

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 new definitions:

<u>“futures reference price”</u>	<u>means, for the relevant futures contract, the price as determined by the Director: Surveillance, taking into consideration the last auction price, the last automated trade price, or the last mark-to-market futures price, whichever is the most recent;</u>
<u>“options reference price”</u>	<u>means, for the relevant options contract, the option volatility using the previous day’s JSE mark to market volatility skew;</u>
<u>“passive order”</u>	<u>means an order that does not match with an existing order in the order book when it is entered;</u>
<u>“no cancellation range”</u>	<u>means the range, as prescribed in the directives, above or below the futures or the options reference price, or the fair value price, whichever is applicable, within which an alleged error trade may not be cancelled or have its price adjusted;</u>

Proposed new rule 7.181

7.181 Trade Cancellations and Trade Price Adjustments

- 7.181.1 A key component of market integrity is the assurance that once executed, a trade will stand and will not be subject to cancellation. However, if a trade is executed as a result of an error by a member or its client, there may be significant adverse consequences for the affected member or client and therefore it is appropriate in certain circumstances to correct such errors.
- 7.181.2 Therefore, notwithstanding any other provision of the derivative rules or any directive, the Director: Surveillance may, where in his opinion a trade has been matched as a result of a clear error, grant permission to or instruct the affected member or members to execute a trade cancellation or effect a trade price adjustment.
- 7.181.3 A request for an alleged error trade to be cancelled or adjusted in terms of these rules will be considered provided that the request meets at least the following requirements:
- 7.181.3.1 the nature of the error is that the order submitted to the trading system is different to that which the member or its client intended to submit at the time that the order was submitted; and

- 7.181.3.2 the request is received by the Director: Surveillance within 20 minutes from the time of the erroneous trade; and
- 7.181.3.3 the price or contract value of the trade or trades executed in error is away from the reference price at the time that the error occurred by more than the Rand value or the percentage used to determine the no cancellation range as set out in the directives; and
- 7.181.3.4 the difference between the aggregate consideration or contract value of the trades that qualify in terms of 7.181.3.3 and the consideration or contract value that would have resulted had such trades been executed at the futures or the options reference price is R50 000 (fifty thousand Rand) or more; and
- 7.181.3.5 a passive order which has been entered into the central order book and which gives rise to an alleged error trade will only be considered for cancellation or adjustment where it has been matched within 30 minutes of having been entered.

7.181.4 In making the determination as to whether an alleged error trade qualifies for cancellation or adjustment in terms of rule 7.181.3, the Director: Surveillance will also consider whether the reference price at the time that the error occurred is a representative fair value price for the relevant contract at that time. In this regard, the Director: Surveillance will take into account all relevant factors which shall include, but not be limited to -

- 7.181.4.1 the market price level in the relevant underlying JSE cash market immediately prior to the error trade, if applicable;
- 7.181.4.2 the price movements in other expiry or delivery months of the same contract;
- 7.181.4.3 in the case of options, where the volatility of trades which have occurred prior to the alleged error trade on that day either in the same option contract or in option contracts at different strike prices for the same expiry month and on the same underlying instrument indicate that market volatility levels have materially changed since the previous days mark to market;
- 7.181.4.4 current market conditions, including volatility and liquidity; and
- 7.181.4.5 the release of economic data and other relevant news affecting the relevant security.

7.181.5 In exceptional circumstances, and after taking all relevant factors into account as provided for in rule 7.181.4, the Director: Surveillance may make a determination that the futures or the options reference price at the time that the error occurred is not representative of the fair value for the relevant contract at that time and will deem another price, being a fair value price, as being more appropriate for the determination as to whether the alleged error trade qualifies to be cancelled or adjusted.

7.181.6 If the Director: Surveillance determines that the reference price at the time that the error occurred is the appropriate price to use in determining whether the alleged error trade qualifies to be cancelled or adjusted, the error trade must meet the criteria set out in rule 7.181.3 in order for it to be cancelled or adjusted.

7.181.7 If the Director: Surveillance determines that a fair value price is the appropriate price to use in determining whether the alleged error trade qualifies to be cancelled or adjusted, the error trade must meet the criteria set out in rule 7.181.3 in order for it to be cancelled or adjusted except that, as regards the criteria in rules 7.181.3.3 and 7.181.3.4, the fair value price will be used instead of the reference price.

7.181.8 Where the Director: Surveillance determines that an erroneous trade needs to be cancelled, the trade will be cancelled through a process set out in the directives in which the effective price of the trade cancellation includes the no cancellation range, as determined in the directives, as follows:

- 7.181.8.1 if a transaction is being cancelled due to an error by the buyer, the effective cancellation price is derived by deducting the no cancellation range from the price of the original erroneous trade; and
- 7.181.8.2 if a transaction is being cancelled due to an error by the seller, the effective cancellation price is derived by adding the no cancellation range to the price of the original erroneous trade.
- 7.181.9 The Director: Surveillance will assess the circumstances of each error trade and may, if he is of the opinion that a trade cancellation will have material adverse consequences for the counterparty to the error trade, decide to adjust the price of an error trade instead of instructing the affected member or members to cancel the trade. In determining whether to adjust the price of an alleged error trade the Director: Surveillance will take into account all relevant factors which shall include, but not be limited to, whether the error trade was part of or triggered spread trades or trades executed simultaneously in an underlying cash market.
- 7.181.10 Where the Director: Surveillance has in terms of rule 7.181.9 decided to adjust the price of an error trade, the trade price shall be adjusted to a price that equals the futures or the options reference price, or where the Director: Surveillance has invoked rule 7.181.5, the fair value price as determined by the JSE, whichever is applicable, plus or minus an amount equal to the no cancellation range as determined in the directives, as follows:
- 7.181.10.1 the adjusted price of a transaction in which an error was made by the buyer shall be the futures or the options reference price, or the fair value price, for that instrument, whichever is applicable, plus an amount equal to the no cancellation range; and
- 7.181.10.2 the adjusted price of a transaction in which an error was made by the seller shall be the futures or the options reference price, or the fair value price, for that instrument, whichever is applicable, minus an amount equal to the no cancellation range.
- 7.181.11 Where a reported transaction has been reported to the trading system in error in that the terms of the transaction differ to those that were agreed to by the counterparties to the trade before the reporting of the trade, the member or members shall be permitted to report an equal and opposite cancellation trade to the trading system on the same day that the erroneous transaction was reported.
- 7.181.12 If, in the opinion of the Director: Surveillance, an automated trade, auction trade or reported transaction materially impacts the integrity of the market, the maintenance of a fair and orderly market or the correctness of the market statistics, the Director: Surveillance may adjust a price or cancel a trade executed in error, even where there has been no request from a market participant to do so.
- 7.181.13 If the JSE's trading system is unable to match orders during continuous trading as a result of technical problems, an order may be matched when these technical issues are resolved but before the JSE is able to halt trading on the trading system. Where a request is received from a member to cancel a trade resulting from such a match because the member did not intend to retain the relevant order in the order book at the time that it was matched but was unable to delete or amend the order as a result of these technical problems, the Director: Surveillance may deal with the trade as an error trade in terms of this rule 7.181 and may authorize a trade cancellation or a trade price adjustment.
- 7.181.14 In considering an error trade in terms of rule 7.181.13, the Director: Surveillance will apply all of the relevant provisions of this rule 7.181 except that instead of applying the criteria in rule 7.181.3 in determining whether the trade qualifies for a trade cancellation or a trade price adjustment, the Director: Surveillance will only consider whether :-
- 7.181.14.1 the price of the relevant trade was outside of the no cancellation range relative to the reference price at the time that a confirmation of the trade was sent to the member; and

7.181.14.2 the request is received by the Director: Surveillance within 20 minutes from the time that a confirmation of the trade was sent to the member.

7.181.15 Where consequential trades have occurred as a direct result of an error trade, such as spread trades, the Director: Surveillance will consider these on a case by case basis and may, after taking into consideration all relevant factors and circumstances, instruct the member or members to execute a trade cancellation or a trade price adjustment or may make a determination that the consequential trades shall stand.

7.181.16 Notwithstanding any provision of rule 7.181, in considering a request from a member in terms of this rule, the Director: Surveillance may decide that the alleged error trade and any consequential trades shall stand and shall not be cancelled or have their price adjusted. In arriving at his decision the Director: Surveillance will take into account all relevant factors which shall include, but not be limited to:

7.181.16.1 the complexity and extent of any consequential trades in futures or options or trades in underlying JSE cash markets which have been triggered by the alleged error trade; or

7.181.16.2 the amount of time remaining in the trading session or before the expiry of the relevant futures or option contracts within which the JSE would be required to investigate, evaluate and conclude on the merits of an alleged error trade and any consequential trades, as well as give effect to any consequential trade cancellations or price adjustments; and

7.181.16.3 the best interests of the affected market participants.

Proposed new directive

Trade Cancellations and Trade Price Adjustments

1. A member seeking permission to have an alleged error trade considered by the JSE for treatment in terms of rule 7.181 must immediately upon becoming aware of the error trade, inform the Director: Surveillance of the trade, giving details of such trade and the circumstances which resulted in it being executed in error.

2. In determining whether to submit a request to the JSE to have an alleged error trade considered for cancellation or adjustment in terms of these rules, the member must ensure that the trade meets the criteria set out in rule 7.181.3 or rule 7.181.14, whichever is applicable.

3. The Director: Surveillance shall, upon receipt of the request and after due consideration of all of the relevant factors, decide to either accept or decline the request and will contact the member who has initiated the request to inform the member of his decision. The decision of the Director: Surveillance shall be final.

4. Where permission has been granted or where the Director: Surveillance has issued an instruction to a member or members to cancel an error trade as contemplated in rule 7.181.8 -

4.1 the affected members shall, without delay, report an equal and opposite cancellation trade to the trading system using the Report Only Trade functionality;

4.2 the member who was responsible for the error trade shall assign the original error trade back to the member who was the counterparty to the error trade at a price determined by the Director: Surveillance in terms of rule 7.181.8; and

- 4.3 the counterparty member shall, having accepted the assigned trade, re-assign this trade back to the member who was responsible for the error but at the price of the original error trade.
- 5 Where permission has been granted or where the Director: Surveillance has issued an instruction to a member or members to adjust the price of an error trade as contemplated in rule 7.181.10, the affected members shall, without delay, using the Report Only Trade functionality -
- 5.1 report an equal and opposite cancellation trade to the trading system; and
- 5.2 re-book the original error trade by reporting a trade to the trading system at an adjusted price as determined by the Director: Surveillance in terms of rule 7.181.10.
- 6 Where a member submits a request for an alleged error trade to be considered by the JSE in terms of these rules and such request fails to meet the criteria set out in rule 7.181.3, the member will be liable for payment of an administration fee of R2 000.
- 7 When an error trade request is approved by the Director: Surveillance for cancellation or a price adjustment, the member responsible for the error that gave rise to the request will be liable for payment of an administration fee of R10 000.
- 8 The no cancellation range referred to in the rules is that range in the table below, above or below the futures or the options reference price, or the fair value price, whichever is applicable, within which an alleged error trade will not be considered for treatment in terms of rule 7.181.

Commodity Derivatives Market - No Cancellation Range		
Instrument	Futures - Rand value or % of reference price	Options – volatility %
White Maize & Yellow Maize	R60	4%
Sunflower & Wheat	R75	4%
Soya	R98	4%
Sorghum	R38	4%
Foreign Commodity Derivatives	4%	4%
Can Do	10%	10%

Equity Derivatives Market - No Cancellation Range		
Instrument	Futures - % of reference price	Options – volatility %
Index Futures	3%	3%
Single Stock Futures / CFDs	5%	6%
IDX	5%	6%
Foreign Commodity Derivatives	4%	4%
Can Do	10%	10%

- 9 In the case of options with a value of zero and therefore a no cancellation range of zero, the Director: Surveillance may determine that the price of any cancellation trade or any adjusted trade price shall be a value other than zero.