must continue to comply with the <u>market access and associated</u> operational requirements set out in the <u>rules and</u> directives on an ongoing basis in order to retain such authorisation.

3.50.3   An authorised TSP that provides trading services to controlled clients –

3.50.3.1   must either obtain authorisation to perform custody services on behalf of such clients or must appoint a CSP to perform custody services on behalf of that member; and

3.50.3.2   must establish and maintain a nominee company which is approved by the JSE and which meets the requirements of rule 3.90.

Section 6: JSE equities trading system

6.10   Use of the JSE equities trading system

6.10.1   All transactions in equity securities by a member must be conducted through the central order book of the JSE equities trading system, unless the transaction meets the criteria set out in rule 6.40 for an off book trade.

6.10.2   The terms of an off book trade may be negotiated between the parties to the transaction and the purchase and sale legs of the transaction must then be submitted to the trading system by the member or members who are party to the transaction.

6.10.3   An off book trade negotiated off the trading system in terms of rule 6.10.2 is only deemed to be a valid transaction once the purchase and the sale legs of the transaction have been matched and confirmed by the trading system.

6.10.4   Orders entered into the central order book are matched based on the following order of priority:

6.10.4.1   price;

6.10.4.2   whether the order is visible to the market;

6.10.4.3   time of entry into the central order book.

6.10.5   A person who seeks to be registered with the JSE as a registered securities trader must satisfy the fit and proper requirements of rule 4.10 and must have obtained a pass in the registered securities trader examination prescribed by the JSE.

6.10.6   Despite any other provision of the rules or any directive and subject to rule 2.10, the Market Controller may –

6.10.6.1   decide that the market or segments of the market in equity securities be paused, suspended, halted or closed if he is of the opinion that a fair and realistic market does not exist. A fair and realistic market may be deemed not to exist after consideration of the percentage of members not able to access the JSE systems and their contribution to price formation and value traded;

6.10.6.2   reduce or extend the hours of operation of the JSE equities trading system for any particular business day;

6.10.6.3   without prior notice to any person, pause, suspend, halt or close the JSE equities trading system for trading at any time and for any period; and

6.10.6.4   take such other steps as may be necessary to ensure an orderly market.

6.10.7   Despite any other provision of the rules or any directive and subject to rule 2.10, the Market Controller, in consultation with the Director: Market Regulation, may exercise such powers and take such action as may be exercised or taken by the JSE in terms of the rules and directives, and as may be necessary to maintain a fair, transparent and orderly market or protect the interests of investors, in the event of any disruption, malfunction or failure in the operation of the JSE systems, or following the pausing, suspension, halt or closure of the JSE systems or markets. The necessary action may include declaring transactions effected through the JSE equities trading system to be void and, if deemed appropriate, replacing void trades with other trades, in terms of rule 6.60.12

6.10.8   In order to maintain orderly price formation, the JSE equities trading system may incorporate circuit breakers in one or more segments of the market which, when triggered, will either cause the suspension of continuous trading and the commencement of an auction call session or the extension of an auction call session for the affected security or securities. The circuit breakers will be triggered when price movements exceed defined levels based on defined static and dynamic reference prices, as determined by the JSE.

6.10.9   Each equity security is allocated to a segment based on certain characteristics including the instrument type and the liquidity of the security.

6.10.10   Members accessing JSE systems must at all times –

6.10.10.1   maintain and enforce appropriate security procedures which are designed to prevent unauthorised persons from having access to any JSE systems, member trading applications or client applications; and

6.10.10.2   have the necessary resources to ensure that any data sent to or received from JSE systems does not interfere with the efficiency and integrity of the equities market or the proper functioning of the JSE systems.

6.10.11   The Market Controller may instruct a member to immediately discontinue using a member or client application or may restrict the usage by a member of any or all components of a member or client application.

6.10.12   Members must have appropriate systems, procedures and controls to prevent the submission to the JSE equities trading system of –

6.10.12.1   erroneous orders; and

6.10.12.2   unreasonably low bids or unreasonably high offers submitted either as resting   orders or as orders in an auction call session, and which appear to have the purpose, or are likely to have the effect, of –

6.10.12.2.1 taking advantage of significant errors that could be made by other market participants in the submission of orders to the JSE equities trading system; or

6.10.12.2.2 taking advantage of the possibility of significant mispricing of auction trades due to how the auction algorithms match market orders and limit orders.

6.10.13   The Director: Market Regulation may request a member to suspend or cancel unreasonably low bids or unreasonably high offers submitted to the JSE equities trading system which, in the opinion of the Director: Market Regulation, have the purpose, or are likely to have the effect, specified in rule 6.10.12.2.3

6.10.7 introduced with effect from 2 July 2012
6.10.7 amended with effect from 8 July 2022
6.10.7.1 and 6.10.7.2 deleted with effect from 8 July 2022
6.10.8 introduced with effect from 2 July 2012
6.10.5 renumbered 6.10.9 and amended with effect from 2 July 2012
6.10.6 renumbered 6.10.10. with effect from 2 July 2012
6.10.7 renumbered 6.10.11 with effect from 2 July 2012
6.10.7 introduced with effect from 2 July 2012
6.10.12 to 6.10.13 introduced with effect from 8 July 2022

**6.15	Market Access controls**

6.15.1	A TSP must establish and maintain an appropriate system of market access controls applicable to the nature of the TSP's market access and the manner in which orders are generated and submitted to the JSE equities trading system, and comply with the market access operational requirements in Directive BT 11. In determining what constitutes appropriate market access controls, a TSP must give due consideration to the size and complexity of its trading operations, the degree to which order generation and submission is automated through algorithms or DMA, as well as the volume and frequency of orders being submitted to the JSE equities trading system.

6.15.2	The primary objective of a TSP's market access controls must be to ensure that a TSP appropriately addresses the risks associated with access to the JSE equities trading system, by implementing processes and filters that –

6.15.2.1	promote and protect the integrity and orderly operation of the JSE equities market; and

6.15.2.2	restrict the financial exposure of the TSP to acceptable limits and ensure that the TSP is able to comply at all times with the JSE's regulatory capital requirements and the TSP's settlement obligations.

6.15.3	Appropriate market access controls must be implemented and applied by a TSP in respect of both agency and proprietary orders, and irrespective of whether orders are entered manually by a registered securities trader, received electronically from clients through DMA, or generated and processed automatically according to an algorithm.

6.15.4	A TSP must ensure that its MTA and any related market access controls contained within the MTA or within a separate system or application, comply with the following requirements:

6.15.4.1	a TSP shall not submit an order to the JSE equities trading system unless the order is subject to the TSP's filters;

6.15.4.2	a TSP's filters must be separate and independently controlled from any order-generating algorithm that generates client or proprietary orders;

6.15.4.3	a TSP must have appropriate, documented processes to authorise and record any changes to its market access controls, including any changes to filters or filter parameters;

6.15.4.4	a TSP must have direct control over its market access controls, as further prescribed in terms of Directive BT 13, irrespective of whether these market access controls are contained within the TSP's MTA or within a separate system or application; and

6.15.4.5	a TSP must implement appropriate security arrangements to prevent, and monitor for, unauthorised persons having access to its MTA and any market access controls being used by the TSP for order validation and processing, including any arrangements prescribed in Directive BT 11.

6.15.5	A TSP must implement appropriate processes, as further prescribed in Directive BT 12, for the ongoing monitoring of the TSP's trading and order activity, to ensure that the TSP's market access controls are working as intended and operating effectively.