

TRADING RAN CURRENCY FUTURES

WHAT ARE CURRENCY FUTURES?

Futures allow you to buy or sell a standard quantity of a specific commodity or financial instrument, at a standard future date and at a fixed price. In the case of currency futures, the financial instrument is the underlying spot exchange rate. This underlying value is the rate of exchange between one unit of foreign currency and the South African rand (ZAR).

WHY TRADE CURRENCY FUTURES?

Currency futures allow investors to take a view on the movement of the ZAR against other currencies or hedge themselves against this movement. To begin, US\$/ZAR contracts will be traded, with the €/ZAR and £/ZAR contracts to follow later in 2007.

WHO QUALIFIES TO TRADE?

Currency futures are restricted to a qualifying audience, including:

- Individuals and foreigners with no limits
- Pension funds and long term insurance companies subject to their 15% foreign allocation limits
- Asset managers and registered collective investment schemes subject to their 25% foreign allocation limits.

Restrictions: All corporate entities, trusts, close corporations and hedge funds are prohibited from trading unless they have valid exchange control approval from the South African Reserve Bank.

HOW TO USE CURRENCY FUTURES?

A long currency future holder enters into the contract to buy US\$ in order to profit from a favourable movement in the US\$ against the ZAR. Long holders therefore profit from an increase in the futures price, which implies the US\$ has increased in value against the ZAR, given the exchange rate quoted in ZAR per one US\$. The converse holds for a short currency futures holder selling US\$, who will profit from a decrease in the US\$/ZAR currency future price.

An individual going on holiday to the United States in three months time will be required to buy US\$ at that time. The individual would be exposed to a possible increase in the price of US\$. In order to hedge this risk, the individual could enter into a long US\$/ZAR currency

futures contract for the same three month exposure.

If the exchange rate increases, the individual would lose money in the spot currency market when buying the physical US\$ for the holiday, but would profit in the currency futures market. Conversely, if the exchange rate decreased, the spot position would become cheaper to buy (hence make a profit) but the futures position would make a loss. Currency futures therefore allow investors to hedge against all currency risk or eliminate any effect from currency movement.

Individual investors who wish to take a view on the movement of the US\$ could buy currency futures.

Speculators who expect the US\$ price to increase will enter into a long currency futures contract. Those who expect the US\$ price to decrease will enter into a short currency futures contract. Where hedgers try to eliminate risk, speculators try to take on risk to make a profit.

TRADE PROCEDURES

In order to trade currency futures, the following procedures need to be in place for all members/brokers, traders and individuals or clients:

MEMBERS

- Broking participants are required to become registered and approved Yield-X members
- A membership application will need to be completed and returned to the JSE
- The JSE secretarial services division will advise what documentation needs to be completed, as some documentation is not required if the participant is already a member of one of the existing JSE markets
- As of June 2007, no membership fees or annual membership fees are required
- Members are required to have a registered and sponsoring Yield-X clearing member
- Members are not permitted to trade in their proprietary account.

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TRADERS

- Traders are required to become registered and approved on Yield-X as a currency futures trader
- An officer registration form must be completed and returned to the JSE
- Traders on the equity derivative market or the JSE equity market (with RPE exams completed) will not be required to write any exams in order to trade currency futures
- Current Yield-X traders can automatically trade in currency futures
- All current currency traders with a long history in the market will not be required to write any exams
- JSE approved Yield-X officers need to have the correct Yield-X software loaded on to their personal computers by a Yield-X employee
- The Yield-X software allows for both on-screen and off-screen trading
- Training will be provided by the Yield-X employee installing the software
- The training provided clearly shows traders how to conduct on-screen and off-screen trades
- The Yield-X software can be integrated into members' back-office systems
- A relevant API document can be obtained from Yield-X
- The Yield-X system prevents traders from trading for

non-qualified clients

- The system pre-approves all traders as well as prevents allocations to non-qualified client accounts.

CLIENTS

- Clients will need to open an account with a registered Yield-X member
- Clients will be required to sign a client agreement with the member
- The client agreement specifies all the client's details
- Clients will be required to post initial margin with the member
- Initial margin is posted with the clearing member who then filters the money to Safcom, the JSE's clearing and settlement agent
- Initial margin eliminates any counterparty risk for every trade
- Clients will be required to pay variation margin to the member should currency future prices move against their favour
- Clients will receive variation margin when currency future prices move in their favour
- Clients are advised that they can make, but also lose, money when trading currency futures
- A list of registered Yield-X members can be found on the Yield-X website at www.yieldx.co.za.

CURRENCY FUTURE PRODUCT SPECIFICATIONS

CATEGORY	DESCRIPTION
Code	j-Rand
Underlying	Rate of exchange between one US\$ (subject to other currencies being added) and ZAR
Contract Size	1 000 nominal of underlying currency (such as US\$)
Contract Months	March, June, September and December
Listing Programme	Near, middle and far contracts with Special on demand
Expiration Date and Time	13h40 on two business days prior to the third Wednesday of the expiring month (or the previous business day if a public holiday)
Quotation	In ZAR per foreign currency to four decimal places
Minimum Move	0.0001 equal to R0.10
Mark-to-market	Explicit Daily. The forward value of the arithmetic average of the traded underlying spot taken for a five minute period between 16h55 and 17h00.
Margining	As determined by second level JSE Portfolio Scanning Methodology
Expiration Valuation Method	Arithmetic average of the underlying spot taken every 60 seconds (100 iterations) between 12h01 and 13h40.
Settlement	Cash settled in ZAR