

PROPOSED AMENDMENTS TO THE JSE DERIVATIVES RULES AND DIRECTIVES

General explanatory notes:

1. Words underlined with a solid line (___) indicate the insertions in the existing rules and directives
2. Words in bold and in square brackets ([]) indicate deletions from the existing rules

Proposed amendments to the JSE Derivatives rules:

7.114 Off book trading

7.114.1.1

7.114.1.2

7.114.1.3

7.114.1.4 The table below lists the off book trade types and indicates –

7.114.1.4.1 whether the transaction may be conducted by one member or two members; and

7.114.1.4.2 whether the transaction is published by the JSE.

| Trade description | Trade type code | Single member | Two members | Published |
|---|------------------------|----------------------|--------------------|------------------|
| Index options, index futures, equity options, equity futures, single stock futures and single stock options | NT | Yes | Yes | Yes |
| eCFDs | CD | Yes | Yes | Yes |
| Exchange for Physical | EFP | Yes | Yes | Yes |
| Exchange for Risk | EFR | Yes | Yes | Yes |
| Roll Trade | RT | Yes | Yes | Yes |
| Strategy Trade | SR | Yes | Yes | Yes |
| <u>Off-book delta option trade</u> | <u>DOT</u> | <u>Yes</u> | <u>Yes</u> | <u>Yes</u> |
| <u>Off-book structured option trade</u> | <u>SOT</u> | <u>Yes</u> | <u>Yes</u> | <u>Yes</u> |

7.115 Off book trading criteria

7.115.1 Subject to members complying with the best execution principle in rule 7.15 when trading with or on behalf of clients, the following transactions do not have to be executed through the central order book and may be validly reported to the JSE trading system:

7.115.1.1

7.115.1.2

7.115.1.3

7.115.1.4

7.115.1.5

7.115.1.6 Delta option trade ("DOT").

An off-book delta option trade is a transaction in options between two trading members or between a trading member and a client, which is reported to the JSE commodities trading system after the parties have agreed on the terms of the transaction, including the option volatility, and once the counterparty to the transaction who is required to execute the necessary futures delta hedge has done so.

7.115.1.7 Structured option trade ("SOT")

An off-book structured option trade is a transaction in options involving two or more strike prices within the same option structure between two trading members or between a trading member and a client, which is reported to the JSE commodities trading system.

7.115.1.~~6~~⁸ Any other transaction in commodity derivatives of a type which may validly be reported to the JSE trading system and not executed through the central order book, as determined by the JSE.

7.115.2 A futures transaction reported in terms of an EFRP shall comply with the following conditions:

7.115.2.1

7.115.2.2

7.115.2.3

7.115.3 The price of futures transactions reported in terms of an EFRP shall be -

7.115.3.1

7.115.3.2

7.115.4 DOT and SOT transactions shall be reported to the JSE commodities trading system without delay after the parties have agreed on the terms of the transaction and all conditions precedent have been fulfilled. In respect of DOT transactions, such conditions shall include the execution of the delta hedge.

7.115.5 A trading member who is trading on behalf of a client in respect of a DOT transaction shall take the following factors into account in determining the best option volatility level at which to trade:

7.115.5.1 the implied volatility of existing orders in the naked options central order book;

7.115.5.2 the volatility level of trades already executed on the order book in the same option contract or in option contracts at nearby strike prices in the same underlying instrument for the same expiry month; and

7.115.5.3 the previous day's closing JSE mark to market volatility.

7.115.6 In order to discharge its obligations in terms of rule 7.15 and 7.115.5, a trading member intending to trade on behalf of a client in a naked commodity option shall, before negotiating and concluding the terms of an off-book transaction with a counterparty that will be reported to the trading system as a DOT, ensure that there are no unfilled orders in that option contract in the naked options central order book which are at least equal in aggregate volume to the number of contracts being traded on behalf of the client and at a better price for the client than the price for the DOT being negotiated by the trading member with the counterparty.

7.115.[4] Upon request, a trading member shall –

7.115.4.1 submit to the Director: Market Regulation all of the information, records and documents referred to in rule 7.115.2.3; **[and]**

7.115.4.2 demonstrate to the Director: Market Regulation how the futures transaction associated with an EFRP is correlated to the relevant physical or OTC contract, whichever is applicable[.]; and

7.115.4.3 submit to the Director: Market Regulation details of the underlying futures trades executed by that trading member which comprise the delta hedge in respect of a DOT transaction.

7.115.8 Off book transactions which do not comply with one or more of the criteria specified in this rule may be cancelled by the JSE at the sole discretion of the Director: Market Regulation.

Proposed amendments to the JSE Derivatives Directives

OFF-ATS TRANSACTIONS

The minimum number of contracts, as determined by the JSE for off-ATS transactions reported to the JSE commodities trading system are as follows –

| Transaction type code | Minimum number of contracts |
|------------------------------|------------------------------------|
| EFP | 1 |
| EFR | 1 |
| <u>DOT</u> | <u>1</u> |
| <u>SOT</u> | <u>1</u> |