

GLOBAL VARIETY

The JSE's International Derivatives (IDX), an initiative in collaboration with Deutsche Bank, will provide SA investors (including corporate investors, trusts and funds) with the opportunity to trade and gain exposure to the price movements of internationally listed shares and potentially internationally recognised indices.

For the first time, the SA market is now able to trade Single Stock Futures (SSFs) on international companies directly through the JSE without any exchange control limits or the counterparty risk associated with unregulated over-the-counter trading.

The JSE's Equity Derivatives Market provides the trading platform and will regulate, risk manage and clear cash-settled equity derivatives (initially futures and at a later stage, options) on internationally listed shares. Deutsche Bank is the current market maker and SSFs on 20 European companies, selected from both the FTSE 100 and DJ Euro Stoxx 50 benchmark indices, have been listed (for example BP, Vodafone, Nokia and GlaxoSmithKline).

WHAT ARE SINGLE STOCK FUTURES?

SSFs are futures contracts on individually listed shares. A futures contract is a legally binding agreement that gives the investor the right to buy or sell an underlying listed share at a fixed price on a future date.

SSFs are traded on an exchange, in SA's case, the JSE. They are standardised contracts with set specifications regarding size, expiry dates and tick movement (the minimum upward or downward movement in price).

Investors are required to pay an initial margin ('good faith' deposit) upfront when trading in SSFs. Interest is earned daily on this margin which is held by the exchange. When positions are closed the initial margin plus interest is paid back.

The value of an SSF contract is equal to the underlying share's futures price. For example, if company A is trading at R20 then holding one futures contract is equivalent to investing R20 in that company.

However, the investor is only required to pay an initial margin of R2 (approximately 10–15% of the value of the underlying shares) which is an estimate of the maximum amount that can be lost in one day. Due to this gearing, SSFs provide exposure to the underlying share at a much lower cost than trading in the underlying share.

A contract holder can exit a futures contract before the expiry date (this is called closing your position) or keep the contract until the expiration date.

BENEFITS OF IDX SINGLE STOCK FUTURES

Diversify offshore

IDX SSF investors can now share in the growth of the world's largest and most profitable companies while reducing overall investment risk, thereby diversifying their portfolio.

Convenience

IDX SSFs provide a convenient entry point into foreign markets without the restrictions and paperwork of exchange control regulations or the expense of setting up a foreign trading account. The JSE's international derivatives initiative eliminates all these obstacles.

Invest offshore without using offshore allowance

As an individual or corporate entity you can invest in international derivatives without affecting your offshore investment allowance. As a registered asset manager, IDX products do not require Reserve Bank permissions but they do fall under your prudential foreign portfolio limits.

The IDX liquidity provider Deutsche Securities will buy the underlying shares using their offshore balance sheet through Deutsche Bank. They will then issue an IDX SSF contract on the underlying asset enabling investors to get foreign exposure effectively and easily through a local broker.

The value of any investment involving exposure to foreign currencies can be affected by exchange rate movements

Risks

Gearing offers significant returns but can also result in significant losses if the market moves against your position. Only experienced investors or investors with the help and advice of an experienced adviser should participate in this market.

SSFs are not capital protected. Investors may not get back the amount invested. The value of any investment involving exposure to foreign currencies can be affected by exchange rate movements.

IMPACT OF CURRENCY FLUCTUATIONS

International derivatives are quoted and traded in rands and thus have an associated currency risk. International derivative contract holders can hedge the associated currency risk with currency derivatives traded on Yield-X. The investor's exposure is then greatly reduced to adverse currency movements and more focused on the underlying share's movement.

TRADING IN INTERNATIONAL DERIVATIVES

Like all securities listed on the JSE, investors have to trade through a JSE broker. International derivatives are traded on the same equity derivative platform as all other equity derivative products.

If an investor is already registered to trade on the JSE's Equity Derivatives Market they will also be able to trade international derivatives through their broker. For more info please contact the JSE – Derivatives Trading Division or Deutsche Securities. Contact details can be found at the end of the article.

CORPORATE ACTIONS

The JSE will attempt to replicate the underlying exchange's (as set out in the contract specifications) treatment of corporate actions (mergers, special dividends, stock splits, divestitures etc).

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IDX DIVIDEND FUTURES

When a company pays a dividend its share price usually declines by a corresponding amount. The reason for this price decline is that part of the company's available capital has now been paid back to shareholders. When an investor buys an IDX SSF the exchange has already estimated the dividends that will be paid prior to expiry and removed them from the price. If the exchange's or the liquidity provider's estimate is wrong you can limit this estimation risk by buying a dividend future along with your IDX SSF.

Some liquidity providers (including Deutsche Bank) will require you to purchase a dividend future when purchasing an IDX SSF. This helps to ensure that neither party loses out on the transaction due to incorrect dividend estimations.

CLEARING AND GUARANTEE

All trades on the JSE's Equity Derivatives Market are marked-to-model (MTM), margined daily and guaranteed by the clearing house. Due to the

clearing house guarantee and our regulatory framework, investing on the JSE exposes the investor to less counterparty risk than investing in over-the-counter products.

The clearing house guarantee and the daily margining process ensures that investors' margins are safer from the risk of a defaulting counterparty. For additional information on international derivatives contact:

JSE – Derivatives Trading Division

Tel: 011 520 7000

Email: derivativestrading@jse.co.za

www.safex.co.za/ed

Deutsche Securities

Tel: 011 775 7000

Email: niels.penzhorn-sa@db.com

www.db.com/southafrica

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