



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**SPEECH BY DEPUTY MINISTER OF FINANCE MR MONDLI
GUNGUBELE**

Launch of the Electronic Trading Platform (ETP) for Government Bonds

**VENUE: JSE
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Programme Director,

Chairperson of the JSE, Nonkululeko Nyembezi-Heita,

Director, Capital Markets at the JSE, Donna Nemer,

Invited guests,

Ladies and Gentlemen

Good evening

Let me start by congratulating the teams that worked tirelessly to make this project a reality. It has been a long seven years from the time when the electronic trading platform was conceptualised. Its launch today is a testament to what can be achieved when government and the private sector work together to achieve a common purpose.



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The bond market in South Africa has undergone tremendous growth since the 1980s when the issuance of bonds by government was not scheduled at regular intervals as it is the case today. Today, we auction government bonds every week. In those days, no government bond yield curve existed, nor were there benchmark bonds the market could use as points of reference for financial instrument pricing and valuations. There were also very few, if any, corporate issuers at the time. Both the primary and the secondary markets were dominated by government and public utilities such as Eskom and the Landbank, with the South African Reserve Bank being the underwriter of the issuance.

The 90s saw some significant milestones, with the launch in 1996 of the Bond Exchange of South Africa. This allowed for the consolidation of smaller government issuances, which made way for the establishment of benchmark bonds. The result was an enhancement of market liquidity and efficiency, leading to better price discovery and ultimately, relatively lower funding costs for government.

The other milestone was the launch of the primary dealer system in 1998. Initially, there were 14 primary dealers, evenly split between local and international banks.



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Over the years as our market has taken shape and form, the number of banks on the panel has decreased to nine, but the annual funding requirement has increased substantially in real terms since then. The primary dealer system was launched primarily to allow primary dealers to buy bonds directly from government, resell these to other investors and thus make a market in these instruments. The primary dealer system also allowed for the introduction of a more structured, regular bond auction process.

Other key developments during this period include the introduction of inflation-linked bonds, floating rate notes and the Separate Trading of Registered Interest and Principal bonds. The development of total return indices in the market allowed for a more refined government bond yield curve which was a better reflection of the market microstructure.

Subsequent developments in the local market include the establishment of a central securities depository, otherwise known as STRATE, in November 1998, which settled its first transaction in September 1999. Prior to this, transfer in ownership of financial securities was physical, with each holder required to hold their ownership certificates for safe-keeping. To this day, National Treasury has a basement full of old bond



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certificates which it has either kept for safe-keeping on behalf of their holders, or certificates for bonds which have redeemed. STRATE has allowed for investors to hold their securities in one location where they are available for clearing and settlement, which is all done electronically. This has drastically increased the speed with which bond transactions are settled in the market, leading to further market efficiencies.

The 2000s saw the corporate bond market growing in leaps and bounds. Today, the nominal amounts outstanding in corporate bonds, excluding state-owned company debt, is an impressive R577 billion. The commercial paper market has also increased in leaps and bounds, allowing issuers the ability to issue short term debt to optimise their working capital requirements. In 2009, the Bond Exchange of South Africa merged with the Johannesburg Stock Exchange to create a single, integrated securities exchange for the trading of all financial instruments. These instruments include bonds, equities, commodities, derivatives, and other sophisticated instruments which have resulted in South Africa having one of the deepest and most liquid financial markets globally.

Global capital markets have been transitioning towards the electronic trading of government securities and consequently, those international markets have seen



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transformation of the micro-structure. The use of electronic trading platforms has shown notable positive effects in the secondary markets including:

- improved liquidity through price discovery,
- reduced transaction costs and greater competition,
- increased transparency, and
- lower trading costs.

With a view of the international market trends and developments, in 2012 National Treasury formed the Bond Market Development Committee, an industry-wide committee whose mandate is to consider developmental issues facing the South African bond market. The committee comprises representatives of key industry stakeholders, including the JSE, STRATE, the Association for Savings and Investments South Africa, the South African Reserve Bank, the Financial Sector Conduct Authority, Primary Dealer Association and some members of the JSE.

National Treasury, with the support/collaboration of the World Bank, proposed a new structure for the trading of government bonds in the secondary market and this proposal was adopted and driven by the Bond Market Development Committee in



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collaboration with the various stakeholders. After seven years of hard work, dedication and commitment by all parties involved, the platform was successfully implemented through a strategic partnership between all key stakeholders, with trading of the first bond commencing on 18 July 2018.

Since the Financial Markets Act requires that an electronic trading market is licensed as an exchange, the JSE permitted the use of its license for the purposes of establishing this new market. The JSE will therefore be the front-line regulator for this market, and will monitor, supervise and enforce compliance in terms of the new ETP rules. The ETP market will operate in parallel to the existing JSE reported market for government bonds, and the over-the-counter bond markets, where other market participants, including the Primary Dealers and international investors will continue trading as they currently do. It is envisaged that as the market grows warmer towards the electronic platform and as the benefits materialise, we will slowly start seeing more trades executed electronically.

An ETP Market Committee, chaired by National Treasury, has been established as the frontline governance structure of the market. It is responsible for the ETP and determining the operating model for this market and for defining the core functional



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and other requirements of the ETP. The framework as determined by the market committee is captured in the ETP rules, which are drafted by the JSE and approved by the Financial Sector Conduct Authority.

Ladies and gentlemen, thank you once again for working with us on this very important journey, and for reaching a very important milestone with us.

I thank you!