MARKET NOTICE

Johannesburg
Stock Exchange

Tel: +27 11 520 7000
www.jse.co.za

Number: **801/2015**

Relates to:
- ☐ Equity Market
- ☒ Equity Derivatives
- ☐ Commodity Derivatives
- ☐ Interest Rate and Currency Derivatives

DATE **17 December 2015**

SUBJECT: **TREATMENT OF ARCELORMITTAL SA LIMITED (ACL) CORPORATE ACTION – RIGHTS ISSUE 18 DECEMBER 2015 (EX-DATE)**

Name and Surname: **Brett Kotze**
Designation: **Head of Operations – Clearing & Settlement**

Members notice is drawn to section 13 of the contract specifications of Individual Equity Futures and options, which states:

"13. Corporate Events

The JSE reserves the right to adopt any procedure or to adjust any single stock future or option on a single stock future, in a manner it deems fit, to deal with any extraordinary corporate events that may occur from time to time in relation to a share that is the underlying instrument of the equity option and to notify position holders, derivatives members and any other interested parties, of such event and the procedure or adjustment adopted. Such events include, for example, mergers, take-overs, unbundlings, capitalization issues and rights issues.

The implication of this is that anybody trading in Single Stock futures or options on Single Stock futures in which the underlying stock is the subject of an extraordinary corporate event should be aware that the JSE may make adjustments to the Single Stock futures and options.

Rights Issue

With regard to the Rights Issue on ArcelorMittal SA Limited (ACL), the following adjustments will be made to ACLQ on Friday, 18th December 2015 **(Ex-date)**. The adjustments will be made to positions held in the above contracts as at close of business on Thursday, 17th December 2015 **(LDT).**

1. Futures contracts.

Adjustment to contract size

The contract size will be increased using the "Contract Size Multiplier" (CSM), calculated as follows:

$$CSM = \frac{(m * TOP) + (n * IRV)}{(m * TOP)}$$

Where :	m	=	number of shares held LDT. **(100)**
	n	=	number of additional shares to be received Ex-date. **(163.9354400)**
	IRV	=	Implied value of rights.
	TOP	=	theoretical opening price.

Implied Rights Value

IRV = TOP – X

Where :	C	=	Value of any entitlements not included. **(In this case the value is zero)**
	X	=	Entitlement price of new shares under rights issue. **(650 cents)**

Theoretical Opening Price

TOP = ((Spot-C) * m) + (n * X)) / (n + m)

Where : Spot = the official closing price of the underlying share on 17th December 2015 **(LDT).**

A contract on the identical share will be listed on the exchange, with a standard contract size as calculated using the "Contract Size Multiplier" (CSM). This contract will be assigned a separate identifying code, and will not be fungible with the existing contract that has a contract size of 100 shares per contract.

Positions in the existing contract will be closed out at a value of zero and new positions will be created in the new contract at a value of zero.

E.g. If you had 10 futures contracts in the existing contracts which has a contract size of 100, the JSE will close out this position at a value of zero and open a new position of 10 futures contracts in the new contract which has a contract size as determined using the "Contract Size Multiplier" (CSM) at a value of zero.

*** Adjustments may not be made if the JSE has determined that there is a negative or zero value in the take up of the rights issue.**

Please note:

- Members will be able to nominate whether positions created in the newly created contract is allocated to their respective clients or into their principal accounts. This will make it easier for members wishing to trade out of the newly created contract and recreate the appropriate positions back into the standard contract.
- Members need to do the above nomination before ex. Date otherwise the newly created positions will be allocated to the respective client accounts by default.
- The newly created contract will only be active for the period of the corporate action i.e. when trading and open interest cease to exist, this contract will be terminated.

An adjustment is necessary to the contract size of the futures contract due to the JSE's aim of considering

1. An equivalent hedged portfolio consisting of shares (no arbitrage argument);
2. Adjustments must be cash neutral;
3. A position's notional value pre- and post- rights issue must be the same.

Notes on point 2: A client who is purely long the share will have to fund the rights if they are taken up. The consequence is that cash is brought into the system in order to exercise his rights. He will thus have a portfolio consisting of shares and a liability (usually cash).

On the other hand, the JSE treats the futures plus the associated hedge as a closed system. This means no cash can be taken out nor can cash be brought into the system. To be cash neutral means that some of the newly attained shares will have to be sold in order to generate enough cash within the system to pay for some of the rights. The outcome is that a future's holder cannot take up all of the rights but only a portion of them.

The consequence of cash neutrality is that if an investor has a hedged position in shares against the futures position, the hedge should be adjusted to the new CSM (Contract Spread Multiplier) number.

2. Option contracts.

Adjustment to strike prices

Options on Single Stock Futures will have adjustments made to the contract size as well as adjustments made to the strike price.

Adjusted strike price = Existing strike price * (1 / CSM)

Where: CSM = Contract Size Multiplier

Positions in the existing contract will be closed out at a value of zero and new positions will be created in the new contract at a value of zero. (See "Adjustment to contract size" above).

3. **CFD contracts.**

Current positions***Factor** (“Contract Size Multiplier (CSM)) = the number of total contracts. Additional contracts will be created at an initial value of zero.

Should you have any queries please contact Clearops@jse.co.za or +27 11 520-7349

This Market Notice will be available on the website at ***https://www.jse.co.za/redirects/market-notices-and-circulars***