



SERVICE HOTLINE

REFERENCE NUMBER: 243/2020

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DELIVERABLE DIESEL PROJECT UPDATE

Subsequent to Service Hotline 203/2020 of 9 September 2020, this Service Hotline serves to provide an update on the Deliverable Diesel Contract.

After careful consideration and as a result of comments received from our internal process review, the JSE has resolved to revise the timelines for delivery of the Diesel contract to the market, while continuing to fine-tune the product design to conform to the required specifications.

In summary, the following were necessary alterations that had to be made:

1. Cash settled contract with option to deliver for qualifying participants

- a. A deliverable diesel contract was originally designed but due to statutory prohibition to trade in diesel unless you are a licence holder, this necessitated us to consider a cash settled contract with option to deliver. For the new diesel contract, position holders at expiry of the futures contract are cash settled based on a JSE published settlement value.
- b. Clients that are authorized and interested in physical delivery can use the spot basis functionality to facilitate physical deliveries during the delivery month. This contract is a global first for commodity derivative contracts, finding a balance between cash and physical settlement and has necessitated further system developments.
- c. The system developments entail creating a new settlement type, the hybrid. The futures contract will either be physically settled during the delivery month or cash settled on expiry day.

Market / Service:

Commodity Derivatives Market

Environment(s):

External and Internal Test
Environment/s

Additional Information:

If you have any queries about this announcement, please contact the Client Service Centre (CSC) on +27 11 520 7777 or e-mail CustomerSupport@jse.co.za

Issued By:

ITD: TRT Trading

2. Storage and ownership transfer of diesel

- a. As industry practice, majority of oil majors do not store oil stock on behalf of third parties.
- b. While we modelled the delivery process of diesel on the more established grains market, risk and ownership transfer as represented by the silo certificate, is not quite the same with the petroleum industry. Ownership of diesel only ensues when it is delivered in the tanker of the new buyer.
- c. This requires us to recognize the transfer of ownership at the point of outloading. The default process must also be aligned to the risk of non-delivery so that each participant clearly understands their obligations to make good delivery.
- d. The JSE is also in the process of securing agreements with storage operators and registering delivery depots which will be described in the detailed contract specifications.

3. Systems Upgrade

- a. The proposed changes require redevelopment of certain functionalities of our existing software.
- b. We have already started with a technical impact analysis, to be followed by development.
- c. The code changes will then be deployment in test environments, followed by end-to-end testing with all market participants, and then finally deployment into production.

To accomplish all of the above, the envisaged go live date is the Q3 2021. We will continue to update the market on any progress being made, including when we will commence with deployment in test environments and testing.

We thank you for your patience in this regard. Should you have any questions, please feel free to contact us at commodities@jse.co.za.