

POLICY DOCUMENT

SSF and IDX Listing Requirements

PTS-Risk-Team

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1. Summary

The prime responsibility of JSE Clear as a central clearing partner (CCP) is to manage counterparty credit risk and cater for the default of a participant in the exchange traded derivatives market. The cornerstone of any CCPs risk management infrastructure is a robust default management process. To this end, in order to preserve the integrity of JSE Clear's default management process, JSE Clear needs to ensure that the derivatives which are listed and are cleared by JSE Clear have liquid and efficiently traded underlying securities which counterparties can use to hedge exposures in a default situation.

The main purpose of this document is to create transparency and remove ambiguity as it pertains to the eligibility of listing Single Stock Futures and International Derivatives. Market participants should be able to consult this document in order to evaluate if an underlying security is eligible for listing.

This document aims to initiate a discussion with the Advisory Committee and if accepted will ultimately form the basis of replacing the existing SSF and IDX listing requirements.

2. Listing requirements for Single Stock Futures (SSF's)

For a SSF to be eligible for initial listing, each of the following criteria must be met:

- i. The security underlying the futures contract must be a listed instrument on the Johannesburg Stock Exchange (JSE)
- ii. The security underlying the futures contract must trade more than 67 out of 90 days (75% of 90 days), and demonstrate a 90-day average daily value traded of at least R3 million¹ **after** the removal of the 9 largest observations from the 90-day time-series, i.e. after removing the top 10% of trading days

¹ Benchmarked against the minimum requirement to qualify as a liquidity rating 2 share

- iii. The security underlying the futures contract must have a market capitalisation of at least R2 billion²

3. Listing requirements for International Derivatives (IDX's)

For an IDX to be eligible for initial listing, each of the following criteria must be met:

- i. The security underlying the futures contract must be a listed instrument on a major international securities exchange
- ii. The security underlying the futures contract must be a constituent of a major international index (e.g. S&P 500, NKY 225, FTSE 100, ASX 100)
- iii. The security underlying the futures contract must trade more than 67 out of 90 days (75% of 90 days), and demonstrate a 90-day average daily value traded of at least \$10 million³ **after** the removal of the 9 largest observations from the 90-day time-series, i.e. the top 10%
- iv. The security underlying the futures contract must have a market capitalisation of at least \$4 billion⁴
- v. If the security underlying the futures contract is an international listed Index/ETF/ETN with a committed liquidity provider in the foreign market, the JSE will list an IDX if the necessary permissions from the Index/ETF/ETN provider are in place

4. Listing requirements for options on SSF's and IDX's

JSE Clear will list options on SSF's and IDX's where the underlying security meets the requirements for listing as a SSF or an IDX.

5. Maintenance requirements for SSF's and IDX's

JSE Clear will not list a new expiry contract on an existing listed SSF or IDX unless the underlying security meets each of the requirements for initial listing of the related SSF or IDX. Initial margin on existing contracts that fail to meet the criteria above will be increased to 100% over a period of no longer than one month. In the circumstances where the characteristics of the underlying security of a listed SSF or IDX have changed to the extent that it now fails to meet the minimum requirements for listing, and where there is a desire to list new expiries on that underlying, the JSE will evaluate the continued eligibility of such SSF or IDX. If the instrument is approved for continued listing, an initial margin of 100% will be set for these new expiries.

² Benchmarked against the market capitalization of the 160th largest JSE All Share Index constituent

³ Benchmarked against the median liquidity of the 60 largest JSE All Share Index constituents

⁴ Benchmarked against the market capitalization of the 60th largest JSE All Share Index constituent

6. Exceptional Circumstances

In exceptional circumstances, where an underlying security does not have sufficient historical data to be adequately tested against the requirements for an eligible listing (e.g. an unbundling or IPO), the JSE Risk Management team will on request, provided with sufficient lead time and based on reasonable investigation (e.g. the existence of suitable proxies), assess the circumstances regarding a particular security with a view to evaluating whether its anticipated trading statistics will qualify to be listed as a SSF or IDX in terms of the above requirements.

In the circumstance where an underlying security does not fulfil the requirements for listing as a SSF or IDX, JSE Clear may be approached to evaluate whether the underlying security is eligible for a fully margined (i.e. 100% margined) listing.

7. Review Frequency

The above requirements will be reviewed at the discretion of the JSE Risk Management team or upon consultation with the JSE Clear Advisory Committee. Any proposed amendments to this document will be presented to clearing members at JSE Clear Advisory Committee meetings.

8. Appendix A: Top 160 JSE All Share Index constituents averages

<i>Market Cap Bucket</i>	<i>Market Cap (R Bn)</i>	<i>Adjusted Average 90-Day Value Traded (R Mn)</i>	<i>R1 Million Nominal SSF Liquidity Days</i>	<i>R10 Million Nominal SSF Liquidity Days</i>	<i>R50 Million Nominal SSF Liquidity Days</i>	<i>R100 Million Nominal SSF Liquidity Days</i>
<i>Top 20</i>	<i>326.80</i>	<i>369.98</i>	<i>0.01</i>	<i>0.13</i>	<i>0.64</i>	<i>1.28</i>
<i>20 - 40</i>	<i>56.70</i>	<i>100.71</i>	<i>0.05</i>	<i>0.51</i>	<i>2.55</i>	<i>5.10</i>
<i>40 - 60</i>	<i>29.65</i>	<i>51.98</i>	<i>0.11</i>	<i>1.12</i>	<i>5.59</i>	<i>11.18</i>
<i>60 - 80</i>	<i>17.95</i>	<i>21.43</i>	<i>0.27</i>	<i>2.68</i>	<i>13.39</i>	<i>26.77</i>
<i>80 - 100</i>	<i>11.60</i>	<i>12.89</i>	<i>0.48</i>	<i>4.85</i>	<i>24.24</i>	<i>48.47</i>
<i>100 - 120</i>	<i>7.50</i>	<i>5.20</i>	<i>1.10</i>	<i>10.97</i>	<i>54.84</i>	<i>109.68</i>
<i>120 - 140</i>	<i>4.50</i>	<i>3.01</i>	<i>3.16</i>	<i>31.62</i>	<i>158.12</i>	<i>316.25</i>
<i>140 - 160</i>	<i>2.80</i>	<i>1.24</i>	<i>4.19</i>	<i>41.89</i>	<i>209.45</i>	<i>418.90</i>

Note that large SSF positions outside of the largest 100 JSE All Share Index constituents quickly become problematic when assuming a third of adjusted daily average daily value traded liquidation strategy.

Also note that assuming a requirement of minimum market capitalization of R 2 billion and minimum adjusted average 90-day value traded of R3 million, the Top 140 underlying securities listed on the JSE would on average be eligible for listing as a SSF.