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MARKET NOTICE

Number:	**313/2019**
Relates to:	☐ Equity Market ☒ Equity Derivatives ☐ Commodity Derivatives ☐ Interest Rate and Currency Derivatives
Date:	15 October 2019
SUBJECT:	**DTOP AND DCAP ATM VOLATILITY SPREAD TO ALSI**
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Introduction

This note serves as an update to the existing methodology used to price DTOP and DCAP options in the Equity Derivatives Market. This note focuses exclusively on the At-The-Money Volatility (ATM Vol) for the DTOP and DCAP contracts.

At-the-Money (ATM) Volatilities

Current Methodology

The JSE considers a single particular Strike ("Anchor Strike") for setting the ALSI ATM Volatility on any given day. Trades and orders on this strike that occur daily in a time period starting at 17:00 and ending at a random time up until 17:05 are considered for daily mark-to-market.

All other index volatilities are marked at a static spread to the ATM volatility for the ALSI contract with the same expiry date. The ATM Volatility for the DTOP and DCAP options are linked to the ALSI ATM options. The current process is as follows:

- The ATM volatility for the DTOP and DCAP options are linked to the liquid ALSI ATM options at a spread of 0.25%.
- At 17:05, once the final ALSI ATM Volatility is determined for the listed ALSI MTM futures expiries, the ALSI ATM volatility is rounded to the nearest 25bps.
- Thereafter a spread of 0.25% is added to the ALSI ATM vol to calculate the DTOP and DCAP ATM vols.

Updated DTOP and DCAP ATM Volatility Spread

The JSE has decided to change the spreads for DTOP and DCAP as per the table below.

Contract	Current Spread	New Spread
DTOP	0.25%	1.50%
DCAP	0.25%	0.75%

For example:

Contract Code	Current ATM Closing Vol	New ATM Closing Vol
ALSI DEC19	16.00%	16.00%
DTOP DEC19	16.25%	17.50%
DCAP DEC19	16.25%	16.75%

This change was necessitated by observed actual trades and will be effective from 15 October 2019. These spreads may not remain constant forever and will change due to various reasons. The Valuations team will constantly review trade data and update the spreads accordingly.

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