

Market Notice

Number: F4328

Date: 10 June 2010

Important Notice to Members - Treatment of Rights Issue

Members notice is drawn to section 13 of the JSE Derivatives Directives, the contract specifications of Individual Equity Futures and options, which states:

“13. Corporate Events

The Executive Committee reserves the right to adopt any procedure or to adjust any individual equity future or option on an individual equity future (Single Stock futures or options on Single Stock futures), in a manner it deems fit, to deal with any extraordinary corporate events that may occur from time to time in relation to a share that is the underlying instrument of the equity option and to notify position holders, members and any other interested parties, of such event and the procedure or adjustment adopted. Such events include, for example, mergers, take-overs, unbundlings, capitalisation issues and rights issues. “

The implication of this is that anybody trading in Single Stock futures or options on Single Stock futures in which the underlying stock is the subject of an extraordinary corporate event should be aware that the JSE may make adjustments to the Single Stock futures and options.

RIGHTS ISSUE.

After consultation with market participants during a corporate actions workshop held on the 30th March 2010 and subsequently working through worked examples, the JSE has decided to change the way in which it makes adjustments for rights issue.

The calculation will not change, however the following points will differ:

- The “VWAP” (volume weighted average price on ex date) will be replaced by “TOP” (Theoretical Opening Price).
- Adjustments will be made on ex. date (Previously, day after ex. date)



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Member of the World Federation of Exchanges

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Luhabe, A Mazwai, NS Nematswerani, N Payne, G Serobe,
Company Secretary: GC Clarke

- Members will be able to nominate whether positions created in the newly created contract is allocated to their respective clients or into their principal accounts. This will make it easier for members wishing to trade out of the newly created contract and recreate the appropriate positions back into the standard contract.

Please note: Members need to do the above nomination before ex. Date otherwise the newly created positions will be allocated to the respective client accounts by default.

The calculation used to make adjustments to positions with regard to rights issues will thus be as follows:

1. Futures contracts.

Adjustment to contract size

The contract size will be increased using the "Contract Size Multiplier" (CSM), calculated as follows:

$$CSM = \frac{(m * TOP) + (n * IRV)}{(m * TOP)}$$

Where :

m	=	number of shares held ex date.
n	=	number of shares to be received ex date.
IRV	=	Implied value of rights.
TOP	=	theoretical opening price.

Implied Rights Value

$$IRV = TOP - C - X$$

Where :

C	=	Value of any entitlements not included.
X	=	Entitlement price of new shares under rights issue.

Theoretical Opening Price.

$$TOP = ((Spot * m) + (n * X)) / (n + m)$$

Where : Spot = the official closing price of the underlying share on **(LDT)**.

Note:

A contract on the identical share will be listed on the exchange, with a standard contract size as calculated using the "Contract Size Multiplier" (CSM). This contract will be assigned a separate identifying code, and will not be fungible with the existing contract that has a contract size of 100 shares per contract.

Positions in the existing contract will be closed out at a value of zero and new positions will be created in the new contract at a value of zero.

E.g. If you had 10 futures contracts in the existing HLMQ contract which has a contract size of 100, the JSE will close out this position at a value of zero and open a new position of 10 futures contracts in the new contract which has a contract size as determined using the "Contract Size Multiplier" (CSM) at a value of zero.

The newly created contract will only be active for the period of the corporate action i.e. when trading and open interest cease to exist, this contract will be terminated.

2. Option contracts.

Adjustment to strike prices

Options on Single Stock Futures will have adjustments made to the contract size as well as adjustments made to the strike price.

Adjusted strike price = Existing strike price * (1 / CSM)

Where: CSM = Contract Size Multiplier

Positions in the existing contract will be closed out at a value of zero and new positions will be created in the new contract at a value of zero. (See "Adjustment to contract size" above).

Please e-mail any objections, concerns, suggestions, etc. to derivativetrading@jse.co.za by close of business on the 25th June 2010

Should you have any queries please contact Imraan Hendrix on (011) 520-7349.

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