

MARKET NOTICE

Johannesburg
Stock Exchange

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Number: 321A/2017
Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
Date: 13 July 2017

SUBJECT: JSE PROPOSAL FOR TRADING MEMBERS TO CAPTURE DELTA OPTION TRADES AND STRUCTURED OPTION TRADES (I.E. "DOTS" & "SOTS")

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Dear Market Participant,

Further to the JSE enabling Commodity Derivatives Members to capture EFP and EFR transactions via the existing report only functionality, the JSE would like to propose that we extend this to include a further two trade types, namely DOTS and SOTS and for this to be adopted as soon as possible. As part of the JSE’s initiative to provide a framework in the CDM rules for all reported (off-ATS) trade types, it is the JSE’s intention to introduce rules and directives for DOTS and SOTS as soon as the relevant market and regulatory consultation processes are complete.

In respect of DOTS and SOTS, once the new reporting process is in place, the JSE will publish a detailed report at the end of the administration period of all option transactions as reported. This new report will be published on the JSE website for all to access. To ensure the accuracy of this report we require members to use the correct trade types (i.e. DOT or SOT) when capturing these options trades.

Below is an example of the report layout which can be accessed from the below link:

<https://www.jse.co.za/downloadable-files?RequestNode=/Safex/Reported%20DOT%20and%20SOT>

Trade Date	Trade Time	Trade Type	Short Name	Future Expiry	Strike	Call Put	Quantity	Vol	Premium
2017/07/11	09:48:22	Structured Option Trades	SUNS	Dec17	5300	P	30	29.25	18734
2017/07/11	10:06:49	Structured Option Trades	SOYA	Sep17	5200	C	16	30.5	11207
2017/07/11	10:22:07	Delta Option Trade	WMAZ	Jul17	1900	P	5	28.9	10500
2017/07/11	10:22:07	Delta Option Trade	WMAZ	Jul17	2200	P	5	29.5	24300
2017/07/11	10:22:07	Delta Option Trade	WMAZ	Jul17	2500	C	5	28.5	14850
2017/07/11	10:24:23	Delta Option Trade	YMAZ	Dec17	1700	P	1	29.5	1149

DOTS and SOTS must be reported as soon as possible and without delay after the parties have concluded the transaction and the option writer has secured the necessary deltas.

The reporting of these off-ATS transactions directly by members will be more efficient and will reduce the risk of delays and input errors inherent in the current arrangement. All members remain responsible to ensure the reporting obligations as described in this market notice are adhered to.

This market notice is a request to all market participants to consider this proposed change and if there are any concerns and requests for clarification, please contact customersupport@jse.co.za by no later than 28 July 2017. A final market notice will be distributed regarding the way forward.

These reporting obligations in relation to DOT and SOT transactions are as follows:-

Delta Option Trades (DOT's)

Please note these transactions do not relate to trades matched on volatility where each party automatically receives the delta equivalent futures. Due to the risk that the futures price may move significantly after the option writer has secured the necessary deltas, resulting in the current quoted option premium being away from the agreed premium levels. The two parties are then exposed to the risk of being able to execute the option strikes at the original agreed price without a third party matching one of the legs to the structure. This risk increases as more automated systems enter the market and dynamically re-price options as the underlying moves.

To address this specific risk the JSE provides participants with the reported trade type namely "Delta Options Trade" (DOT), which will require participants to comply with the below requirements:

1. One of the participants to the option structure must be able to clearly isolate the futures traded on the day, or previous day, to cover the delta to the option strategy
2. The futures level traded and reported must be used as the basis to value the reported option trade and the exchange reference number of the futures trade should be captured in the free text field of the report only trade capture form
3. There is no minimum volume requirement for a DOT trade
4. DOT trades that are captured by the market participants will not be considered for daily mtm volatility purposes
5. Reported trades may be captured until the close of the admin period
6. DOT trade type must be used for all the Delta Option Trades

Structured Option Trades (SOT's)

To accommodate structured option trades which include two or more strikes and which are agreed on a wholesale basis, these may be reported in the required format provided the following criteria is met:

1. There must be multiple option strikes within the SOT
2. A minimum of 25 contracts per strike will be required
3. SOT trades that are captured by the market participants will not be considered for daily mtm volatility purposes
4. Reported trades may be captured until the close of the admin period
5. SOT trade type must be used for all Structured Option Trades

Should you have any queries regarding this notice, please contact commodities@jse.co.za

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