

**Agricultural Derivatives  
Contract Specifications – July 2010**



**JOHANNESBURG STOCK EXCHANGE**  
SAFEX Commodity Derivatives

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## A. GENERAL CONTRACT SPECIFICATIONS

### 1. DEFINITIONS

In these contract specifications, words and expressions that are defined in the Derivatives rules, unless stated otherwise or inconsistent with the context in which they appear, bear the meanings assigned to them in the Derivatives rules, and the following words and expressions have the following meanings:

<b>“agricultural product”</b>	has the same meaning as that contained in section 2 of the Derivative rules and in the context of these contract specifications means the products underlying the JSE listed securities traded on the JSE Commodities trading system and refers to the following grains - <ul style="list-style-type: none"> <li>a) white maize;</li> <li>b) yellow maize;</li> <li>c) wheat;</li> <li>d) sunflower seeds;</li> <li>e) soybeans; and</li> <li>f) sorghum;</li> </ul>
<b>“agricultural derivatives”</b>	has the same meaning as that contained in section 2 of the Derivative rules;
<b>“approved silo”</b>	means a silo owned by a JSE approved silo owner and approved for each marketing season in terms of the requirements set out in Appendix D;
<b>“approved silo owner”</b>	means a silo owner approved by the JSE in terms of the requirements set out in Appendix C;
<b>“commodity derivatives market”</b>	has the same meaning as that contained in section 2 of the Derivative rules;
<b>“commodity securities”</b>	has the same meaning as that contained in section 2 of the Derivative rules;
<b>“constant delivery month”</b>	means all calendar months, other than the five hedging months of May, July, September, December and March, introduced for trading 20 days preceding the first business day of the calendar month. The same contract specifications apply to the constant delivery month as to the hedging months;
<b>“delivery notice”</b>	means a document which is presented to the JSE by a short position holder desiring to make delivery of Safex silo receipts in satisfaction of a agricultural derivatives futures contract, in the manner set out in these contract specifications;
<b>“Exchange for Physical”</b>	means a transaction whereby a position in the underlying is traded with an existing open futures contract position. The transaction may involve the JSE processing the actual delivery between the short and long position holder or alternatively facilitating the cash settlement at the current mark-to-market value;
<b>“JSE Commodities trading system”</b>	has the same meaning as that contained in section 2 of the Derivative rules;
<b>“Safex silo receipt”</b>	means a transferable document of title in terms of which the holder thereof may demand delivery to him by the silo owner of grain of a quality and quantity as described on the receipt, subject to payment of the silo-owners storage costs as provided for in terms of the receipt. Safex silo receipts have to be issued by an approved silo owner in either electronic or paper form (Appendix B) and on the terms set out in these contract specifications.

## 2. TRADING SPECIFICATIONS

### 2.1 Price

- (a) The contract price is quoted in South African currency per metric ton, with minimum fluctuations of twenty cents per metric ton with the exception of Sunflower Seeds (reference section 5.4 (f)). Until the first notice day of a contract, the daily fluctuation in the contract price may be limited from time to time by an amount determined by the JSE. For details of these daily fluctuations or price limits see Appendix H.
- (b) The contract price, subject to sections (c), (d) and (e) below, reflects the full consideration payable by the buyer for delivery of Safex silo receipts through the JSE in accordance with these contract specifications. The differentials reflected in sections (c), (d) and (e) are subject to review from time to time as determined by the JSE
- (c) The seller and buyer are responsible for payment of storage and handling charges in terms of 3.1(d) of these contract specifications.
- (d) The contract price, on invoicing, must be adjusted for location differentials as determined by the JSE, in accordance with 3.1(b) of these contract specifications.
- (e) The contract price is exclusive of any value added tax ("VAT") which may be or may become payable thereon. VAT must be added to the contract price on invoicing and is payable by the buyer.

### 2.2 Ownership and risk

- (a) Unless the seller is in default, the risk passes from the seller to the buyer at the close of business on the delivery day for which the seller has given notice of delivery, being delivery of Safex silo receipts through the JSE.
- (b) The right, title and interest of the seller in the product passes to the buyer when the buyer's payment therefore is received, in full, by the JSE or by a settlement agent appointed by the JSE.

### 2.3 Trading days and hours

Trading days are all business days, except for a day which is defined by the JSE as not a trading day. The last trading day is the seventh business day before the last business day of an expiry month. Trading on a trading day commences at 09h00 and ends at 12h00. The JSE will give a minimum of 14 days notice in declaring a business day as not a trading day, provided that the JSE will endeavour to do so before the expiry month in question begins trading.

### 2.4 Expiry months

Hedging months are March, May, July, September and December.

Constant delivery month expiries are January, February, April, June, August, October and November.

### 2.5 JSE

All contracts are (without prejudice to any other provision of these contract specifications) subject to the JSE procedures as may from time to time be adopted by the JSE, provided always that, if any conflict between the JSE procedures and this contract specification arises, the provisions of these contract specifications will prevail. The JSE may at its discretion at any time alter or add to the administrative procedures and any such amendment must be circulated to derivatives members and may effect existing as well as new contracts.

**2.6 Exclusion of liability**

The JSE is not liable for the condition of silos or acts of silo owners, for their availability or suitability for the storage of agricultural product or for the performance by operators of such silos of any responsibilities they may assume towards derivatives members or other persons in relation to these contract specifications or otherwise. Persons acquiring Safex silo receipts (whether in electronic or paper format), placing agricultural product into such silos or taking delivery of goods from the same will accordingly have no claim against the JSE or its representatives for any loss or damage thereby incurred, however such loss or damage may be caused.

No holder of a Safex silo receipt nor any other person will have any claim against the JSE, or any derivatives member, representative or employee, arising from any breach or wrongful act or omission of the silo owner, including but not limited to non-delivery or defective delivery of maize, unsuitability or poor quality of maize, or the insolvency of a silo owner.

The transferor of a Safex silo receipt, who on the first occasion is the depositor, endorses the receipt and warrants that on the transfer date they are the owner of the agricultural product covered by the receipt and, other than the silo owner's lien shown on the face of the receipt, there are no liens or other encumbrances on the said agricultural product except as stated thereon. Should any dispute arise between any parties relating to the transfer of the Safex silo receipt, such persons agree that their claims will be limited to monetary claims and that no person will be entitled to claim that they retain ownership or a real right to the product represented by the receipt after transfer of this receipt. In particular, no person will be entitled to vindicate property alleged to belong to such person and to the extent necessary waives any vindicatory remedies.

**2.7 Margins**

Initial margin payable in terms of the contract, as determined by the JSE, is specified from time to time by the JSE. Initial margin will be held by the JSE until all delivery obligations have been fulfilled

The JSE may call for additional margins at any time and from time to time as may be deemed necessary to preserve the security of the contract

**2.8 Default**

- (a) Upon failure by the seller to make delivery for the contract in terms of these contract specifications, the seller will be in default and the default procedures set out in section 12 of the Derivatives Rules will apply. The defaulting party will be liable for a minimum penalty determined by the JSE at its discretion.
- (b) Upon failure by the buyer to receive delivery for the contract and make payment therefore in accordance with these contract specifications, the buyer will be in default and the default procedures set out in section 12 of the Derivatives Rules will apply. The defaulting party will be liable for a minimum penalty determined by the JSE at its discretion.

### 3. DELIVERY PROCEDURES

#### 3.1 Delivery procedure

The detailed delivery procedure is described in Appendix F.

(a) Method of delivery

A short position holder who wishes to make delivery in satisfaction of a futures contract must provide the JSE, through a clearing or trading member, with a delivery notice. The short futures position indicated by the delivery notice will be assigned by the JSE to a long position holder(s) as described in 3.1(f) below. The JSE will notify the clearing member representing the long position holder of the delivery which has been assigned and will furnish the clearing member representing the short position holder with an invoice representing the notice of delivery.

Delivery by a short position holder to an assigned long position holder will take place through delivery to the JSE of Safex silo receipts on a delivery day, subject to compliance with all the terms of these contract specifications.

(b) Delivery points and location differentials

The delivery points and location differentials will be determined by the JSE to reflect silos that meet the requirements as set out in Appendix D and location differentials reflecting the differential between the silo and Randfontein. The JSE may decide to facilitate delivery of a product at a zero location differential thereby trading no single reference point.

(c) Validity of Safex silo receipts

In order to be valid for delivery against futures contracts, Safex silo receipts must comply with the requirements set out in Appendix E.

(d) Storage and handling

For delivery in completion of a futures contract the following will apply:

(i) The depositor will be responsible for all handling costs payable to the silo owner, including both inloading and unloading of product onto truck alongside silo.

(ii) The storage costs on product deposited in a previous marketing season must be paid up to and including the last calendar day of the marketing season and endorsed on the Safex silo receipt.

(iii) The seller will be responsible for storage charges up to and including the delivery day for which the seller has given notice of delivery, being delivery through the JSE.

(iv) Outstanding storage on Safex silo receipts is subject to the storage tariff as specified by the JSE. This rate includes all storage costs payable to the silo owner. The rate will be quoted in cents per metric ton per day. Such outstanding storage charges due from the seller, which have not been endorsed on the Safex silo receipt by the silo owner as paid, will be deducted from the seller's proceeds by the JSE. Any prepaid storage will not be reimbursed to the seller.

(v) All outstanding storage costs on a product deposited in a previous marketing season must be paid up to and including the last calendar day of the marketing season. If the outstanding storage is not paid up within one calendar month after the last calendar day of the marketing season, the silo owner reserves the right to apply a 10% penalty to the total outstanding storage amount.

(e) Delivery notices and notice days

A short position holder wishing to make delivery against open futures contracts must deliver to the JSE, through the clearing or trading member, a delivery notice in the form required by the JSE, on a notice day. A delivery notice must be delivered as per Appendix F on the business day prior to the intended delivery day. The first notice day on which notices may be delivered, will be the last business day of the month prior to the expiry month. The last notice day will be the second last business day of the expiry month. A notice day must be a business day, provided that the JSE may declare particular days not to be notice days. The JSE will give 14 days notice in declaring a business day as not a notice day, provided that the JSE will endeavour to do so before the expiry month in question begins trading.

- (f) **Assignment of delivery notices**  
 The JSE will assign delivery notices on the notice day on which the notice is received, based on open long positions at the close of trading on that day. Assignment will take place by allocation of delivery notices to long position holders based on the following:
- (i) Exchange for Physical (EFP): both the buyer and seller notify the exchange prior to allocation that they have reached agreement and that the underlying Safex silo receipts will be exchanged between the two parties. The EFP is processed at the current mtm value with the premium exchanged outside of the JSE's settlement process.
  - (ii) Auctioning of Safex silo receipts: clients who have a long position for the specific delivery month will have an opportunity to bid on preferred silo locations, all silo locations that are not bid on will continue as before to be randomly allocated. The premium bid must be a Rand amount per ton and can be defined as the value over and above the Safex price less published location differential.
  - (iii) Random allocation according to a defined methodology: the remaining deliveries will be processed using the current algorithm. The detailed algorithm in use is available on the web page.
- (g) **Date of delivery and delivery days**  
 Delivery against an open futures position may take place on any delivery day during the expiry month, as elected by the seller. The first permissible delivery day will be the first business day of an expiry month. The last permissible delivery day will be the last business day of an expiry month. A delivery day must be a business day, provided that the JSE may declare particular days not to be delivery days. The JSE will give a minimum of 14 days notice in declaring a business day as not a delivery day, provided that the JSE will endeavour to do so before the expiry month in question begins trading. Delivery against an open futures position in an expiry month, may take place on one or more delivery days. Open short positions at the close of trading on the last trading day must be settled by delivery of Safex silo receipts on one of the remaining delivery days.
- (h) **Invoicing and payment**  
 An invoice reflecting the amount payable upon delivery will be included in the daily account summary by the JSE to the clearing member representing the assigned long position holder and payment will take place by 12h00 on the delivery day. Payment will be made at the market-to-market price (process defined in Appendix I) for the trading day immediately preceding delivery day as determined by the JSE, adjusted for value added tax (in the case of wheat, sunflower seeds and sorghum), location differentials (if applicable), grade and/or origin discounts (if applicable), outstanding storage in terms of the contract specification and silo location premiums resulting from the auction.
- (i) **Valid delivery against an open futures position**  
 Valid and acceptable delivery against an open futures position will only be accomplished if the delivery of the Safex silo receipt enables the long position holder to take possession of the underlying commodity as detailed on the receipt.  
 Valid and acceptable delivery will not be accomplished if a short position holder delivers a Safex silo receipt against an open futures position and the long position holder cannot take possession of the underlying commodity due to the default of the silo owner, unless the short position holder can prove that, at the time of the delivery of the receipt, the long position holder could have obtained possession of the underlying commodity from the silo owner.

### 3.2 Alternative delivery procedures

- (a) Notwithstanding any other provision of this contract specification, a seller and buyer may agree to offset their open futures positions against one another and make delivery in a manner other than provided for in this contract.
- (b) In the event that the seller and buyer do so agree, they must each immediately give notice of that fact to the JSE in such form and containing such details as may from time to time be prescribed by the JSE.
- (c) Upon receipt of such notices, the JSE will liquidate the parties' contracts and positions at the price

agreed between the parties and will cease, in respect of any arrangement made pursuant to this rule, to owe any obligations in respect of such contracts and positions towards the seller, the buyer or any other person.

#### 4. EXCHANGE MONITORING

To assist the JSE in monitoring the operation of contracts (but without obliging it to do so and without prejudice to any other power which it might have) the JSE may, at any time and from time to time, require derivatives members and other persons in whose name contracts subject to the contract specifications are registered with the JSE to supply to it such information as it thinks fit. Where appropriate the JSE may require such information to be supplied to it through the clearing member

### B. INDIVIDUAL FUTURES CONTRACT SPECIFICATIONS

#### 5.1 WHITE MAIZE FUTURES CONTRACT

- (a) means white maize from any origin, of the grade “WM1” as defined in the South African Grading regulations, that meets all phyto-sanitary requirements and import regulations, but is not subject to any additional containment conditions;
- (b) a separate white maize contract of grade “WM2” or better may be introduced from time to time but will refer to the same underlying contract specifications as the “WM1” contract in terms of trading specifications and will be identifiable via a different contract code
- (c) maize marketing season is defined as the calendar year beginning on 1 May and ending on 30 April, applicable to all contract expiry months falling in that period;
- (d) contract unit means 100 metric tons of white maize in bulk storage in an approved silo.
- (e) the WMAZ and WOPT contract code represents white maize in bulk storage in an approved silo that may be delivered in satisfaction of maize futures contracts by way of Safex silo receipts. Short position holders may elect to make delivery on any delivery day in the expiry month. Short positions that remain at the close of business on the last trading day, must be settled by physical delivery by the last delivery day.  
Delivery in completion of the contract may be subject to a fee for both the short position holder making delivery and the long position holder taking delivery as may be determined by the JSE from time to time.
- (f) Positions limits are applicable to all non-hedger participants as per the derivative rules 10.4.1 with the limits defined as per Appendix G

#### 5.2 YELLOW MAIZE FUTURES CONTRACT

- (a) means yellow maize from any origin, of the grade “YM1” as defined in the South African Grading regulations, that meets all phyto-sanitary requirements and import regulations, but is not subject to any additional containment conditions;
- (b) a separate yellow maize contract of grade “YM2” or better may be introduced from time to time but will refer to the same underlying contract specifications as the “YM1” contract in terms of trading specifications and will be identifiable via a different contract code
- (c) maize marketing season is defined as the calendar year beginning on 1 May and ending on 30 April, applicable to all contract expiry months falling in that period;
- (d) contract unit means 100 metric tons of yellow maize in bulk storage in an approved silo.
- (e) the YMAZ and YOPT contract code represents yellow maize in bulk storage in an approved silo that may be delivered in satisfaction of maize futures contracts by way of Safex silo receipts. Short position holders may elect to make delivery on any delivery day in the expiry month. Short positions that remain at the close of business on the last trading day, must be settled by physical delivery by the last delivery day.  
Delivery in completion of the contract may be subject to a fee for both the short position holder making delivery and the long position holder taking delivery as may be determined by the JSE from time to time.



- (f) Positions limits may be applied to all non-hedger participants as per the derivative rules 10.4.1 should the JSE decide to introduce these.

### 5.3 BREAD MILLING WHEAT FUTURES CONTRACT

- (a) means bread wheat originating in South Africa, Argentina, USA Hard Red Spring (Dark Northern Spring & Northern Spring Wheat), USA Hard Red Winter, no 3 or better Canadian Red Western Spring wheat, Australian Hard wheat, Australian Prime Hard, Australian Prime White, Australian Standard White wheat and German Type A or B wheat of sound, fair and merchantable quality which is fit for human consumption and which complies with the physical criteria for grade 1, grade 2 and grade 3 as detailed in the Regulations relating to grading, packing and marking of bread wheat intended for the sale in the Republic of South Africa. The par grade traded is grade 1 however grade 2 and grade 3 will be accepted for delivery in completion of a futures contract at a cash discount as defined by the JSE from time to time.
- (b) wheat marketing season means the calendar year beginning on 1 October and ending on 30 September, applicable to the all contract expiry months falling in that period;
- (c) contract unit means 50 metric tons of wheat in bulk storage.
- (d) Wheat in bulk storage in an approved silo may be delivered in satisfaction of wheat futures contracts by way of delivery of Safex silo receipts. Short position holders may elect to make delivery on any delivery day in the expiry month. Short positions that remain at the close of business on the last trading day, must be settled by delivery by the last delivery day.  
Delivery in completion of the contract may be subject to a fee for both the short position holder making delivery and the long position holder taking delivery as may be determined by the JSE from time to time.
- (e) Positions limits may be applied to all non-hedger participants as per the derivative rules 10.4.1 should the JSE decide to introduce these.

### 5.4 SUNFLOWER SEEDS FUTURES CONTRACT

- (a) means sunflower seed containing high oil content grown in the Republic of South Africa of sound fair and merchantable quality which is classified as class FH as defined by the South African Grading Regulations.
- (b) sunflower seed marketing season means the calendar year beginning on 1 February and ending on 31 January, applicable to all contract expiry months falling in that period.
- (c) contract unit means 50 metric tons of sunflower seed in bulk storage.
- (d) Sunflower seed in bulk storage in an approved silo may be delivered in satisfaction of sunflower seed futures contracts by way of delivery of Safex silo receipts. Short position holders may elect to make delivery on any delivery day in the expiry month. Short positions which remain at the close of business on the last trading day, must be settled by delivery by the last delivery day.  
Delivery in completion of the contract may be subject to a fee for both the short position holder making delivery and the long position holder taking delivery as may be determined by the JSE from time to time.
- (e) No participant (defined as a member or registered client) or associated group of participants may hold in excess of 1700 contracts of a particular delivery month contract within 10 days of the first delivery day of the month in question, except during the harvest period from March up to and including May, the position limit will allow for a maximum of 2500 contracts.  
The JSE will provide special dispensation to financiers in terms on the above position limits should they confirm in writing that their positions are a result of a funding transaction where the client is no longer able to repurchase the product.
- (f) Further to 2.1 (a) of the contract specifications, the minimum price fluctuation for sunflower seeds is R1.00 per metric ton.

## 5.5 SOYBEANS FUTURES CONTRACT

- (a) means the threshed seeds of the plant *Glycine mar.* Soybeans, from any origin, conforming to the class SB as defined in the South African grading regulations of the Agricultural Products Standards Act 119 of 1990, will be acceptable for delivery in completion of a futures contract.
- (b) soybeans marketing season means the calendar year beginning on 1 January and ending on 31 December, applicable to all contract expiry months falling in that period.
- (c) contract unit means 25 metric tons of soybeans in bulk storage.
- (d) soybeans in bulk storage in an approved silo may be delivered in satisfaction of a soybeans futures contract by way of delivery of Safex silo receipts. Short position holders may elect to make delivery on any delivery day in the expiry month. Short positions which remain at the close of business on the last trading day must be settled by delivery by the last delivery day.

Delivery in completion of the contract may be subject to a fee for both the short position holder making delivery and the long position holder taking delivery as may be determined by the JSE from time to time.

- (e) No participant (defined as a member or registered client) or associated group of participants may hold in excess of 1600 contracts of a particular delivery month contract within 10 days of the first delivery day of the month in question, except during the harvest period from March up to and including May, the position limit will allow for a maximum of 2400 contracts.

The JSE will provide special dispensation to financiers in terms on the above position limits should they confirm in writing that their positions are a result of a funding transaction where the client is no longer able to repurchase the product.

## 5.6 SORGHUM FUTURES CONTRACT

- (a) means sorghum of South African origin which complies with the physical criteria for grade GM1, as detailed in the South African grading regulations of the Agricultural Product Standards Act of 1990
- (b) sorghum marketing season means the calendar year beginning on 1 May and ending on 30 April, applicable to the March, May, July, September and December contract expiry months falling in that period.
- (c) contract unit means 100 metric tons of sorghum in bulk storage.
- (d) sorghum in bulk storage in an approved silo may be delivered in satisfaction of a sorghum futures contract by way of delivery of Safex silo receipts. Short position holders may elect to make delivery on any delivery day in the expiry month. Short positions which remain at the close of business on the last trading day must be settled by delivery by the last delivery day.

Delivery in completion of the contract may be subject to a fee for both the short position holder making delivery and the long position holder taking delivery as may be determined by the JSE from time to time.

- (f) No participant (defined as a member or registered client) or associated group of participants may hold in excess of 180 contracts of a particular delivery month contract within 10 days of the first delivery day of the month in question, except during the harvest period from May up to and including July, the position limit will allow for a maximum of 300 contracts.

The JSE will provide special dispensation to financiers in terms on the above position limits should they confirm in writing that their positions are a result of a funding transaction where the client is no longer able to repurchase the product.

6. OPTION CONTRACT SPECIFICATIONS

The following specifications are applicable to all agricultural derivatives traded unless otherwise stated:

<b>Underlying instrument:</b>	One agricultural derivatives futures contract
<b>Option type:</b>	The option type is an American style option and may be exercised at any time before or on expiry date.
<b>Contract size:</b>	<p><b>White and Yellow Maize and Sorghum:</b> The size of one option contract is 100 (one hundred) tons of the underlying commodity.</p> <p><b>Wheat and Sunflower Seeds:</b> The size of one option contract is 50 (fifty) tons of the underlying commodity.</p> <p><b>Soybeans:</b> The size of one option contract is 25 (twenty five) tons of the underlying commodity.</p>
<b>Price quotation:</b>	Options will be quoted in whole rand per option contract.
<b>Strike price:</b>	The strike prices will be in intervals of R20.00 per ton.
<b>Expiry dates and times:</b>	Close of trade on fifth last business day of the month preceding the expiration month of the underlying futures contract.
<b>Exercise:</b>	Long position holders may exercise/abandon their options during market hours at any time up to and including 15 minutes prior to the expiration date; provided that all in-the-money options shall be automatically exercised by the exchange at expiration.
<b>Mark-to-market:</b>	<p>The mark-to-market (mtm) price of the option will be calculated through the Black Scholes options pricing model utilising the underlying futures and volatility mtm of the specific expiry. The daily mtm process is further defined in Appendix I.</p> <p>The futures mtm on option expiration day will take place 30 minutes earlier and published via the JSE Commodities Trading System</p>

**C. APPENDICES TO AGRICULTURAL DERIVATIVES CONTRACT SPECIFICATIONS**

In these appendices, words and expressions that are defined in the Derivatives rules will, unless stated otherwise or inconsistent with the context in which they appear, bear the meanings assigned to them in the Derivatives rules.

**APPENDIX A : Approved silos**

The current list is available directly from the JSE or can be found on the web page <http://www.safex.co.za/commodities>.

**APPENDIX B : Safex silo receipts**

In the interests of security only a hard copy of the paper Safex silo receipt is available upon request from the JSE.

One Exchange Square

Gwen Lane

Sandown

South Africa

A copy of the electronic Safex silo receipt is available to all registered participants from the preferred service provider.

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**APPENDIX C: Requirements for Approved Silo Owners****1 Financial standing**

- 1.1 The silo owner shall be in good financial standing and credit, and shall have an ongoing net financial worth as determined by the storage capacity of the silo owner. Financial net worth shall be determined as the aggregate of all classes of ordinary and preference shares, share premiums, capital redemption reserve funds, disclosed distributable reserves (including policy holder and member reserves), fully subordinated liabilities or liabilities repayable at the sole option of the company, specifically excluding any non-distributable reserves and tax reserves. The net financial worth required will be as follows for the silo owner (includes all registered delivery points):
  - R20 million for a storage capacity of up to and including 60,000 metric tons,
  - R40 million for a storage capacity of up to and including 100,000 metric tons,
  - R60 million for a storage capacity over 100,000 metric tons
- 1.2 Notwithstanding the above, the requirement for additional financial guarantees may be called upon at any time at the discretion of the JSE. In the event that this is required, the silo owner will have *15 working days* to provide the guarantee in the form as specified by the JSE.
- 1.3 The silo owner shall annually furnish the JSE with written confirmation by its auditor of its financial position and ability to meet its obligations to the holders of Safex silo receipts. This confirmation must reach the JSE no later than one month from the date the financial statements are finalised. Should the financial position change whereby the financial obligations cannot be met as defined in section 1.1 and 1.2 of Appendix C, the JSE must be informed immediately.
- 1.4 The JSE reserves the right to request un-audited financial statements at any time and which must be supplied within 15 working days.
- 1.5 If a silo owner, for any reason fails to deliver the quantity and quality of the commodity as reflected on the face of the receipt, apart from the exceptional circumstances mentioned in section 6.4 and 6.5 of the same appendix, and as stipulated in the Agricultural Derivatives Contract Specifications, the silo owner shall within 24 hours of notification by the JSE pay a cash settlement to the holder of the receipt. The cash settlement value will be determined by the JSE by referencing the near month mark-to-market price of the applicable product as traded on the JSE, discounting any differentials and grade discounts that may be applicable. In addition thereto, the silo owner will be liable for a cash penalty of an additional 30% of the cash settlement value as determined by the JSE, of which a portion will be payable to the holder of the receipt.

**2 Experience, Expertise and Equipment**

The silo owner and management shall have a well referenced two year successful operational track record, in the opinion of the JSE, and have adequate experience and technical expertise in the handling and storing of the commodity. Each silo registered with the JSE by the silo owner shall have the necessary equipment and appliances for the convenient and expeditious receiving, storage and unloading of the commodity in bulk under all weather conditions according to accepted silo management practices.

All weather conditions can further be defined as being able to provide the required, in and out loading service under reasonable wet and windy conditions.

Each individual silo shall be operated by properly trained and qualified personnel.

**3 Legal standing**

The silo owner shall be a legal entity registered in the Republic of South Africa.

**4 Compliance with Rules of the JSE and Terms of the SAFEX Futures Contract**

- 4.1 The silo owner is bound by, and shall comply with, the Rules of JSE, and the terms of the Agricultural Derivatives Contract Specifications and Appendices thereto insofar as they relate to Safex silo receipts issued by such silo owner. The silo owner shall store all commodities covered by Safex silo receipts on the basis and terms as stipulated in the JSE's Rules, Contract Specifications and Appendices thereto.
- 4.2 The silo owner undertakes and warrants that it will not conclude any concurrent storage agreements that may have terms that are inconsistent or in conflict with the JSE's Rules, Contract Specifications and Appendices thereto with any party in respect of commodities stored in terms of Safex silo receipts. In the

event of such inconsistency or conflict, the provisions of the JSE's Rules, Contract Specifications and Appendices thereto will prevail.

## 5 Record-keeping, Inspection and Reporting

- 5.1 The silo owner shall maintain proper records, including the date of receipt, quantity, quality and silo location of the commodity, reflected on every Safex silo receipt issued to enable the JSE to verify and audit the commodities stored by the silo owner.
- 5.2 The JSE is entitled to appoint a suitably qualified person to ascertain whether the silo owner complies with the rules and directives of the JSE. The inspection will independently confirm that the monthly reporting requirements as per 5.6 are correct and will be arranged in consultation with the management of the silo owner.
- 5.3 The silo owner shall provide the JSE with a copy of each paper Safex silo receipt within a week of its issue. The silo owner shall notify the JSE of its presentation or redemption through the required monthly reporting as indicated in section 5.6 of this appendix. All electronic Safex silo receipts issued and cancelled by the silo owner will be available online via the preferred service provider.
- 5.4 The silo owner shall, to the satisfaction of the JSE, ensure:
  - 5.4.1 that all paper Safex silo receipts, both issued and unissued, are stored in secure location under lock and key;
  - 5.4.2 that all electronic Safex silo receipt number ranges issued to silo owners or their nominated third party is kept secure;
  - 5.4.3 that a register is maintained of all Safex silo receipts received;
  - 5.4.4 that a register is maintained of all Safex silo receipts issued;
  - 5.4.5 that a responsible person(s) is appointed to ensure that all the paper Safex receipts are stored in safe custody and to ensure that all entries in the silo receipt register are correctly made;
- 5.5 The silo owner shall furnish the JSE with a list of employees authorized to issue paper Safex silo receipts as well as specimen signatures of the authorized signatories.
- 5.6 The silo owner shall submit monthly returns in the prescribed format to the JSE reflecting the total tonnage of JSE traded grain products in storage per type, quality and location as represented by Safex silo receipts, individual receipts and grain held on folio (includes grain held for third parties). The returns must be approved by a senior member of the management team and will remain confidential within the JSE.
- 5.7 The silo owner shall biannually furnish the JSE with written confirmation from its external auditors, within one month of this process being completed, confirming that there is sufficient physical product of the required quality and quantity stored by the silo owner, to meet all its obligations to depositors and/or silo receipt holders (both Safex and individual silo receipts issued).
- 5.8 The silo owner shall provide the JSE with a copy of all South African Grain Information Service (SAGIS) Audit Letters resulting from physical audits within seven days of receiving such. The letters will remain confidential within the JSE and will be used to assess the silo owner's ability to meet their storage obligations. The JSE and registered silo owner indemnifies SAGIS and its Inspectors from any disputes and/or inaccuracies that may arise in the audit letters.

## 6 Further duties of the silo owner

- 6.1 The silo owner shall, after receipt of the commodity, store the product on behalf of the holder of the Safex silo receipt and take good and reasonable care of the commodity according to accepted silo management practice applicable to the storage of the commodity. Other than storage costs, no additional costs to maintain the quality of the product, shall be levied on the receipt holder.
- 6.2 The silo owner shall identify the country of origin of all commodities stored by it. If the silo owner holds commodities from different countries of origin, such commodities have to be stored separately in compliance with all the delivery requirements of a futures contract.
- 6.3 The Safex silo receipt issued by the silo owner to the holder, shall be irrefutable proof of the net weight and quality of the commodity stored on behalf of the holder of the receipt in the silo owner's facilities.

- 6.4 The location indicated on the silo receipt reflects the registered delivery location of the product where the product should be made available. The JSE however, accepts that exceptional circumstances may exist that would necessitate a change in the registered delivery location where the product is made available. These circumstances must be notified in advance, unless such notice is not reasonably possible, to the JSE and the silo owner shall be liable for any additional transportation costs occasioned by the holder of the Safex silo receipt due to the silo owner's alteration of the delivery location appearing on the face of the receipt.
- 6.5 With specific reference to the out loading of wheat, the silo owner undertakes to out load the quality of wheat as indicated on the face of the receipt. The JSE however accepts that circumstances may exist due to the complexities of storing wheat that result in the specific quality not being available, in this instance the silo owner may out load one grade category better or worse, based on the quality indicated on the face of the receipt. The difference in grade quality will either be reimbursed or collected from the holder of the Safex silo receipt using the grade discounts as defined by the JSE for that marketing season with the adjustment applied at the time of out loading.
- 6.6 The silo owner acknowledges and warrants that it is not the owner of the commodity covered by the receipt (except for receipts issued in its own name). The silo owner further warrants that the lien shown on the face of the receipt is the only security it holds for payment of the storage costs of the commodity covered by the receipt.
- 6.7 The silo owner stores the grain for the depositor, who shall pay storage charges in terms of a tariff as determined by the JSE for such storage.
- 6.8 Should grain so deposited become merged with grain already contained in the silo, the resulting bulk of grain shall constitute the joint property of the various depositors, each of whom shall hold an undivided share therein expressed as a fraction equal in extent to the quotient of the total mass of the bulk from time to time, divided by the mass of each individual deposit of grain, and adjusted according to the same formula whenever a portion of the bulk of grain is withdrawn from the silo by one or more of the co-owners, or a further deposit of grain is made.
- 6.9 The silo owner is authorised to act as the agent in rem suam of each depositor in binding them to the co-ownership of the grain, to adjust the composition of such co-ownership and to adjust each co-owner's share as and when a withdrawal of grain is made from the silo by any of the co-owners, or a further deposit of grain is made.
- 6.10 The silo owner holds the grain for and on behalf of each of the co-owners during the currency of the storage and acknowledges that he is not the owner or co-owner thereof.
- 6.11 The silo owner acknowledges that the depositors may alienate their respective shares, in which event this receipt will be transferred to the purchaser pursuant to such sale.
- 6.12 Upon the aforesaid transfer of the silo receipt, the silo owner will henceforth hold the grain on behalf of the newly constituted body of co-owners including the transferee of the silo receipt and declares that he will acknowledge and abide by the rights of every such subsequent holder of the silo receipt in terms of the provisions recorded herein and in terms of the Rules of the JSE.

## 7 Insurance

- 7.1 Silo owners shall have current and adequate insurance policies in place with reputable insurers as determined by the JSE ensuring that the silo buildings, equipment and all commodities stored therein are comprehensively insured against the following minimum risks: fire, earthquake, earth tremor, malicious damage, storm, flood, spontaneous combustion and explosion, lightning, terrorism, theft, and public violence. The silo owner shall also have insurance in place to cover damages suffered as a result of fraud by its employees.
- 7.2 The silo owner shall annually furnish the JSE with a declaration from its insurer certifying the details of the amount and risks for which the silo owner is insured. Included in the annual declaration from the insurer must be details about events, specific to the grain products traded on the JSE, that resulted in any claims by the silo owner for the previous year. The silo owner shall inform its insurer that it stores commodities on behalf of the holders of Safex silo receipts.

## 8 Handling Procedures

Silo owners shall during normal working hours inload and outload the commodity consecutively without giving unreasonable preference to one receipt holder, depositor or owner of the commodity over another. The commodity

shall, on request within a reasonable notice period by a receipt holder, be out loaded at the minimum rate as defined in Appendix D section 2. Silo owners shall not be responsible for a delay in delivery whilst a condition of force majeure exists. All commodities inloaded and outloaded shall be subject to adequate and accurate grading and weighing procedures. Silo weighing equipment shall be on site and certified as per the Trade Metrology Act, no 77 of 1973.

A condition of force majeure, resulting in a delay in out loading by a silo owner, is defined as:

The silo operator shall not be responsible for any delay in despatch or delivery of commodity or any part thereof occasioned by any act of God, action by government, strikes within RSA, lock-out, combination of workmen, break-down of machinery, power failure or fire, or for any other reason beyond his direct control, provided that the silo operator despatches written notice (can be e-mail or fax) to the other party (with a copy to Safex) within twenty four hours of establishing the occurrence. Unless otherwise mutually agreed, the silo operator invoking Force Majeure is entitled to an extension in the time allowed for the despatch of the commodity. Neither party shall have a claim against the other for delays or non-fulfilment under this clause provided that the party invoking this clause shall have supplied, if so requested by the other, satisfactory evidence indicating that they had undertaken reasonable steps to avoid the delay or non-fulfilment.

## 9 Disputes

- 9.1 The silo owner shall report all disputes relating to these requirements and Safex silo receipts as soon as they occur, directly to the JSE.
- 9.2 Any dispute that may arise between a silo owner and the holder of a Safex silo receipt that has been delivered or received in fulfilment of a party's obligations in respect of a futures contract listed and traded on the JSE, will be resolved by arbitration.
- 9.3 The provisions of the Arbitration Act, 1965 (Act No 42 of 1965) shall apply to the arbitration proceedings. The arbitration shall be held at the offices of the JSE and the arbitrator shall be appointed by the JSE. The JSE and/or the arbitrator may request any party to such a dispute to furnish the arbitrator with written particulars of the dispute and the JSE and/or the arbitrator may call for additional information relating to the dispute, if necessary.
- 9.4 Subject the arbitrator's award, the parties shall be jointly liable for the costs of the arbitration and shall be obliged to pay to the JSE such amount as the JSE may determine before the arbitration proceedings commence. Should any party fail or refuse to pay on demand any costs due, an award dismissing his claim or defence with costs shall be made by the arbitrator.
- 9.5 The arbitrator shall make his award within five days of the conclusion of the arbitration proceedings. The arbitrator shall give due weight to the customs and practices of the JSE applicable to transactions concluded on the Commodity Derivatives market of the JSE. The arbitration proceedings shall be conducted without any legal representation by any of the parties unless the arbitrator in his sole discretion decides otherwise. The arbitrator's award shall be final and binding on the parties and the arbitrator shall not be obliged to give reasons for his award.

## 10 Decision by JSE final

- 10.1 With any new application, an official market notice will be distributed affording Commodity Derivative Members 15 business days to provide comment regarding the new application.
- 10.2 A final market notice will be distributed confirming if the application was successful.
- 10.3 Once approved, the JSE reserves the right to limit a silo owner in terms of the quantity (in tonnage terms) of Safex silo receipts that may be issued at any one time. This restriction will be communicated to the market via an official notice.



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**APPENDIX D: Requirements for Approved Silos****1. General**

- 1.1 The approved silo must have a minimum storage capacity of 10 000 metric tons (maize equivalent) and the necessary mechanical equipment in working order for the effective and expeditious inloading, storage and outloading of grain in bulk
- 1.2 The silo must be so located such as to allow the outloading of product via road at the required load-out rate, under all weather conditions. Silos that have both road and rail access will be identified with the location differential recognising this service.
- 1.3 The silo must be so located that access is possible via a road network with the silo owner responsible to maintain access to the inloading and outloading areas within the silo complex.
- 1.4 Any new application will require confirmation through a JSE appointed auditor, of the maximum storage capacity, in and out loading capabilities including all weather facilities of the individual silo. Any costs associated to this process will be for the account of the silo applicant.
- 1.5 The property whereon the registered silo is situated must be owned by the silo owner or a minimum five year lease of the property must be in place. The JSE reserves the right to call for additional guarantees from the silo owner should the lease near expiry.

**2. Minimum load-out rate**

The silo shall have a minimum load-out rate of 500 tons of the commodity on a maize equivalent basis per 9 (nine) hour working day, under all weather conditions, subject to the requirements described in paragraph 8 of Appendix C.

**3. Decision by JSE final**

With any new application specific to the storage of any product, an official market notice will be distributed affording APD members 15 business days to provide comment regarding the new application.

**4. Deregistration of an approved silo**

- 4.1 If an approved silo fails to meet any of the requirements for approved silos for any reason whatsoever, the JSE will deregister the silo with immediate effect.
- 4.2 The failure of a registered silo owner to, at any time, comply with the requirements for approved silo owners as stipulated in Appendix C to the contract specifications will result in the immediate deregistration of all the silo owner's approved silos.
- 4.3 In the event of a change of ownership of approved silos, the new silo owner and all its registered silos have to meet the requirements of Appendices C and D of the contract specifications. If any of these requirements are not met, the silo owner and/or its relevant registered silos will be deregistered with immediate effect.
- 4.4 Once deregistered, the silo owner together with the JSE, will do everything within reason to collect all Safex silo receipts still available in the market. The silo owner will transfer all physical stock onto the holders name who presented the original silo receipt and if need be replace with the silo owners own silo receipt at no additional cost.
- 4.5 The obligations of the silo owner as grain storer, remain the same throughout the process, to provide the holder of the silo receipt with the required grade, of the defined quantity at the listed delivery point referencing the storage date last paid to.
- 4.6 The JSE reserves the right to appoint a collateral manager, to manage the deregistration process. This will only be applicable if the deregistration is a result of mismanagement of physical stock by the silo owner thereby not able to honour Safex silo receipts issued. Should the deregistration be due to no fault of the silo owner the intervention of a collateral manager will not be required.

**5. Voluntary deregistration of an approved silo**

- 5.1 A silo owner must apply in writing to the JSE if it desires to deregister an approved silo. The JSE will publish the application by notice to all APD members. The members of the APD will be afforded 15 business days to lodge any objections to the intended deregistration of the silo.

- 5.2 If the JSE is of the opinion that the application for the deregistration of the silo will be prejudicial to the interests of any party or to the APD, it may prescribe further conditions for the intended deregistration of the approved silo.
- 5.3 The JSE will publish its decision relating to the intended deregistration of an approved silo by notice to the applicant and Commodity Derivative Members.
- 5.4 Once deregistered, the silo owner will continue to honour all conditions indicated on the silo receipt and will be required to follow the same deregistration process as defined in section 4 above.

**APPENDIX E: Procedures for issue, transfer, delivery and presentation of paper and electronic Safex silo receipts****Paper Safex silo receipts**

1. Paper Safex silo receipts must be prepared by a silo owner on sequentially numbered stationery provided by the JSE, consisting of an original attached to two carbon copies.
2. Upon issue of a Safex silo receipt by a silo owner, one copy must be sent to the JSE, the other copy must be retained by the silo owner and the original must be handed over to the owner of the commodity.
3. To be acceptable for delivery in satisfaction of a futures contract, a Safex silo receipt must have been issued by a silo owner and the original Safex silo receipt must be properly endorsed by the seller as transferor.
4. Upon presentation of a Safex silo receipt to a silo owner for physical delivery of the commodity, the JSE will on request by the silo owner confirm the identity of the current holder of the silo receipt by reference to its records of physical delivery. The silo owner must notify the JSE following the presentation and cancellation of the silo receipt.

**Electronic Safex silo receipts**

1. Electronic Safex silo receipts must be issued by an authorised silo owner using electronic receipt numbers as allocated by the JSE
2. The JSE will at all times have access to the database of electronic Safex silo receipts hosted by the preferred service provider containing the details of the issued receipt together with a full history of the transfer of ownership of the commodity covered by the receipt.
3. Only registered participants of the preferred service provider and agricultural clients of the JSE will have access to electronic receipts and be able to deliver them onto the JSE in fulfilment of futures contracts.
4. To be acceptable for delivery in satisfaction of a futures contract, a electronic Safex silo receipt must have been issued by a silo owner with transfer of ownership of the underlying commodity facilitated electronically via the preferred service provider
5. Upon presentation of an electronic Safex silo receipt to a silo owner for physical delivery of the commodity, the JSE will on request by the silo owner confirm the identity of the current holder of the silo receipt by reference to its records of transfer in the electronic database. The database will be updated once the silo owner cancels the silo receipt.

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**APPENDIX F: Procedures for the physical delivery, auctioning and close -out of agricultural derivatives futures contracts****1. Procedures for physical delivery of futures contracts on or before the last trading day****1.1 Notice day (business day prior to delivery day)**

- 1.1.1. A delivery notice in the required format must be submitted to the Commodity Derivatives Division by no later than 12h45. Delivery notices received after 12h45 will be treated as delivery notices for the following business day.
- 1.1.2. Both paper and electronic Safex silo receipts are required to be available at the JSE no later than 12h45. The receipts are checked for authenticity and acceptability in terms of the contract and a record of receipt with confirmatory signatures confirming delivery is issued. The JSE will keep the paper Safex silo receipts safe.
- 1.1.3. Exchange for Physicals (EFP) will be accommodated provided both the short and long position holders have confirmed the process clearly on the delivery notice tender and received confirmation thereof from the exchange.
- 1.1.4. All Safex silo receipts not flagged for EFP's will be made available for auctioning whereby long position holders with a position in the specific delivery month will be able to bid for individual silo's as tendered. The auction process will commence at 11h30 and close at 13h00, the auction closes randomly in the last 60 seconds. All silo auction bids may be suspended up until 12h30 thereafter bids remain valid until the auction closes. Once the auction closes, delivery at silos will be allocated to long position holders based on the premiums bid and available long positions. All premiums resulting from the silo auction will be passed onto the short position holders through the delivery invoices.
- 1.1.5. Random assignment will take place with no discrimination between paper or electronic Safex silo receipts tendered. Should electronic receipts be allocated to clients who are not participants of the preferred service provider, the electronic receipt will be converted to paper at no cost to the long position holder.
- 1.1.6. The JSE systems will close out all short and long futures position as a result of the physical delivery tendered and ensure a unique delivery position is created to identify the process and maintain the required initial margin until the delivery is complete.
- 1.1.7. The JSE will distribute both delivery and assignment invoices using the mark-to-market of the day to the clearing member representing the short and long position holder.

**1.2 Delivery day (business day following notice day)**

- 1.2.1. The JSE confirms with the clearing member the payment required from the long position holder by 12h00 and arranges to settle the same amount with the short positions holders clearing member.
- 1.2.2. The JSE systems close out the unique delivery position and authorises the repayment of initial margins for the following business day.
- 1.2.3. As from 14h00 the paper Safex silo receipts are available for collection by the clearing members or their appointed agents, representing the long position holders. Should an appointed agent be utilized to collect the paper Safex silo receipt the member is required to send full details of the person/courier responsible for the collection. A record of delivery of paper Safex silo receipts with confirmatory signatures is issued upon collection.
- 1.2.4. All electronic Safex silo receipts will be released to the respective long position holders at 14h00, unless otherwise requested by the clearing member.

**2. Procedures for physical delivery of futures contracts after the last trading day (contract expiry day)****2.1 Last trading day**

The last trading day will be the seventh business day before the last business day of an expiry month. The JSE systems will close out all remaining futures positions into unique delivery positions at the mark-to-market price of the day and increase the initial margin requirement as agreed to from time to time.

**2.2 Notice day**

The procedure as described in 1.1 will prevail however for invoicing the mark-to-market price of the last trading day will apply.

**2.3 Delivery day**

The procedure as described in 1.2 above will prevail.

**APPENDIX G: Speculative Position Limits**

Contract	Limits by number of contracts – Futures Equivalent		
	Spot Month	Single Month	All Months Combined
White Maize	300	1500	3000

Note: currently only applicable to the white maize contract.

**APPENDIX H: Daily price limits applicable to the contract until first business day of the delivery month**

	Everyday price limit	Extended price limit
White Maize, Yellow Maize:	R80/t	R120/t
Wheat :	R100/t	R150/t
Sunflower Seeds:	R90/t	R135/t
Soybeans:	R70/t	R105/t
Sorghum:	R50/t	R75/t

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**APPENDIX I: Mark-to-Market procedure for future expiries and option volatility specific to the future expiry month****1. Mark-to-Market (mtm) procedure for futures expiries:**

MTM for the day which is also referred to as the settlement price is determined at random any time in the last 5 minutes of trading at the discretion of the exchange.

There are two procedures followed when determining the mtm. The procedure used depends on the liquidity of the future contract

- **For Liquid Futures Contracts**

A contract will be considered liquid on the trading day for the purpose of determining the mtm, if **100 or more** contracts trade during the last 30 minutes of a trading session.

MTM prices are determined by using the value weighted average price (VWAP) method in the last 30 minutes of the trading session. Only on screen traded prices will be taken into account when determining the mtm for liquid contracts

**Note:** VWAP will not be taken into consideration under two instances

- (I) Where the market is bid limit up or offered limit down in the last 15 minutes with limited or no trade taking place. In this case the mtm will be at the limit.
- (II) When the VWAP has resulted in the mtm outside the daily price limits due to spread trades. In this case the mtm will be at the price limit.

- **For illiquid Futures Contracts**

A contract will be considered illiquid on the trading day for the purpose of determining the mtm, if **less** than 100 contracts trade during the final 30 minutes of a trading session.

**Note:** assigned trades (give ups), EFP's, EFR's, ring fenced trades, same client net offs and corrections will not be considered as trades and will not be taken into account in the determination of liquidity.

The mtm procedure for illiquid contracts is as follows; the mtm price shall reference the random snap shot of the last traded price **unless** the closing bid is above the last traded price, in which case the closing bid shall be the mtm price. Should the offer be lower than the last traded price then the offer will be used as the mtm.

**Note:** The bids and offers must have appeared on the trading screen (Nutron) for such time that will allow the market participants to trade at the prices in question before close of trading. Furthermore a bid, offer or trade, resulting from a spread trade or quote, outside the prevailing daily limits will not be taken into account for mtm purposes.

**2. Options Volatility Mark-to-Market**

The following methodology is used when determining the mtm volatility:

- Options traded over the last hour of the trading session will be considered for the mtm process
- Two strike prices (50 points) either side of the option at the money will be considered eg if at the money strike is 600, then 560, 580 and 620, 640 strikes will be considered in the process
- If 60 or more contracts have traded for the entire day, the contract will be considered liquid

- The opposite applies to illiquid contracts, if less than 60 contracts have traded for the entire day then the contract is classified illiquid
- If classified as liquid, then a volume weighted average of 40 or more contracts will be required in the last hour of trade as the mtm volatility, if this quantity does not trade then the volatility will remain unchanged
- If classified as illiquid, then a volume weighted average of 20 or more contracts will be required in the last hour of trade for the m-t-m volatility, if this quantity does not trade then the volatility will remain unchanged
- As an exception, where the future contracts trade limit up or down for most of the option mtm period, only options traded on the delta option window will be considered for mtm volatility purposes
- No options traded on price through the naked option window will be considered
- If the number of delta options traded do not meet the liquid or illiquid criteria as described above, the bids and offers on the delta window will be considered as a last resort and at the exchanges discretion
- The exchange reserves the right to make the final decision regarding the mtm volatility and may exercise its discretion as need be.

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