

DERIVATIVES DIRECTIVES

20 November 2017

Derivatives Directives 1 August 2005 as amended by

| Date | Notice No. | Amendment |
|-------------------|----------------|---|
| 1 August 2005 | F730 & A601 | <p>Introduction of new directives:</p> <ul style="list-style-type: none"> ▪ PROVISION OF INVESTMENT ADVICE AND THE EXERCISE OF DISCRETION IN THE MANAGEMENT OF JSE AUTHORISED INVESTMENTS; ▪ NOTIFICATION OF TRANSACTIONS; and ▪ AGRICULTURAL PRODUCTS MARKET SPECULATIVE POSITION LIMITS <p>Amended directive: CAPITAL ADEQUACY REQUIREMENTS OF MEMBERS</p> |
| 23 May 2007 | F1270 & A794 | <p>Introduction of new directive: TRADING PERIOD AND TIMES</p> |
| 24 November 2008 | F1988 & A998 | <p>Introduction of new directive: TRANSACTIONS IN INTERNATIONAL DERIVATIVES – EXCHANGE CONTROL</p> |
| 8 January 2009 | F2013 & A1006 | <p>Deleted directive: PROVISION OF INVESTMENT ADVICE AND THE EXERCISE OF DISCRETION IN THE MANAGEMENT OF JSE AUTHORISED INVESTMENTS</p> <p>Introduction of new directives:</p> <ul style="list-style-type: none"> ▪ QUALIFICATIONS TO MANAGE INVESTMENTS AND PROVIDE INVESTMENT ADVICE; ▪ QUALIFICATIONS TO BE REGISTERED AS A DEALER; and ▪ EXEMPTIONS FROM THE REGISTERED PERSONS EXAMINATION OF THE SOUTH AFRICAN INSTITUTE OF FINANCIAL MARKETS. <p>Amended directive: TRANSACTIONS IN INTERNATIONAL DERIVATIVES – EXCHANGE CONTROL</p> |
| 29 September 2009 | F4051 & A1113 | <p>Amended directives:</p> <ul style="list-style-type: none"> ▪ QUALIFICATIONS TO MANAGE INVESTMENTS AND PROVIDE INVESTMENT ADVICE; ▪ QUALIFICATIONS TO BE REGISTERED AS A DEALER; ▪ EXEMPTIONS FROM THE REGISTERED PERSONS EXAMINATION OF THE SOUTH AFRICAN INSTITUTE OF FINANCIAL MARKETS; ▪ TRADING PERIOD AND TIMES; and ▪ AGRICULTURAL PRODUCTS MARKET SPECULATIVE POSITION LIMITS. |
| 15 June 2010 | F4333 & A 1238 | <p>Amended directive: TRADING PERIOD AND TIMES</p> |
| 13 July 2010 | F4377 & A1252 | <p>Amended directive: TRADING PERIOD AND TIMES</p> |

| Date | Notice No. | Amendment |
|------------------|-------------------|---|
| 11 October 2010 | F4492 & A1299 | Amended directives: <ul style="list-style-type: none"> ▪ QUALIFICATIONS TO MANAGE INVESTMENTS AND PROVIDE INVESTMENT ADVICE; ▪ QUALIFICATIONS TO BE REGISTERED AS A DEALER; and ▪ TRADING PERIOD AND TIMES. |
| 5 November 2010 | F4524 & A1320 | Introduction of directive: QUALIFICATIONS TO BE REGISTERED AS A COMPLIANCE OFFICER |
| | F4525 & A1321 | Amended directive: TRADING PERIOD AND TIMES |
| 21 April 2015 | 224 of 2015 | Amended directive: TRADING PERIOD AND TIMES – Derivative securities – Reporting and Administration |
| 16 October 2015 | 622 of 2015 | Introduction of directive: TRADE CANCELLATIONS AND TRADE PRICE ADJUSTMENTS |
| 20 November 2015 | 73215 of 2015 | Amended directive: QUALIFICATIONS TO BE REGISTERED AS A DEALER |
| 3 February 2017 | 45 of 2017 | Introduction of directive: OFF-ATS TRANSACTIONS |
| 28 April 2017 | 167 of 2017 | Amendments in respect of the Conflicts of Interests arrangements of the JSE. All references to “JSE Surveillance Department” replaced with “JSE Market Regulation Division” and all references to “Director: Surveillance” replaced with “Director: Market Regulation” |
| 20 November 2017 | 486 of 2017 | Amended directive: Amendments to the Commodity Market Speculative Position Limits |

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CAPITAL ADEQUACY REQUIREMENTS OF MEMBERS

1 Calculation of own funds

The JSE hereby determines, as contemplated in rule 4.20.1, that a member's own funds shall be calculated as set out in Schedule 1 and that those members not exempted in terms of rule 3.70.5 shall include a declaration of their own funds in the return referred to in rule 3.70.4 in the manner and form set out in Schedule 1.

Schedule 1 - Own Funds

Part A

| | |
|---|----------|
| Ordinary share capital | A1 |
| Preference share capital | A2 |
| Share premium account | A3 |
| Reserves excluding revaluation reserves | A4 |
| Audited retained earnings | A5 |
| Unaudited profits (loss) | A6 |
| Partners capital account | A7 |
| Total | A |

Part B

| | |
|--|----------|
| Intangible assets | B1 |
| Assets not convertible into cash within 3 months | B2 |
| Investments in unlisted securities | B3 |
| Any guarantees given | B4 |
| Amounts paid to cover risks in any other market | B5 |
| Tax provisions | B6 |
| Total | B |

Part C

| | |
|---|----------|
| Guarantees received | C1 |
| Partners or shareholders loan accounts | C2 |
| Excess of market value over book value of investments in securities | C3 |
| Long term loans that are legally subordinated | C4 |
| Total | C |

Part D

| | |
|--|---|
| Shareholding of more than ten percent of share capital as calculated in part 1 in banks or other financial institutions. | D |
|--|---|

| | |
|------------------|----------|
| Own Funds | E |
|------------------|----------|

Notes

- A The total A is the sum of A1 through to A7
- A2 Preference share capital may not be redeemable within a period of two years.
- A6 Unaudited profits must be verified by the member's external auditors or by the JSE
- B The total B is the sum of B1 through to B6
- B3 The member must be able to demonstrate to the satisfaction of the JSE that the assets in question can be converted to cash within three months.
- C The total C is the sum of C1 through to C4
- C1 The guarantees must be of less than one year's duration and approved by the JSE.
- C2 Partners' or shareholders' loans may be included provided that they are not repayable within two years and the audited financial statements must include a note to this effect.
- E Own funds are calculated as $E = A - B + C - D$

2 Calculation of thirteen weeks operating costs

The JSE hereby determines, as contemplated in rule 4.20, that the operating costs of a member shall be calculated as follows and that those members not exempted in terms of rule 3.70.5 shall include a declaration of thirteen weeks of their operating costs in the return referred to in rule 3.70.4 in accordance with this directive.

The annual operating costs of a member shall be the total revenue of the member plus any loss before taxation as per the member's last audited financial statements less the aggregate of the following items -

- Profit before taxation
- Bonuses paid out of relevant year's profits and not guaranteed
- Profit shares and other appropriations of profit except for a fair (market related) or guaranteed remuneration which is payable even if the member makes a loss for the year
- Commissions paid other than to employees or appointed representatives of the member
- Fees, brokerage and other charges paid to clearing houses, clearing firms, exchanges and intermediate brokers for the purpose of executing, registering or clearing transactions excluding charges not related to the continuation of trading
- Interest payable to counterparties which is trade related (such as that applicable to repurchase agreements and carries)
- Interest payable on borrowings to finance the long term investment business of the member
- Abnormal or extraordinary items with the prior approval of the JSE
- Losses arising on the conversion of foreign currency balances

If a member does not have audited financial statements yet it may -

- where it has only just commenced trading or has not been a member long enough to have submitted audited financial statements, calculate its relevant expenditure on budgeted or other accounts which have been submitted with its application; or
- where its accounts do not represent a 12 month period, calculate its relevant expenditure on a proportionate basis approved by the JSE.

The JSE may adjust the relevant annual expenditure where-

- there has been a significant change in the circumstances or activities of the member; or
- the member has a material proportion of its expenditure incurred on its behalf by a third party and such expenditure is not fully recharged to the member.

3 Position risk requirement

The JSE hereby determines that a member's position risk requirement, as contemplated in rule 4.20, shall be calculated in accordance with one of the three methods 1, 2 or 3 set out hereunder and that those members not exempted in terms of rule 3.70.5 shall include a declaration of position risks in the return referred to in rule 3.70.4, in accordance with this directive.

3.1 Calculation of position risk requirement in terms of simplest method

Total position risk requirement shall be the aggregate of all the individual risk capital required figures calculated as set out in the table below.

| Item | Risk Capital Required |
|---|--------------------------|
| A Loan Stock (see note 1) | |
| Government or government guaranteed | |
| Less than 1 year to maturity | 2% of MV (see note 2) |
| Less than 3 years to maturity | 5% of MV |
| More than 3 years to maturity | 10% of MV |
| Issued or accepted by a bank | |
| Less than 90 days to maturity | 2% of MV |
| Others which are marketable securities (excluding floating rate notes) | |
| Less than 1 year to maturity | 10% of MV |
| Less than 3 years to maturity | 20% of MV |
| More than 3 years to maturity | 30% of MV |
| Floating Rate Notes | |
| Less than 20 years to maturity | 5% of MV |
| 20 years and more to maturity | 10% of MV |
| B Securities (see note 1) | |
| Listed on a licensed exchange | Mining 40% of MV |
| | Other 30% of MV |
| Traded on an external exchange designated by the JSE | 35% of MV |
| Other | 100% of MV |
| C Commodities | |
| Stock positions in physical commodities associated with a member's investment business (see Note 3) | 30% of realisable value |

| Item (cont.) | Risk Capital Required |
|--|--|
| A Loan Stock (see note 1) | |
| Futures, options and contracts for difference | |
| Exchange traded futures or options | 2 x initial margin requirement |
| Unlisted forward contracts or written options | The appropriate percentage shown in A,B and C above should be applied to the market value of the underlying position |
| Unlisted purchased options | As for off exchange written options but limited to the current value of the option |
| Contracts for difference | 20% of the market value of the contract |
| Other JSE authorised investments | |
| Units in a registered unit trust scheme | 25 % of realisable value (see note 4) |
| Krugerrands | 10% of realisable value |
| An interest in an unregistered futures or options fund | 50% of realisable value |
| Any other investments | 100% of amount of asset |

Notes

The long or short position in a particular security is the net of any long or short positions held in that security (i.e. a long position in XYZ securities can be offset on a share for share basis against a short position in XYZ securities).

Market value (MV) means the market value of the sum of the long and the short positions in the particular category. The positions are thus added to each other.

Definition of stock position

- (a) A stock position in physical commodities shall include the following:
 - (i) Commodities where the full contract price has been paid.
 - (ii) Work in progress and finished goods which result from the processing of commodities.
 - (iii) Raw materials which will be combined with commodities to produce a finished processed commodity.
- (b) A stock position shall be regarded as being associated with a member's investment business if the contract was made for investment rather than commercial purposes. Indications of this are -
 - (i) it is traded on a recognised or designated exchange; or
 - (ii) the performance of it is ensured by such an exchange or by a licensed clearing house; or
 - (iii) there are arrangements for the payment or provision of margin.
- (c) Some indications that a contract is made for commercial purposes are -
 - (i) the terms specify delivery within 7 days

- (ii) either or each of the parties is a producer of the commodity or uses it in his business or the purchaser takes or intends to take delivery of the commodity

Realisable value means a fair estimate of the value at which the position could be closed without unduly affecting the market in the security.

3.2 Calculation of position risk requirement in terms of building block method

Loan stock

A member shall classify its net positions according to the currency in which they are denominated and shall calculate the capital requirement for general and specific risk in each individual currency separately (see notes 1 to 4).

Specific risk

A member shall assign its net positions, as calculated in accordance with note 1, to the appropriate categories in Table 1 below on the basis of their residual maturities and then multiply them by the weightings shown. It shall sum its weighted positions (regardless of whether they are long or short) in order to calculate its capital requirement against specific risk.

Table 1

| Central Government Items (see note 5) | Qualifying items (see note 6) | | | Other items |
|--|-------------------------------|------------------|-------------|-------------|
| | < 6 months | > 6 <= 24 months | > 24 months | |
| 0.00% | 0.25% | 1.00% | 1.60% | 8.00% |

General Risk

3.2.1 Maturity-based method of calculating loan stock position risk requirements (matched weighted method)

3.2.1.1 The member shall calculate the totals of the unmatched weighted long positions for the bands included in each of the zones of Table 2 below in order to derive the unmatched weighted long position for each zone. Similarly the sum of the unmatched weighted short positions for each band in a particular zone shall be aggregated to calculate the unmatched weighted short position for that zone. That part of the unmatched weighted long position for a given zone that is matched by the unmatched weighted short position for the same zone shall be the matched weighted position for that zone. That part of the unmatched weighted long or unmatched weighted short position for a zone that cannot be thus matched shall be the unmatched weighted position for that zone.

Table 2

| Zone | Maturity band | | Weighting (in %) | Assumed interest rate change (in %) |
|-------|-------------------------|---------------------------|---------------------|---|
| | Coupon of 3% or more | Coupon of less than 3% | | |
| (1) | (2) | (3) | (4) | (5) |
| One | 0 ≤ 1 month | 0 ≤ 1 month | 0,00 | - |
| | >1 ≤ 3 months | >1 ≤ 3 months | 0,20 | 1,00 |
| | >3 ≤ 6 months | >3 ≤ 6 months | 0,40 | 1,00 |
| | >6 ≤ 12 months | >6 ≤ 12 months | 0,70 | 1,00 |
| Two | >1 ≤ 2 years | >1,0 ≤ 1,9 years | 1,25 | 0,90 |
| | >2 ≤ 3 years | >1,0 ≤ 2,8 years | 1,75 | 0,80 |
| | >3 ≤ 4 years | >2,8 ≤ 3,6 years | 2,25 | 0,75 |
| Three | > 4 ≤ 5 years | >3,6 ≤ 4,3 years | 2,75 | 0,75 |
| | >5 ≤ 7 years | >4,3 ≤ 5,7 years | 3,25 | 0,70 |
| | >7 ≤ 10 years | >5,7 ≤ 7,3 years | 3,75 | 0,65 |
| | >10 ≤ 15 years | >7,3 ≤ 9,3 years | 4,50 | 0,60 |
| | >15 ≤ 20 years | >9,3 ≤ 10,6 years | 5,25 | 0,60 |
| | > 20 years | >10,6 ≤ 12,0 years | 6,00 | 0,60 |
| | | >12,0 ≤ 20 years | 8,00 | 0,60 |
| | | > 20 years | 12,50 | 0,60 |
| | | | | |
| | | | | |

- 3.2.1.2 The amount of the unmatched weighted long or short position in zone one which is matched by the unmatched weighted short or long position in zone two shall then be calculated. This shall be referred to in paragraph 2.1.6 as the matched weighted position between zones one and two. The same calculation shall then be undertaken with regard to that part of the unmatched weighted position in zone two which is left over and the unmatched weighted position in zone three in order to calculate the matched weighted position between zones two and three.
- 3.2.1.3 A member may, if it wishes, reverse the order in paragraph 2.1.2 so as to calculate the matched weighted position between zones two and three before calculating that between zones one and two.
- 3.2.1.4 The remainder of the unmatched weighted position in zone one shall then be matched with what remains of that for zone three - after the latter's matching with zone two, in order to derive the matched weighted position between zones one and three.

3.2.1.5 The residual positions, following the three separate matching calculations in paragraph 2.1.2, 2.1.3 and 2.1.4 shall be aggregated.

3.2.1.6 A member's capital requirement shall be calculated as the sum of:

- 3.2.1.6.1 10% of the sum of the matched weighted positions in all maturity bands;
- 3.2.1.6.2 40% of the matched weighted position in zone one;
- 3.2.1.6.3 30% of the matched weighted position in zone two;
- 3.2.1.6.4 30% of the matched weighted position in zone three;
- 3.2.1.6.5 40% of the matched weighted position between zones one and two and between zones two and three (see paragraph 2.1.2);
- 3.2.1.6.6 150% of the matched weighted position between zones one and three;
- 3.2.1.6.7 100% of the residual unmatched weighted positions.

3.2.2 Alternative method: Duration-based method of calculating loan stock position risk requirements

3.2.2.1 In terms of the duration based system the member shall ascertain the market yield to maturity of each fixed-rate loan stock, using the value implied by a loan-stock's all-in market value where trading is by price rather than yield. In the case of floating-rate loan stock, the member shall take the market value of each instrument and thence calculate its yield on the assumption that the principal is due when the interest rate can next be changed.

3.2.2.2 The member shall then calculate the modified duration of each debt instrument on the basis of the following formula:

$$\text{modified duration} = \frac{\text{duration}(D)}{(1+r)}, \text{ where:}$$

$$D = \frac{\sum_{t=1}^m \left(\frac{t C_t}{(1+r)^t} \right)}{\sum_{t=1}^m \left(\frac{C_t}{(1+r)^t} \right)}$$

where:

- r = yield to maturity (see paragraph 2.2.1)
- C_t = cash payment in time t,
- m = total maturity (see paragraph 2.2.1)

3.2.2.3 A member shall then allocate each instrument to the appropriate zone in Table 3 on the basis of the modified duration of each instrument.

Table 3

| Zone | Modified duration (in years) | Assumed interest (change in %) |
|-------------|---|---|
| (1) | (2) | (3) |
| One | $> 0 \leq 1,0$ | 1,0 |
| Two | $> 1,0 \leq 3,6$ | 0,85 |
| Three | $> 3,6$ | 0,7 |

3.2.2.4 A member shall then calculate the duration-weighted position for each instrument by multiplying its market price by its modified duration and by the assumed interest-rate change for an instrument with that particular modified duration (see column 3 in Table 3).

3.2.2.5 A member shall then work out its duration-weighted long and its duration-weighted short positions within each zone. The amount of the former which are matched by the latter within each zone shall be the matched duration-weighted position for that zone.

3.2.2.6 A member's capital requirement shall then be calculated as the sum of:

- 3.2.2.6.1 2% of the matched duration-weighted position for each zone;
- 3.2.2.6.2 40% of the matched duration-weighted positions between zones one and two and between zones two and three;
- 3.2.2.6.3 150% of the matched duration-weighted position between zones one and three;
- 3.2.2.6.4 100% of the residual unmatched duration-weighted positions.

3.2.3 Calculation of position risk requirements in relation to securities

A member shall sum up its net long positions and its net short positions in accordance with note 1 below. The sum of the two figures shall be its overall gross position. The difference between them shall be its overall net position.

Specific risk

3.2.3.1 A member shall multiply its overall gross position by the percentage reflected in the table hereunder in order to calculate its capital requirement against specific risk for equities as indicated.

| | Liquid | Normal | Illiquid |
|--------|---------------|---------------|-----------------|
| Mining | 5% | 10% | 20% |
| Other | 5% | 10% | 20% |

General risk

3.2.3.2 A member's capital requirement against general risk shall be its overall net position multiplied by 20% for mining shares and 10% for other.

Share-index futures

3.2.3.3 Share-index futures, the delta-weighted equivalents of options in share-index futures and share indices collectively referred to hereafter as 'share-index futures', may be broken down into positions in each of their constituent equities. These positions may be treated as underlying positions in the equities in question; therefore, subject to the approval of the JSE, they may be netted against opposite positions in the underlying equities themselves.

3.2.3.4 The JSE shall ensure that any member which has netted off its positions in one or more of the equities constituting a share-index future against one or more positions in the share-index future itself has adequate capital to cover the risk of loss caused by the future's values not moving fully in line with that of its constituent equities; and shall also do this when a member holds opposite positions in share-index futures which are not identical in respect of either their maturity or their composition or both.

3.2.3.5 Notwithstanding paragraphs 2.3.3 and 2.3.4, share-index futures which are exchange traded and - in the opinion of the JSE - represent broadly diversified indices shall attract the following capital requirement against general risk:

| | |
|--------------------------------|-----|
| All Share index | 13% |
| Financial and Industrial Index | 10% |
| Industrial index | 10% |
| Financial Index | 10% |
| Resources Index | 20% |
| Gold index | 20% |

but no capital requirement against specific risk. Such share-index futures shall be included in the calculation of the overall net position in paragraph 2.3, but disregarded in the calculation of the overall gross position in the same paragraph.

3.2.3.6 If a share-index future is not broken down into its underlying positions, it shall be treated as if it were an individual equity. However, the specific risk on this individual equity can be ignored if the share-index future in question is exchange traded and, in the opinion of the JSE, represents a broadly diversified index.

3.2.4 Underwriting

In the case of the underwriting of loan stock or securities, the JSE may allow a member to use the following procedure in calculating its capital requirements. First, it shall calculate the net positions by deducting the underwriting positions which are subscribed or sub-underwritten by third parties on the basis of formal agreements; secondly, it shall reduce the net positions by the following reduction factors:

| | | |
|-----------------------|---|------|
| - working day 0 | : | 100% |
| - working day 1 | : | 90% |
| - working days 2 to 3 | : | 75% |
| - working days 4 | : | 50% |
| - working day 5 | : | 25% |
| - after working day 5 | : | 0% |

Working day zero shall be the working day on which the member becomes unconditionally committed to accepting a known quantity of securities at an agreed price.

Thirdly, it shall calculate its capital requirements using the reduced underwriting positions. The JSE shall ensure that a member holds sufficient capital against the risk of loss which exists between the time of the initial commitment and working day 1.

3.2.5 Commodities

Positions in physical commodities associated with a member's investment business: 30% of realisable value (see note 4).

3.2.6 JSE authorised investments

3.2.6.1 Any interest in a regulated collective investment scheme, 25% of realisable value.

3.2.6.2 Any interest in an unregistered futures or options fund, 50% of realisable value.

3.2.6.3 Any other investments: 100% of amount of assets.

Note 1 Netting notices

The excess of a member's long or short positions over its short or long positions in the same security, loan stock, futures or options, shall be its net position in each of those different instruments. In calculating the net position, positions in derivative instruments are to be treated as positions in the underlying (or notional) securities. A member's holdings of its own loan stock shall be disregarded in calculating specific risk under paragraph 3.2.

No netting shall be allowed between a convertible and an offsetting position in the instrument underlying it, unless the likelihood of a particular convertible instrument being converted is taken into account or have a capital requirement to cover any loss which a conversion might entail.

Note 2 Particular instruments

- (a) Interest-rate futures, forward-rate agreements (FRAS) and forward commitments to buy or sell loan stock shall be treated as combinations of long and short positions.
- (b) Options on interest rates, securities indices, futures, swaps and foreign currencies shall be treated as if they were positions equal in value to the amount of the underlying instrument to which the option refers, multiplied by its delta. The latter positions may be netted off against any offsetting positions in the identical underlying securities or derivatives. The delta used shall be that of the exchange concerned, that calculated by the JSE or, where that is not available or for OTC options, that calculated by the member itself, subject to the JSE being satisfied that the model used by the member is reasonable.
- (c) Swaps shall be treated for interest-rate risk purposes on the same basis as on-balance-sheet instruments. Thus an interest-rate swap under which an institution receives floating-rate interest and pays fixed-rate interest shall be treated as equivalent to a long position in a floating-rate instrument of maturity equivalent to the period until the next interest rate fixing and a short position in a fixed rate instrument with the same maturity as the swap itself.
- (d) The transferor of securities or guaranteed rights relating to title to securities in a repurchase agreement and the lender of securities in a securities lending

agreement shall include these securities in the calculation of its capital requirement under this section.

Note 3 Specific and general risks

The position risk on traded loan stock or securities (or derivatives thereon) shall be divided into two components in order to calculate the capital requirement. The first shall be its specific-risk component - that is the risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument. The second component shall cover its general risk - that is the risk of a price change in the instrument due (in the case of a traded loan stock instrument or loan stock derivative) to a change in the level of interest rates or (in the case of a security or security derivative) to a broad market movement unrelated to any specific attributes of individual securities.

Note 4 Definition of stock position

- (a) A stock position in physical commodities shall include the following:
 - (i) Commodities where the full contract price has been paid.
 - (ii) Work in progress and finished goods which result from the processing of commodities.
 - (iii) Raw materials which will be combined with commodities to produce a finished processed commodity.
- (b) A stock position shall be regarded as being associated with a member's investment business if the contract was made for investment rather than commercial purposes. Indications of this are -
 - (i) it is traded on a recognised or designated exchange; or
 - (ii) the performance of it is ensured by such an exchange or by a recognised clearing house; or
 - (iii) there are arrangements for secured payment or the provision of margin.
- (c) Some indications that a contract is made for commercial purposes are -
 - (i) the terms specify delivery within 7 days
 - (ii) either or each of the parties is a producer of the commodity or uses it in its business
 - (iii) the purchaser takes or intends to take delivery of the commodity.

Note 5

All paper issued by the Central Government or guaranteed by the Central Government.

Note 6

All paper listed on the the JSE, the Bond Exchange of South Africa or any other exchange listing loan stock and granted FSB recognition.

3.3 Calculation of position risk requirement in terms of an in-house model

A member shall be entitled to calculate its position risk requirement according to its in-house "value-at-risk" model and submit the result of its calculation to the clearing house as part of its capital adequacy return: Provided that the model meets the following standards to the satisfaction of the JSE:

Value-at-Risk ("VaR") Models

The **qualitative standards** will include, as a minimum:

- The model must be conceptually sound, implemented with integrity, and form part of the day-to-day risk management process of the member.
- Senior management must be actively involved in the risk control process. Daily reports must be reviewed by a level of management with sufficient seniority and authority to enforce the closure of positions to reduce the risk exposure of the member.
- The member must have sufficient numbers of staff in front, middle and back office functions equipped with the necessary skills and expertise to discharge their responsibilities effectively.
- The model must be shown to be reliable in its assessment of losses when compared with the actual daily performance of the member's portfolio.
- The member must conduct a routine and rigorous programme of stress testing.

The **quantitative standards** are not yet finalised and may be subject to change. Nevertheless, it is likely that they will take the following form:

- The value-at-risk must be computed daily, using a 99th percentile, one tailed confidence interval, a minimum holding period of ten trading days, and a historical observation period of at least one year.

Calculation of Position Risk Requirement ("PRR")

The numbers produced by the value-at-risk model will be permitted to form the basis of the computation of PRR. Although some points of detail may be subject to change, the mechanics of the calculation are likely to be as follows:

- A member shall calculate a "benchmark PRR" on its portfolio on a date specified by the JSE using the standard rules. The date shall be chosen at random, and the member will be informed the following day.
- On any subsequent day the benchmark PRR shall be scaled by a factor which reflects the change in profile or riskiness of the firm's portfolio. This factor shall be the ratio of the PRR produced by the value-at-risk model on the current portfolio to the PRR produced by the value-at-risk model on the benchmark portfolio.

The PRR used to determine capital adequacy shall be the highest of -

- the benchmark PRR
- the benchmark PRR * (the VaR of the current portfolio)/(the VaR of the benchmark portfolio)
- a multiple of the VaR of the current portfolio

The JSE may, at its discretion, require a member to repeat the benchmarking exercise on any subsequent date.

4 Counterparty risk requirement

The JSE hereby determines that a member's counterparty risk requirement, as contemplated in rule 4.20 shall be calculated as follows and that those members not exempted in terms of rule 3.70.5 shall include a declaration of their counterparty risk in the return referred to in rule 3.70.4 in accordance with this directive.

4.1 Calculation of Counterparty Risk Requirement

The counterparty risk requirement shall be the aggregate of the capital required against the individual items as detailed in the table below.

| Item | Capital Required |
|--|---|
| 1. Unsettled securities and physical commodities transactions (see note 1) | |
| 1.1 Cash against documents transactions <ul style="list-style-type: none"> • 0-7 days after settlement date • 8-15 days after settlement date • over 15 days after settlement date | Nil 50% of price DIFF (see note 2) 100% of price DIFF |
| 1.2 Settle on balance of transactions <ul style="list-style-type: none"> 1.2.1 Central clearing house system with approved guarantees <ul style="list-style-type: none"> • debit item outstanding more than 15 days since settlement day • undelivered securities within 15 days of settlement day | Full amount 100% of price DIFF |
| 1.3 Free deliveries (see note 3) <ul style="list-style-type: none"> 1.3.1 Free delivery amount <ul style="list-style-type: none"> • Non payment against securities delivered • Non receipt of securities against payment Free delivery amount multiplied by the following percentage | Amount due Full MV (see note 2) |
| 1.3.2 Guaranteed transaction <ul style="list-style-type: none"> • 0-15 days since delivery/payment • after 15 days | Nil Full MV (see note 2) |
| 1.3.3 Guaranteed transaction <ul style="list-style-type: none"> • 0-3 days since delivery/payment • after 3 days | Nil Full MV |
| 2. Options purchased for counterparty (see note 1) | |
| <ul style="list-style-type: none"> • Non payment of purchase price after 3 days • Option premium paid to writer | Difference between purchase price and market value 100% option premium |
| 3. Exchange traded margined transactions (includes initial margin and variation margin) (see note 1) | |
| <ul style="list-style-type: none"> • 0-3 days since shortfall • 4 days and over since shortfall | nil 100% of shortfall |
| 4. Repurchase or reverse repurchase agreements (including lending and borrowing and sale and buy back agreements) | |
| <ul style="list-style-type: none"> • qualifying debt instruments • other securities | MV less 105% of related funds or collateral (see note 2) NV less 110% of related funds or collateral |

| Item | Capital Required |
|--|--|
| 5. Swaps, forward contracts, OTC options, contracts for differences and off exchange futures (credit equivalent amount) | |
| 5.1 Interest rate swaps single currency <ul style="list-style-type: none"> • qualifying debt instruments • other securities | MTM MTM + 0,5% of NV |
| 5.2 Cross currency swaps <ul style="list-style-type: none"> • under 1 year to maturity • over one year to maturity | MTM + 1% of NV MTM + 5% of NV |
| 5.3 FRAs, OTC futures, options, etc. based on interest rates <ul style="list-style-type: none"> • under 1 year to maturity • over one year to maturity | MTM MTM + 0,5% of NV |
| 5.4 FRAs, OTC futures, options, etc. based on currency exchange rates, commodity prices or equity prices <ul style="list-style-type: none"> • under 14 days to maturity • 14 days to 1 year to maturity • over year to maturity | nil MTM + 1% of NV MTM + 5% of NV |
| 5.5 Counterparty risk requirement = credit equivalent amount multiplied by: <ul style="list-style-type: none"> • state or authorised counterparty • banking institution • any other counterparty | 0% 2% 5% |
| 6. Loans to counterparties <ul style="list-style-type: none"> • where the loan exceeds the value of securities and is not properly secured | 100% of amount by which the loan is not properly secured |
| 7. Sub underwriting agreements <ul style="list-style-type: none"> • Any management or other fees owed and are outstanding for more than 30 days | 100% of amount owed |
| 8. Other receivables and accrued income not covered elsewhere in this section | 100% of amount due |
| Note 1 Potential loss positions only (i.e. potential profits may not be offset against potential losses) | |
| Note 2 DIFF = Differential between purchase price and current market price MV = market value of security or contract NV = notional or actual value of the security underlying the contract | |
| Note 3 Free delivery means - <ul style="list-style-type: none"> (a) the delivery of securities or physical commodities which takes place before the seller or agency broker receives payment; or (b) payment made in settlement of a credit balance arising from a sale on behalf of a counterparty or a purchase from a counterparty in respect of which the securities are undelivered. | |

- 4.2. A member shall hold sufficient capital to meet the counterparty risk requirement: Provided that -
- 4.2.1 if a member has made a specific provision against a counterparty balance it may reduce the counterparty exposure on which the requirement is calculated up to the extent of such provision; and
- 4.2.2 the fact that any amount may be due to or from a connected company to a member does not affect the requirement to calculate the counterparty risk requirement.

- 4.3. For the purposes of 4.2.2 above, "connected company" means in relation to a member –
- 4.3.1 a corporate body which is controlled by the member;
 - 4.3.2 a corporate body which is has an interest in a member; or
 - 4.3.3 the member and the corporate body are fellow group companies

5 Large exposure requirement

The JSE hereby determines that a member's large exposure requirement, as contemplated in rule 4.20 shall be calculated as follows and that those members not exempted in terms of rule 3.70.5 shall include a declaration of their large exposure risk in the return referred to in rule 3.70.4 in accordance with this directive.

5.1 Large exposures

- 5.1.1 Exposure means the amount at risk before applying the appropriate position risk requirement ("PRR") or counterparty risk requirement ("CRR") percentage in relation to -
- 5.1.1.1 the excess, where positive, of the market value of a member's long positions over its short positions in all the financial instruments issued by the third party;
 - 5.1.1.2 in the case of underwriting commitments, the market value of the member's net exposure;
 - 5.1.1.3 counterparty exposures arising from unsettled securities transactions, repurchase, reverse repurchase, securities lending and borrowing transactions, derivatives and JSE authorised investments, calculated in accordance with the PRR resolution; and
 - 5.1.1.4 all other assets and off balance sheet items constituting claims on third parties (e.g. commissions and fees receivable).

5.2 Exempt exposures

A member may exclude the following from its large exposure requirement calculations:

- 5.2.1 exposures to or guarantees by the government of the Republic of South Africa or the South African Reserve Bank;
- 5.2.2 exposures secured by securities issued by the government of the Republic of South Africa or the South African Reserve Bank;
- 5.2.3 exposures secured by cash deposited with the member, its connected credit institutions or JSE Trustees;
- 5.2.4 exposures with a maturity of less than one year to regulated South African financial and banking institutions, licensed clearing houses and exchanges, not constituting their capital requirements.

5.3. Connected parties

Groups of connected third parties means two or more entities or natural persons which are interconnected to the extent that the financial performance or soundness of one would be materially affected by the financial performance or soundness of the other or others. Such interconnectivity would be evidenced, *inter alia*, where one company derives more than 20% of its earnings from another or where counterparties are linked by cross-guarantees.

5.4 Calculations

Where the sum of the exposures to a third party or a group of connected third parties exceeds 25% of a member's adjusted liquid capital, a member must calculate a large exposure requirement for each such exposure in accordance with 5.4.1 to 5.4.4 below -

- 5.4.1 calculate the excess of the exposure over 25% of adjusted liquid capital;
- 5.4.2 rank the exposures on the basis of specific risk requirement in the case of positions and the requirement in the case of counterparty exposures, in descending order;
- 5.4.3 add the constituent exposures, starting with the exposure attracting the highest risk requirement, until the sum equals the excess in 5.4.1 above;
- 5.4.4 the large exposure requirement sum must be 200% of the specific risk requirements and counterparty risk requirements applicable to those exposures forming the excess. However, the large exposure requirement shall be limited to such amount as, together with the PRR's or CRR's on the exposures making up such excess, equals 100% of any exposure forming the excess.
- 5.4.5 A member which determines its PRR using the simplified method shall treat the consolidated PRR applicable to that method as the specific risk requirement for purposes of calculating its large exposure requirement.

6 Foreign exchange risk requirement

The JSE hereby determines that a member's foreign exchange risk requirement, as contemplated in rule 4.20, shall be calculated as follows and that those members not exempted in terms of rule 3.70.5 shall include a declaration of their foreign exchange risk in the return referred to in rule 3.70.4 in accordance with this directive.

6.1 Types of exposures to be included in foreign exchange requirement

A member shall calculate a foreign exchange requirement for the following positions, identifying each currency separately, including the currency of its books of account -

- 6.1.1 the net spot position of all asset items less all liability items including accrued interest in the currency in question;
- 6.1.2 any currency future at the nominal value of the contract;
- 6.1.3 any forward contract for the purchase or sale, at the contract value, including any future exchange of principal associated with cross-currency swaps;
- 6.1.4 any currency option;
- 6.1.5 irrevocable guarantees, and similar instruments, which are certain to be called;
- 6.1.6 with the prior written consent of the JSE any future income or expense which is
 - 6.1.6.1 known but not yet accrued; and
 - 6.1.6.2 fully hedged by forward foreign exchange transactions;
- 6.1.7 with the prior written consent of the JSE any non-trading, structural position deliberately entered into in order to hedge adverse exchange rate movements on the value of the firm's financial resources;
- 6.1.8 with the prior written consent of the JSE, any position already fully deducted from the firm's financial resources;
- 6.1.9 any other balance sheet asset or liability; and
- 6.1.10 any other off balance sheet commitment to purchase or sell an asset denominated in that currency.

6.2 Treatment of foreign exchange options

6.2.1 Risk assessment models

A member may use, with the JSE's prior written approval, a risk assessment model in respect of its foreign exchange options to estimate its notional forward foreign exchange positions, provided the model forms part of the day to day management supervision of the member's options business.

6.2.2 Options at least 8% in the money

A member shall include currency positions arising from foreign exchange options in the foreign exchange requirement method if the option is at least 8% in the money, in which case the resulting currency positions shall be based on the nominal amount of the contract valued at current spot rates.

6.2.3 Options less than 8% in the money

6.2.3.1 A member shall calculate, in respect of a foreign exchange option which is less than 8% in the money, its currency positions based on the nominal amount of the contract valued at current spot rates.

6.2.3.2 Where a currency position derived in 2.3.1 would increase the net open position in that currency, the position shall be included in the foreign exchange requirement method.

6.2.3.3 Where a currency position derived in 2.3.1 will decrease the net open position in that currency, the position shall not be included in the foreign exchange requirement method.

6.2.4 Calculation of "in the money"

For the purposes of this rule, a member shall determine the extent to which the option contract is "in the money" by reference to the difference between the exercise price and the current forward rate for the final date on which the option may be exercised as a percentage of the forward rate.

6.3 Method of Calculation of Foreign Exchange Requirement**6.3.1 Calculation of net open position**

A member shall calculate a net open position for all currencies including the currency of the member's books of account, and shall translate them to the rand using the prevailing spot rates.

6.3.2 A member shall use Method 1 unless it has the written approval of the JSE to use Method 2.

6.3.2.1 Method 1

A member shall calculate the foreign exchange requirement as 8% of the higher of:

6.3.2.1.1 the aggregate of the net open long positions in each currency; or

6.3.2.1.2 the aggregate of the net open short positions in each currency.

6.3.2.2 Method 2

6.3.2.2.1 With the prior written approval of the JSE, a member may use simulation techniques to calculate the foreign exchange requirement in respect of all, or some, of the currencies to which it is exposed.

6.3.2.2.2 The foreign exchange requirement for the currencies concerned shall be calculated in order that -

6.3.2.2.2.1 it exceeds the losses which would have occurred in at least 95% of the rolling ten-working-day periods over the preceding five years; and

6.3.2.2.2.2 it exceeds 2% of the higher of -

6.3.2.2.2.2.1 the aggregate of the net open long positions in each currency; or

6.3.2.2.2.2.2 the aggregate of the net open short positions in each currency.

QUALIFICATIONS TO BE REGISTERED AS A COMPLIANCE OFFICER

- 1 A Compliance Officer appointed and registered by a member must, in terms of rule 5.10.1.2, have obtained a pass in either the JSE Derivatives Compliance Examination or the SAFEX Rules Examination.
- 2 A Compliance Officer appointed and registered by a member, in terms of rule 5.10.1, as at 31 October 2010 but who had not obtained a pass in the SAFEX Rules Examination must obtain a pass in the JSE Derivatives Compliance Examination by 30 April 2011.

QUALIFICATIONS TO MANAGE INVESTMENTS AND PROVIDE INVESTMENT ADVICE

This directive sets out the qualification requirements for employees of a member who manage investments or provide investment advice in respect of derivative securities, commodity securities, JSE authorised investments not traded on a JSE market and securities traded on a JSE market of which the trading member is not a member.

1. Derivative securities

- 1.1 An employee of a trading member may exercise discretion in the management of derivative securities or provide investment advice to clients on any transaction in such securities if the employee -
 - 1.1.1 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 1.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 1.1.2.1 *Introduction to the Financial Markets*;
 - 1.1.2.2 *Regulation and Ethics of the South African Financial Markets*;
 - 1.1.2.3 *The Equity Market*; and
 - 1.1.2.4 *The Derivatives Market*; or
 - 1.1.3 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 1.1.4 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute; or
 - 1.1.5 has obtained a pass in the Investment Advice and Portfolio Management module of the South African Institute of Stockbrokers examinations and has been exempted from or obtained a pass in *The Derivatives Market* and *Regulation and Ethics of the South African Financial Markets* modules of the Registered Persons Examination of the South African Institute of Financial Markets.
- 1.2 Any person other than a stockbroker or a Chartered Financial Analyst Charterholder Member who qualifies to manage investments or provide investment advice in terms of 1.1 and who ceases to manage investments or advise on transactions for a period of more than three years, must pass the examinations referred to in 1.1.2, 1.1.3 or 1.1.5 prior to managing investments or advising on transactions again.

QUALIFICATIONS TO MANAGE INVESTMENTS AND PROVIDE INVESTMENT ADVICE introduced with effect from 24 December 2008.

QUALIFICATIONS TO MANAGE INVESTMENTS AND PROVIDE INVESTMENT ADVICE amended with effect from 11 October 2010.

QUALIFICATIONS TO MANAGE INVESTMENTS AND PROVIDE INVESTMENT ADVICE 1 and 1.1 amended with effect from 11 October 2010.

2. Agricultural derivatives

- 2.1 An employee of a trading member may exercise discretion in the management of agricultural derivatives or provide investment advice to clients on any transaction in such securities if the employee -
- 2.1.1 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* and *JSE Agricultural Products Market Dealers* modules of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 2.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 2.1.2.1 *Introduction to the Financial Markets*;
 - 2.1.2.2 *Regulation and Ethics of the South African Financial Markets*;
 - 2.1.2.3 *The Derivatives Market*; and
 - 2.1.2.4 *JSE Agricultural Products Market Dealers*; or
 - 2.1.3 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* and the *JSE Agricultural Products Market Dealers* modules of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 2.1.4 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in the *JSE Agricultural Products Market Dealers* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 2.1.5 has obtained a pass in the Investment Advice and Portfolio Management module of the South African Institute of Stockbrokers examinations and has been exempted from or obtained a pass in *The Derivatives Market*, *Regulation and Ethics of the South African Financial Markets* and *JSE Agricultural Products Market Dealers* modules of the Registered Persons Examination of the South African Institute of Financial Markets.
- 2.2 Any person other than a stockbroker or a Chartered Financial Analyst Charterholder Member who qualifies to manage investments or provide investment advice in terms of 2.1 and who ceases to manage investments or advise on transactions for a period of more than three years, must pass the examinations referred to in 2.1.2, 2.1.3, 2.1.4 or 2.1.5 prior to managing investments or advising on transactions again.

3. Foreign commodity derivatives

- 3.1 An employee of a trading member may exercise discretion in the management of foreign commodity derivatives or provide investment advice to clients on any transaction in such securities if the employee -
- 3.1.1 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 3.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 3.1.2.1 *Introduction to the Financial Markets*;
 - 3.1.2.2 *Regulation and Ethics of the South African Financial Markets*; and
 - 3.1.2.3 *The Derivatives Market*; or
 - 3.1.3 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 3.1.4 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute; or
 - 3.1.5 has obtained a pass in the Investment Advice and Portfolio Management module of the South African Institute of Stockbrokers examinations and has been exempted from or obtained a pass in *The Derivatives Market* and *Regulation and Ethics of the South African Financial Markets* modules of the Registered Persons Examination of the South African Institute of Financial Markets.
- 3.2 Any person other than a stockbroker or a Chartered Financial Analyst Charterholder Member who qualifies to manage investments or provide investment advice in terms of 3.1 and who ceases to manage investments or advise on transactions for a period of more than three years, must pass the examinations referred to in 3.1.2, 3.1.3 or 3.1.5 prior to managing investments or advising on transactions again.

4. Bonds

- 4.1 An employee of a trading member may exercise discretion in the management of bonds or provide investment advice to clients on any transaction in such securities if the employee –
- 4.1.1 is a stockbroker and has been exempted from or obtained a pass in *The Bond Market* and *The South African Money Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 4.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets :
 - 4.1.2.1 *Introduction to the Financial Markets*;
 - 4.1.2.2 *Regulation and Ethics of the South African Financial Markets*;
 - 4.1.2.3 *The Bond Market*; and
 - 4.1.2.4 *The South African Money Market*; or
 - 4.1.3 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The South African Money Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 4.1.4 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute; or
 - 4.1.5 has obtained a pass in the Investment Advice and Portfolio Management module of the South African Institute of Stockbrokers examinations and has been exempted from or obtained a pass in the *Regulation and Ethics of the South African Financial Markets* and *The South African Money Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets.
- 4.2 Any person other than a stockbroker or a Chartered Financial Analyst Charterholder Member who qualifies to manage investments or provide investment advice in terms of 4.1 and who ceases to manage investments or advise on transactions for a period of more than three years, must pass the examinations referred to in 4.1.2, 4.1.3 or 4.1.5 prior to managing investments or advising on transactions again.

5. Interest rate derivatives

- 5.1 An employee of a trading member may exercise discretion in the management of interest rate derivatives or provide investment advice to clients on any transaction in such securities if the employee –
- 5.1.1 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market*, *The Bond Market* and *The South African Money Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 5.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets :
 - 5.1.2.1 *Introduction to the Financial Markets*;
 - 5.1.2.2 *Regulation and Ethics of the South African Financial Markets*;
 - 5.1.2.3 *The Derivatives Market*;
 - 5.1.2.4 *The Bond Market*; and
 - 5.1.2.5 *The South African Money Market*; or
 - 5.1.3 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* and *The South African Money Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 5.1.4 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute; or
 - 5.1.5 has obtained a pass in the Investment Advice and Portfolio Management module of the South African Institute of Stockbrokers examinations and has been exempted from or obtained a pass in the *Regulation and Ethics of the South African Financial Markets*, *The Derivatives Market*, *The Bond Market* and *The South African Money Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets.
- 5.2 Any person other than a stockbroker or a Chartered Financial Analyst Charterholder Member who qualifies to manage investments or provide investment advice in terms of 5.1 and who ceases to manage investments or advise on transactions for a period of more than three years, must pass the examinations referred to in 5.1.2, 5.1.3 or 5.1.5 prior to managing investments or advising on transactions again.

6. Currency derivatives

- 6.1 An employee of a trading member may exercise discretion in the management of currency derivatives or provide investment advice to clients on any transaction in such securities if the employee –
- 6.1.1 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* and *The South Foreign Exchange Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 6.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets :
 - 6.1.2.1 *Introduction to the Financial Markets*;
 - 6.1.2.2 *Regulation and Ethics of the South African Financial Markets*;
 - 6.1.2.3 *The Derivatives Market*; and
 - 6.1.2.4 *The South African Foreign Exchange Market*; or
 - 6.1.3 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* and *The South African Foreign Exchange Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 6.1.4 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The South African Foreign Exchange Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 6.1.5 has obtained a pass in the Investment Advice and Portfolio Management module of the South African Institute of Stockbrokers examinations and has been exempted from or obtained a pass in the *Regulation and Ethics of the South African Financial Markets*, *The Derivatives Market* and *The South African Foreign Exchange Market* modules of the Registered Persons Examination of the South African Institute of Financial Markets.
- 6.2 Any person other than a stockbroker or a Chartered Financial Analyst Charterholder Member who qualifies to manage investments or provide investment advice in terms of 6.1 and who ceases to manage investments or advise on transactions for a period of more than three years, must pass the examinations referred to in 6.1.2, 6.1.3, 6.1.4 or 6.1.5 prior to managing investments or advising on transactions again.

7. Equity securities and those JSE authorised investments not traded on a JSE market

- 7.1 An employee of a trading member may exercise discretion in the management of equity securities and those JSE authorised investments not traded on a JSE market or provide investment advice to clients on any transaction in such securities if the employee -
- 7.1.1 is a stockbroker; or
 - 7.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 7.1.2.1 *Introduction to the Financial Markets*;
 - 7.1.2.2 *Regulation and Ethics of the South African Financial Markets*; and
 - 7.1.2.3 *The Equity Market*; or
 - 7.1.3 has qualified as a Regular Member or a Charterholder Member of the Chartered Financial Analyst Institute; or
 - 7.1.4 has obtained a pass in the Investment Advice and Portfolio Management module of the South African Institute of Stockbrokers examinations and has been exempted from or obtained a pass in the *Regulation and Ethics of the South African Financial Markets* module of the Registered Persons Examination of the South African Institute of Financial Markets.
- 7.2 Any person other than a stockbroker or a Chartered Financial Analyst Charterholder Member who qualifies to manage investments or provide investment advice in terms of 7.1 and who ceases to manage investments or advise on transactions for a period of more than three years, must pass the examinations referred to in 7.1.2 or 7.1.4 prior to managing investments or advising on transactions again.

8. Transitional provision

A person who qualified, as at 31 October 2008, to advise on transactions in derivative securities or exercise discretion in the management of JSE authorised investments in terms of the PROVISION OF INVESTMENT ADVICE AND THE EXERCISE OF DISCRETION IN THE MANAGEMENT OF JSE AUTHORISED INVESTMENTS directive, as it existed at 31 October 2008, must be exempted from or obtain a pass in the additional applicable modules of the Registered Persons Examination of the South African Institute of Financial Markets prescribed in this directive by 31 March 2009.

QUALIFICATIONS TO BE REGISTERED AS A DEALER**1 Derivative securities**

- 1.1 In accordance with rule 5.10.3, an employee of a trading member may execute transactions in derivatives securities if the employee –
- 1.1.1 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 1.1.1.1 *Regulation and Ethics of the South African Financial Markets*;
 - 1.1.1.2 *Introduction to the Financial Markets*;
 - 1.1.1.3 *The Equity Market*; and
 - 1.1.1.4 *The Derivatives Market*; or
 - 1.1.2 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 1.1.3 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 1.1.4 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute.

2 Agricultural derivatives

- 2.1 In accordance with rule 5.10.3, an employee of a trading member may execute transactions in agricultural derivatives if the employee has –
- 2.1.1 obtained a pass in the *JSE Agricultural Products Market Dealers* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 2.1.2 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 2.1.2.1 *Regulation and Ethics of the South African Financial Markets*;
 - 2.1.2.2 *Introduction to the Financial Markets*; and
 - 2.1.2.3 *The Derivatives Market*; or
 - 2.1.3 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 2.1.4 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 2.1.5 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute;

3 Foreign commodity derivatives

- 3.1 In accordance with rule 5.10.3, an employee of a trading member may execute transactions in foreign commodity derivatives if the employee –

QUALIFICATIONS TO BE REGISTERED AS A DEALER introduced with effect from 24 December 2008.

QUALIFICATIONS TO BE REGISTERED AS A DEALER 1 and 1.1 amended with effect from 11 October 2010.

QUALIFICATIONS TO BE REGISTERED AS A DEALER 2 amended with effect from 11 October 2010.

QUALIFICATIONS TO BE REGISTERED AS A DEALER 2. Amended with effect from 20 November 2015

QUALIFICATIONS TO BE REGISTERED AS A DEALER 3 amended with effect from 11 October 2010.

-
- 3.1.1 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 3.1.1.1 *Regulation and Ethics of the South African Financial Markets*;
 - 3.1.1.2 *Introduction to the Financial Markets*; and
 - 3.1.1.3 *The Derivatives Market*; or
 - 3.1.2 was registered with the JSE as an agricultural derivatives dealer, in terms of the JSE derivatives rules, as at 31 October 2008; or
 - 3.1.3 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 3.1.4 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 3.1.5 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute; or
 - 3.1.6 is employed as a dealer executing transactions in foreign exchange or foreign commodities on behalf of a trading member which is an Authorised Dealer and has been employed in that capacity for a period of not less than three months.

4 Currency derivatives

- 4.1 In accordance with rule 5.10.3, an employee of a trading member may execute transactions in currency derivatives if the employee –
 - 4.1.1 has been exempted from or obtained a pass in the following modules of the Registered Persons Examination of the South African Institute of Financial Markets:
 - 4.1.1.1 *Regulation and Ethics of the South African Financial Markets*;
 - 4.1.1.2 *Introduction to the Financial Markets*; and
 - 4.1.1.3 *The Derivatives Market*; or
 - 4.1.2 was registered with the JSE as a dealer on the agricultural products market, in terms of the rules, as at 30 June 2007; or
 - 4.1.3 is a stockbroker and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 4.1.4 has qualified as a Regular Member of the Chartered Financial Analyst Institute and has been exempted from or obtained a pass in *The Derivatives Market* module of the Registered Persons Examination of the South African Institute of Financial Markets; or
 - 4.1.5 has qualified as a Charterholder Member of the Chartered Financial Analyst Institute; or
 - 4.1.6 is employed as a dealer executing transactions in foreign exchange on behalf of a trading member which is an Authorised Dealer and has been employed in that capacity for a period of not less than three months.

EXEMPTIONS FROM THE REGISTERED PERSONS EXAMINATION OF THE SOUTH AFRICAN INSTITUTE OF FINANCIAL MARKETS BY THE SOUTH AFRICAN INSTITUTE OF FINANCIAL MARKETS

The South African Institute of Financial Markets may exempt an employee of a member from certain modules of the Registered Persons Examination of the South African Institute of Financial Markets if the employee has obtained a substantially equivalent qualification as set out in the table below.

| Qualification obtained | Modules of the Registered Persons Examination | | | | |
|---|---|---|----------------------------|-------------------------------|------------------------|
| | <i>Introduction to the Financial Markets</i> | <i>Regulation and Ethics of the South African Financial Markets</i> | <i>The Equities Market</i> | <i>The Derivatives Market</i> | <i>The Bond Market</i> |
| SAIFM Dealer Certificate | ✓ | ✓ | ✓ | ✓ | ✓ |
| Financial Services Authority recognition | ✓ | | ✓ | ✓ | ✓ |
| Securities and Investments Institute – Certificate in Securities | ✓ | | ✓ | | ✓ |
| Securities and Investments Institute – Certificate in Securities and Financial Derivatives | ✓ | | ✓ | ✓ | ✓ |
| Securities and Investments Institute – Certificate in Derivatives | ✓ | | ✓ | ✓ | ✓ |

EXEMPTIONS FROM THE REGISTERED PERSONS EXAMINATION OF THE SOUTH AFRICAN INSTITUTE OF FINANCIAL MARKETS BY THE SOUTH AFRICAN INSTITUTE OF FINANCIAL MARKETS introduced with effect from 24 December 2008.

TRADING PERIODS AND TIMES

1. The commodity derivatives market will operate on every business day according to the following standard periods and times:

| Period | Time | |
|--------------------------------------|---|---|
| | Agricultural derivatives* | Foreign commodity derivatives# and selected international derivatives |
| Market pre-opening | 08h50 to 08h59 | 08h50 to 08h59 |
| Market opening | 09h00 | 09h00 |
| Market closing | 12h00 | 17h00 |
| Administration | 12h00 to 12h45 (physical delivery month contracts) 12h00 to 14h30 (all other expiry month contracts) | 17h00 to 17h15 |
| Mark-to market release | 12h45 | 17h20 |
| Physical delivery auctioning process | 11h30 to 13h00 (random close in the last 60 seconds) | |
| Physical delivery invoicing | 13h00 to 14h30 | |

* Including Chicago Corn and Soy contracts

Excluding Chicago Corn and Soy contracts

2. The equity derivatives market will operate on every business day according to the following standard periods and times:

| Period | Time | |
|------------------------------|-----------------------|---|
| | Derivative securities | Foreign commodity derivatives# and selected international derivatives |
| Market pre-opening | 07h30 | 08h50 to 08h59 |
| Market opening | 08h30 | 09h00 |
| Market closing | 17h30 | 17h00 |
| Reporting and Administration | 17h30 to 18h30 | 17h00 to 17h15 |

Excluding Chicago Corn and Soy contracts

TRADING PERIOD AND TIMES introduced with effect from 4 June 2007 and amended with effect from 29 September 2009, 19 July 2010, 1 November 2010 and 5 November 2010.

TRADING PERIOD AND TIMES 1 footnotes amended with effect 15 June 2010.

TRADING PERIOD AND TIMES 2 footnote amended with effect 15 June 2010.

Reporting and Administration period time amended for derivative securities with effect from 21 April 2015.

OFF-ATS TRANSACTIONS

A trading member who reports a transaction in terms of rule 7.115 must ensure that the following transaction type code is included when the transaction is reported to the trading system.

| Transaction Description & Rule Reference | Transaction type code |
|---|------------------------------|
| Exchange for Physical 7.115.1.2 | EFP |
| Exchange for Risk 7.115.1.3 | EFR |

TRADE CANCELLATIONS AND TRADE ADJUSTMENTS

1. A member seeking permission to have an alleged error trade considered by the JSE for treatment in terms of rule 7.181 must immediately upon becoming aware of the error trade, inform the Director: Market Regulation of the trade, giving details of such trade and the circumstances which resulted in it being executed in error.
2. In determining whether to submit a request to the JSE to have an alleged error trade considered for cancellation or adjustment in terms of these rules, the member must ensure that the trade meets the criteria set out in rule 7.181.3 or rule 7.181.14, whichever is applicable.
3. The Director: Market Regulation shall, upon receipt of the request and after due consideration of all of the relevant factors, decide to either accept or decline the request and will contact the member who has initiated the request to inform the member of his decision. The decision of the Director: Market Regulation shall be final.
4. Where permission has been granted or where the Director: Market Regulation has issued an instruction to a member or members to cancel an error trade as contemplated in rule 7.181.8 -
 - 4.1 the affected members shall, without delay, report an equal and opposite cancellation trade to the trading system using the Report Only Trade functionality;
 - 4.2 the member who was responsible for the error trade shall assign the original error trade back to the member who was the counterparty to the error trade at a price determined by the Director: Market Regulation in terms of rule 7.181.8; and
 - 4.3 the counterparty member shall, having accepted the assigned trade, re-assign this trade back to the member who was responsible for the error but at the price of the original error trade.
5. Where permission has been granted or where the Director: Market Regulation has issued an instruction to a member or members to adjust the price of an error trade as contemplated in rule 7.181.10, the affected members shall, without delay, using the Report Only Trade functionality -
 - 5.1 report an equal and opposite cancellation trade to the trading system; and
 - 5.2 re-book the original error trade by reporting a trade to the trading system at an adjusted price as determined by the Director: Market Regulation in terms of rule 7.181.10.
6. Where a member submits a request for an alleged error trade to be considered by the JSE in terms of these rules and such request fails to meet the criteria set out in rule 7.181.3, the member will be liable for payment of an administration fee of R2 000.
7. When an error trade request is approved by the Director: Market Regulation for cancellation or a price adjustment, the member responsible for the error that gave rise to the request will be liable for payment of an administration fee of R10 000.
8. The no cancellation range referred to in the rules is that range in the table below, above or below the futures or the options reference price, or the fair value price, whichever is applicable, within which an alleged error trade will not be considered for treatment in terms of rule 7.181.

| Commodity Derivatives Market - No Cancellation Range | | |
|---|---|-------------------------------|
| Instrument | Futures - Rand value or % of reference price | Options – volatility % |
| White Maize & Yellow Maize | R60 | 4% |
| Sunflower & Wheat | R75 | 4% |
| Soya | R98 | 4% |
| Sorghum | R38 | 4% |
| Foreign Commodity Derivatives | 4% | 4% |
| Can Do | 10% | 10% |

| Equity Derivatives Market - No Cancellation Range | | |
|--|---------------------------------------|-------------------------------|
| Instrument | Futures - % of reference price | Options – volatility % |
| Index Futures | 3% | 3% |
| Single Stock Futures / CFDs | 5% | 6% |
| IDX | 5% | 6% |
| Foreign Commodity Derivatives | 4% | 4% |
| Can Do | 10% | 10% |

- 9 In the case of options with a value of zero and therefore a no cancellation range of zero, the Director: Market Regulation may determine that the price of any cancellation trade or any adjusted trade price shall be a value other than zero.

NOTIFICATION OF TRANSACTIONS

- 1 In respect of a transaction on or reported to the JSE derivatives trading system with or on behalf of a client, a trading member must, before 12h00 on the business day following the transaction, issue the client with an advice note or electronic confirmation confirming the transaction.
- 2 The advice note or electronic confirmation must include disclosure of –
 - 2.1 the date of the transaction;
 - 2.2 the amount and nature of the trading member's charges;
 - 2.3 the price of the transaction;
 - 2.4 the quantity traded;
 - 2.5 the derivative security traded;
 - 2.6 the consideration due to or from the client;
 - 2.7 whether the trading member acted as an agent or as a principal in the transaction; and
 - 2.8 the option strike price and option type, if applicable.

COMMODITY DERIVATIVES MARKET SPECULATIVE POSITION LIMITS

The table below sets out the speculative position limits as provided for in rule 10.40

| Contract | Speculative position limits based on the futures equivalent positions | | |
|---------------------------|--|---------------------|----------------------------------|
| | Spot month limit | Single limit | All months combined limit |
| White Maize (100 tons) | 400 | 3000 | 5000 |
| Soya Beans (50 tons) | 125 | 900 | 1500 |

**TRANSACTIONS IN INTERNATIONAL DERIVATIVES AND FOREIGN COMMODITY DERIVATIVES –
EXCHANGE CONTROL**

1. This directive sets out the compliance obligations applicable to members in relation to trading, hedging and holding positions in international derivatives and foreign commodity derivatives, as specified in terms of Exchange Control Circular 7/2008 of 20 February 2008.
2. A trading member may not trade in international derivatives or foreign commodity derivatives for a non-resident blocked rand account (emigrant client). In the event that the JSE identifies a transaction for or on behalf of an emigrant client, the JSE will instruct the member to transfer the transaction from the client's account to the member's misdeals account and the member will assume responsibility for the transaction.
- 3 Subject to 4 below, a trading member may not hedge -
 - 3.1 international derivatives by transacting in the underlying security listed on an external exchange; or
 - 3.2 foreign commodity derivatives by transacting in the underlying foreign referenced commodity.
4. A trading member who is an Authorised Dealer and has been granted specific approval by the Exchange Control Department of the South African Reserve Bank to act as a liquidity provider in a market making capacity in the trading of international derivatives or foreign commodity derivatives may hedge international derivative or foreign commodity derivative positions with the underlying security listed on an external exchange or the underlying foreign referenced commodity, respectively.

TRANSACTIONS IN INTERNATIONAL DERIVATIVES- EXCHANGE CONTROL introduced with effect from 24 November 2008 and amended with effect from 24 December 2008.