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JSE Market Notice: Prohibition in JSE Rules on Naked Short Selling

Johannesburg Stock Exchange Settlement Authority

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MARKET NOTICE

Number: 083/2020

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

Date: 19 March 2020

SUBJECT: PROHIBITION IN JSE RULES ON NAKED SHORT SELLING

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Designation: Head - Equity and Equity Derivatives

Dear Member

During the current period of extreme market volatility and high trading volumes, the risk of settlement failure is higher than normal. The JSE Settlement Authority is monitoring settlements very closely and is observing an unusually high number of uncommitted settlements on sale transactions by 18:00 on T+2. Increased trade volumes will explain some of the increase in late commits, but we are also concerned that JSE rules regarding short sale transactions may not be complied with in all instances.

Members are reminded of the prohibition on naked short selling in the JSE settlement rules which state that –

- a client may not place an order to short sell an equity security unless a satisfactory borrowing arrangement is in place which will provide for the securities being available for settlement on settlement date (rule 10.50.1.2.4); and
- a member may not enter an order to short sell an equity security on the JSE trading system unless a satisfactory borrowing arrangement is in place which will provide for the securities being available for settlement on settlement date (rule 10.50.2.2.4).

Naked short sales pose a significant risk to the market as they are the type of transaction that is most likely to result in rolling of settlement and failed trades. This risk is much greater at times of extreme market volatility. Under the current market conditions, market participants need to maintain confidence in the ability of their counterparts to meet all of their settlement obligations. The JSE will therefore take strong and decisive action if it identifies any instances of naked short selling. Apart from the settlement penalties and enforcement action that can be applied in terms of the JSE rules, if the JSE believes that a member is trading in a manner that puts the market at risk we will consider appropriate further action that may include placing restrictions on the member's trading activities if necessary.

The requirements in the rules regarding satisfactory borrowing arrangements imply that a securities borrowing arrangement must be of such a nature that it provides certainty that the relevant equity securities will be available for

settlement on settlement date and that this arrangement must be in place prior to a short sale transaction being executed. Members are requested to bear this in mind when executing sale transactions for their own account and on behalf of their clients, and when the necessary borrowing arrangements are made. Borrowing arrangements cannot only be put in place or confirmed after sale transactions have been executed or once settlement positions are known.

If members have any questions regarding this Notice please contact the JSE Settlement Authority:

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