

**MARKET NOTICE**

 Johannesburg  
 Stock Exchange

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**Number:** 431/2017  
**Relates to:**  Equity Market  
 Equity Derivatives  
 Commodity Derivatives  
 Interest Rate and Currency Derivatives  
**Date:** 3 October 2017

**SUBJECT:** **COMMODITY TRADING MEMBERS TO CAPTURE DELTA OPTION TRADES AND STRUCTURED OPTION TRADES (I.E. “DOTS” & “SOTS”)**

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**Designation:** Chief Information Officer

Clients are referred to Market Notice 321A/2017 issued on 13 July 2017 in which clients were advised of the planned new reporting process of Delta Option Trade (DOT) and Structured Option Trade (SOT) transactions whereby members will be permitted to enter and report DOT and SOT trades directly onto the ATS themselves, without the need for prior referral to the exchange. After consultations with market participants, the JSE has resolved to proceed with the planned reporting process but with some improvements. The initial detailed report that would be published daily at 14:30 will now be published at a 15 minute interval from 09:00 until 14:30. The report will be made available on the JSE website (<https://www.jse.co.za/downloadable-files?RequestNode=/Safex/Reported%20DOT%20and%20SOT>). Further to this, all DOT/SOT transaction details will be published via the front end market announcements at 15 minute intervals.

For accuracy of this report we require members to use the correct trade types (DOT or SOT) when capturing these options trades. An example of the layout of the file is included below:

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.

Members will have a period of up to two months to familiarize themselves with the new process. During the said period, the JSE will continue to assist in processing transactions on behalf of members as per current process. Thus the effective implementation date for this new process is **Monday, 4 December 2017**.

Members are referred to the attached guide on how to capture the DOT and SOT transactions themselves on Nutron. 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 questions regarding the above, please do not hesitate to contact the Commodities Team at 011 520 7039 or email [commodities@jse.co.za](mailto:commodities@jse.co.za)

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