



## Market Notice

**Number: F4663**

**Date: 7 March 2011**

### IDX DIVIDEND FUTURES UPGRADE

The JSE was the first exchange in the world to list Dividend Futures. Dividend Futures were introduced to eliminate dividend assumption risk when pricing a Single Stock Future. Subsequently the JSE's Dividend Futures product has gone through several versions/upgrades since its inception:

1. The bucket version – was the first Dividend Future and with this version, participants had to buy multiple expiries in order to be dividend neutral on a SSF position on a far out expiry. It is important to note that with this version of the product, the MtM value post ex-date was set to the actual dividend value and kept the same value until the contract expired. This method caused quite a few hick-ups as participants had to remember what the dividend was in the period and if more than one dividend was declared in one period, the participant had to keep including all dividends, even after they've gone ex.
2. Mark 2 – With this version, participants only had to buy corresponding expiry Dividend Future to their SSF position to be dividend neutral. In order to ensure an easier product it was also agreed that the dividend value would be set to zero on the dividend's ex-date. By making the dividend zero, the JSE made it very easy for participants as they did not have to keep record of old dividends that might have been paid during a term when calculating the dividend future value. In order to make the dividend value zero, the JSE had to introduce a new "journal transaction" mechanism which allowed for a correction to flow through the normal profit and loss flows. The logic was that if you make the value of a future zero from something there will be a loss for the person being long and a profit for the person being short. The Journal transaction basically corrected these cashflows and in effect reset the price of the contract.
3. Mark 3 – As explained in Market Notice F4371A (Dividend Future valuation methodology change), many participants indicated a desire to trade the Dividend Neutral (N-Contract) as a result of the JSE's move towards on-screen transparent markets. The N-Contract on Nutron is a virtual contract trading on a virtual order book. Position holders will therefore never obtain a physical position in the N-Contract but would rather receive a Single Stock Future (Q-Contract) and a Dividend Future (F-Contract) position, upon trading the N-Contract. As a result N should be equal to  $Q + F$ . Due to the fact that the F-Contract does not get future valued, the N-Contract equation does not hold and  $N \neq Q + F$ . The JSE and its Clearing Members have implemented the software change in October 2010 to also Forward Value the Dividend Future in order to get  $N = Q + F$ .



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IDX Dividend Futures are still on the “old bucket version”. The JSE IDX team will be upgrading the IDX Dividend Futures to “Mark 3” on 07 March 2011. Different expiries will be affected differently by this upgrade:

- 14 March 2011 expiries: Open positions in this expiry will **remain on the old bucket version**. Open Positions in the March expiry which needs to be rolled will be rolled into the Mark 3 version of the dividend future.
- 13 June 2011 expiries: Open positions in this expiry will be converted to the new Mark 3 version. Open positions will be reviewed on a case-by-case basis and the affected participants will be consulted during the conversion process. New positions post the conversion date (07 March 2011) will immediately be in the Mark 3 version of the dividend future.
- 12 September 2011 and further out expiries: These expiries have not been listed as yet. From the listing date positions will therefore immediately go into the Mark 3 version of the dividend future.

If you have any queries, please feel free to contact [derivativestrading@jse.co.za](mailto:derivativestrading@jse.co.za)

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