

MARKET NOTICE

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Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives

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SUBJECT: UPDATES TO ALSI PRICING METHODOLOGY

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INTRODUCTION

The JSE determines daily settlement pricing for all listed derivatives, including future prices, option premiums and volatilities. The methodology applied to liquid (ALSI) futures and options is currently under review, and the JSE expects to publish an updated methodology document for market comment in the third quarter of 2017. In the interim, this document announces a number of changes to the existing methodology, which will be effective from 01 August.

TREATMENT OF STALE ALSI PRICES

The existing “points-from-near” and Anchor Volatility processes for the ALSI contract are effective for liquid expiries where there is typically on-screen activity that can be utilised. However, resultant prices can be inappropriate for expiries where there is no on-screen activity. As such, the JSE announces that it will henceforth use its discretion to update pricing model inputs for ALSI expiries that have not been re-marked for a period of one week. This includes the “points-from-near” input as well as at-the-money volatility. A number of data inputs will be considered in this regard, including but not limited to: reported trades, mark-to-model results, vendor inputs and market polls.

ALSI VOLATILITY SURFACE

The JSE currently publishes a volatility surface for index futures, and updates this surface from time to time. JSE exchange traded data are used as the input to build out this surface, which is emailed to market participants whenever it changes.

The JSE will trial a surface provided by a vendor and will update this on a weekly basis. To reflect the change in approach, the file format used to publish the surface to the market will be amended, and the new format is attached to this note. Super Derivatives has been selected as the vendor to provide the surface. Note that there is no change to the 16:00 Anchor Volatility process used to determine the at-the-money volatility, other than the introduction of some discretion around stale marks.

IMPLEMENTATION

Both changes will be effective from Tuesday, 1 August 2017. An updated volatility surface will be published to the market on Monday, 31 July 2017 in the new format.

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

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