JOHANNESBURG STOCK EXCHANGE
SAFEX Commodity Derivatives

Market Notice

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Refining the Futures Mark-to-Market (MTM) process

Following Market Note A1732 of 04 December 2012, we saw the implementation of the updated mark-to-market (MTM) methodology that recognised calendar spread relationships between the various grain products. The new methodology was implemented on the 10th December 2012.

While the new process was well-received by the market, since its implementation we identified practical challenges in specific instances. These were discussed with the Agricultural Advisory Committee at a meeting held on the 18th April 2013 with the suggested changes to the futures MTM process endorsed and described (changes in bold) below:

- *MTM for the day, which is also referred to as the settlement price, will rely on a random sample selected any time in the last 5 minutes of trading at the discretion of the exchange.*
- *Based on the random snapshot selected, the MTM price is a function of referencing the last traded price unless there is a better bid or lower offer. If the closing bid is above the last traded price this will then be used as the MTM, alternatively if the offer is lower than the last traded price then the offer will be used as the MTM.*
- *Following this the spread relationship per product is determined across all expiries based on the sample set that was randomly selected.*
- *Then to recognize the liquid expiries within the MTM process, the most liquid expiry per product meeting the Volume Weighted Average Price (VWAP) criteria is selected as the reference from which all other expiries are adjusted by the spread difference, the following applies:*
  - *An expiry will be considered liquid on the trading day for the purpose of determining the MTM if **50 or more** contracts trade during the last 15 minutes of a trading session*
  - *Should multiple expiries per product meet this criteria, only the most liquid will be selected as the reference expiry month*
  - *Only on screen traded activity will be taken into account when determining the VWAP*
  - *Please note the VWAP will not be taken into consideration on the day should the following occur, **in which case the random snapshots will prevail:***
    1. ***where at least one expiry of the contract series is MTM at the daily price limit, or***
    2. ***when the VWAP has resulted in the MTM for any of the expiries of the contract series to be outside of the daily price limits.***

- *Once the reference VWAP value is determined and meets the eligibility criteria, it becomes the reference price from which all the other expiries are adjusted by the spread difference. This is done in order to maintain the same spread relationship amongst the contract expiries before and after the VWAP is recognized.*
- *In the event that no product has any expiries meeting the VWAP criteria, the random snapshot as selected will prevail without any further adjustments.*

The changes will be **applied as from Monday 29th April 2013** with the website also updated with the amendments. We are confident this refined methodology will continue to strengthen the end of day MTM process and evolution of the commodities market.

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