

PROPOSED AMENDMENTS TO THE JSE DERIVATIVES RULES AND DIRECTIVES

General explanatory notes:

1. Words underlined with a solid line (___) indicate the insertions in the existing rules and directives
2. Words in bold and in square brackets ([]) indicate deletions from the existing rules

Proposed amendments to the JSE Derivatives Rules

SECTION 2: INTERPRETATION AND DEFINITIONS

<p><u>"Exchange for Related Positions" or "EFRP"</u></p>	<p><u>means a futures transaction in the JSE commodity derivatives market negotiated off-ATS and reported to the exchange, and the simultaneous conclusion of a transaction in the underlying physical market or in an over the counter ("OTC") derivative instrument where the underlying asset corresponds to the commodity underlying the exchange contract;</u></p>
<p><u>"Exchange for Physical" or "EFP"</u></p>	<p><u>means a type of EFRP where two trading members, a trading member and a client or two clients enter into an agreement whereby one of the parties purchases a physical commodity from the other and the two parties conclude a simultaneous but opposite transaction in commodity futures off-ATS, and report the futures transaction to the JSE commodities trading system.</u></p>
<p><u>"Exchange for Risk" or "EFR"</u></p>	<p><u>means a type of EFRP where two trading members, a trading member and a client or two clients enter into an agreement whereby the parties unwind an existing OTC derivative contract between them by concluding an off-ATS transaction in commodity futures which replaces the OTC derivative contract, and report the futures transaction to the JSE commodities trading system.</u></p>

SECTION 7: TRADING

7.10 [Financial exchange] Buying and selling of derivative securities

- 7.10.1 The business of the buying and selling of derivative securities as contemplated by sections 24(a) and (b) of the Act shall be conducted by means of the ATS, except for transactions which meet the criteria set out in rule 7.115 which may be negotiated off-ATS and then reported to the trading system.
- 7.10.2 A transaction negotiated off-ATS in terms of rule 7.115 is only deemed to be a valid transaction once the transaction has been reported to the trading system by the member or members who are party to the transaction.

[The business of the buying and selling of exchange contracts as contemplated by sections 24 (a) and (b) of the Act shall be conducted both on the ATS and off-ATS. Trading in all exchange contracts shall be conducted by means of the ATS: Provided that -

- 7.10.1 trading in option contracts or combinations of option and futures contracts and in futures in a number of contracts larger than the number determined by the JSE may be conducted off-ATS until such time as the JSE may determine;
- 7.10.2 trading by a member with another member as principals pursuant to an order executed for the other member on the ATS may be conducted off-ATS, subject to rule 7.160.]

7.115 Off-ATS Transactions

- 7.115.1 The following transactions do not have to be executed through the central order book and may be validly reported to the trading system:
- 7.115.1.1 Transactions in futures or options larger in value or number of contracts than the minimum value or number of contracts as determined by the JSE.
- 7.115.1.2 A futures transaction associated with an EFP where the parties to the futures transaction have entered into a written contract in terms of which the buyer of the futures contract sells the underlying physical commodity to the seller of the futures contract (the "physical contract"), and where -
- 7.115.1.2.1 the delivery month referred to in the physical contract and the expiry month of the futures contract are within two months of each other;
- 7.115.1.2.2 in respect of the physical contract, delivery and cash settlement occurs at the time that the futures transaction is entered into or at a later date; and
- 7.115.1.2.3 the physical contract shall contain the terms and conditions as provided for in the Contract for the Purchase and Sale of Grain, Pulses, Oilseeds and Products Derived Therefrom ("SAGOS") agreement for the purchase of grain products or be of an equivalent standard.
- 7.115.1.3 A futures transaction associated with an EFR where the parties to the futures transaction have previously entered into an OTC derivative contract based on the commodity underlying the futures contract (the "OTC contract"), and where -
- 7.115.1.3.1 the OTC contract is in the form of an International Swaps and Derivatives Association ("ISDA") agreement or is an agreement of an equivalent standard; and
- 7.115.1.3.2 the OTC contract is to be unwound at or about the same time that the futures transaction is reported to the ATS.
- 7.115.2 A futures transaction reported in terms of an EFRP shall comply with the following conditions:
- 7.115.2.1 the quantity of the underlying commodity in the futures contract must be within 5% of the quantity specified in the physical contract or OTC contract, whichever is applicable;

- 7.115.2.2 the futures transaction shall be reported to the exchange as soon as possible after the physical contract or the OTC contract has been concluded or unwound respectively; and
- 7.115.2.3 the trading member shall retain all written and electronic records, trade confirmations, documents, agreements and recordings relevant to both the futures transaction and the corresponding physical or OTC contract.
- 7.115.3 The price of futures transactions reported in terms of an EFRP shall be -
- 7.115.3.1 within the range of the market prices for that futures contract on that day, prior to the reporting of the futures trade, or at the previous day's closing price; or
- 7.115.3.2 if it is outside of the price parameters referred to in rule 7.115.3.1 -
- 7.115.3.2.1 the price shall be specified in the relevant physical contract or OTC contract; and
- 7.115.3.2.2 any trading member who is a party to the transaction must obtain the prior approval of its clearing member before reporting the transaction to the trading system.
- 7.115.4 Upon request, a trading member shall -
- 7.115.4.1 submit to the Director: Surveillance all of the information, records and documents referred to in rule 7.115.2.3; and
- 7.115.4.2 demonstrate to the Director: Surveillance how the futures transaction associated with an EFRP is correlated to the relevant physical or OTC contract, whichever is applicable.
- 7.115.5 Off-ATS transactions which do not comply with one or more of the criteria specified in this rule may be cancelled by the JSE at the sole discretion of the Director: Surveillance.

Proposed new JSE Derivatives Directives

Off-ATS Transactions

A trading member who reports a transaction in terms of rule 7.115 must ensure that the following transaction type code is included when the transaction is reported to the trading system.

<u>Transaction Description & Rule Reference</u>	<u>Transaction type code</u>
<u>Exchange for Physical 7.115.1.2</u>	<u>EFP</u>
<u>Exchange for Risk 7.115.1.3</u>	<u>EFR</u>