



JOHANNESBURG STOCK EXCHANGE Equity Derivatives

Market Notice

Number: F4571

Date 7 December 2010

EQUITY DERIVATIVE ON-SCREEN TRADING MARKET FEEDBACK/UPDATE

As per Market Notice F4520, the Minimum Off-Market Trade rules for Indices, Single Stock Futures and Options are as follows:

Contract	Minimum rule for Futures and Options
ALSI	200 contracts
DTOP	500 contracts
AGL	100 contracts
MTN	200 contracts

From Monday 8 November 2010, all trades in sizes smaller or equal to the above stated minimums had to be traded on the Nutron (ATS) central order book.

The above Minimum rules brought about change and as a result quite a few issues have been identified. This market notice attempts to provide feedback to the Equity Derivative Market Participants with regards to identified issues, proposed solutions and also next steps with regards to on-screen trading. It is important to note that most of the items listed in the document were discussed and agreed at the quarterly Financial Derivative Advisory Committee held on 24 November 2010.

If you have any queries, please feel free to contact derivativetrading@jse.co.za

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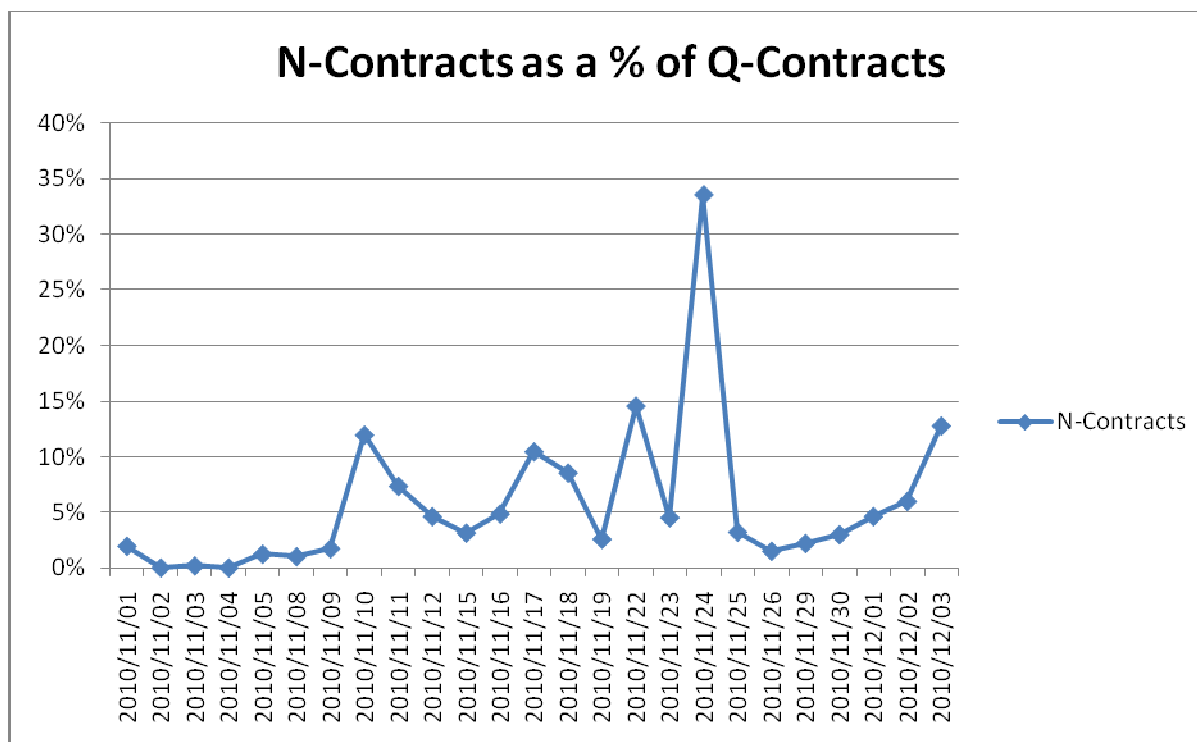
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1. On-screen trading stats:



Few notes on the above graph:

- The above graph shows the on-screen traded AGL Dividend Neutral (N-Contracts) as a percentage of all Q-Contracts traded. The Q-Contracts therefore includes all originating naked and dividend neutral trades.
- No post trade activity (allocations, sub accounts, divs and additions) are included in the stats and only the originating trades are included.

The average bid offer spread on the N-Contracts for both AGLN and MTNN has been between 20 and 30 basis points, thanks to a host of voluntary Liquidity Providers currently making markets on-screen. The Exchange values the support and would like to thank the following members:

- 28E Capital
- ABSA Capital
- Bank of America / Merrill Lynch
- Credit Suisse
- Deutsche Securities
- Investec Bank
- Macquarie Securities
- Nedbank Capital
- RMB / Morgan Stanley
- Sanlam Securities
- Standard Bank

2. Rules next steps:

It was agreed at the Advisory Committee meeting to increase the rules to an additional ten Top 40 instruments in January 2011, a further ten during February 2011 with the last of the Top 40 instruments included post the March 2011 Futures Closeout.

Participants are reminded that the rules are only applicable to the near and the next expiry. (Current example: December 2010 and March 2011)

3. N-Contract trade history

Participants would have notice that on the N-Contracts the Time, High, Low, Volume and Open Interest columns do not currently update when trades occur, as indicated on the screen shots below:

The first screenshot shows a window titled 'Dividend_Neutral_Futures (SAFMAG)'. It contains a table with the following data:

Instrument	QtyB	Bid / Offer	QtyO	Change	Last	Time	High	Low	Volume	OpenInt
DEC10AGLN	6	313.36 / 313.86	1	-0.72	315.12	00:00	0.00	0.00	0	0

The second screenshot shows a window titled 'Single_Stock_Futures A TO F (SAFMAG)'. It contains a table with the following data:

Instrument	QtyB	Bid / Offer	QtyO	Change	Last	Time	High	Low	Volume	OpenInt
DEC10AGLQ	10	313.53 / 314.30	10	-0.76	315.08	13:19	316.78	313.00	425	15877

The N-Contract, being a virtual contract, results in a trade on the SSF (Q-Contract) and it's associated Dividend Future (F-Contract). Since the contract is a virtual contract, Nutron was not designed to maintain trade history and the above mentioned trade statistics.

It was agreed at the Advisory Committee meeting that Nutron will be enhanced in order for the N-Contract to maintain its own Time, High, Low and Volume. Market participants will never end up with positions in the N-Contract and as a result Open Interest will be maintained as zero, and hence will not be updated. All trades done on the N-Contract will result in an update of Volume and Open Interest on the associated SSF Q-Contract.

This enhancement is scheduled to be released to the market post the December 2010 Futures Closeout.

4. Delta Options

Trading of delta options on Nutron, results in positions in both an option and a delta-neutral future. The price and quantity of the resultant future is determined by using the following algorithm:

- The middle of the double of the SSF Q-Contract
 - If the above is not present, then use
- The last traded on-screen price of the SSF Q-Contract
 - If the above is not present, then use
- The previous day's mark-to-market price

On-screen activity on the N-Contract is increasing and as a result, market participants have requested that the Exchange investigates using prices from the N-Contract in conjunction with the assumed/declared dividends, when calculating the Futures Price for Delta Options. The proposed algorithm for calculating the delta futures price is as follows:

- The middle of the double of the SSF Q-Contract
 - If the above is not present, then use
- The middle of the double of the N-Contract (which includes the assumed/declared dividend)
 - If the above is not present, then use

- The last traded on-screen price of either the SSF Q-Contract or N-Contract, whichever was last
 - If the above is not present, then use
- The previous day's Q-Contract mark-to-market price

The Advisory Committee meeting agreed that the proposed solution should be discussed and agreed with the Options Sub Committee.

5. N-Contract Spreads:

Due to the virtual nature of the N-Contract, Spreads are currently not allowed for N-Contracts. An enhancement to allow Spreads on N-Contracts is scheduled for the February 2011 Nutron Software release.

6. Forward Valuing of Dividend Future Contracts:

Market Notice F4371A indicated a change was required to the valuation of Dividend Future Contracts in order to eliminate cash flow mismatches when trading Dividend Neutral contracts. Essentially Dividend Futures had to be forward valued and not discounted as previously done. This enhancement was implemented on 20 November 2010

7. New Proposed Trading Period Rules:

It must be noted that the on-screen trading rules was designed to create transparency and best execution in the **originating** transaction of a position. It was never intended to create complexities during post trade activity (give-ups) and corrections. In order to resolve these complexities the following trading period rules was proposed and agreed to by the Advisory Committee:

- Admin Period from 8:00am to 8:25am. This Admin period will allow for Give-ups and Corrections. This period will be closely monitored by JSE surveillance to ensure the originating trade was executed on-screen.

In line with the spirit of on-screen trading an Opening Auction for Single Stock Futures between 8:25am and 8:30am for all Q, N and F contracts was also agreed.

The new period rules enhancement requires software changes which will be included in the February 2011 Nutron Software release.

8. Decimals for ALSI on-screen trading:

Trading of the ALSI contract via the central order book (i.e. on-screen trading) should be traded in accordance with the contract specification which states that the price cannot result in any decimal points. Post trade activity however (i.e. accumulation / dividing of deals) may result in deals with decimal points. As a result of post trade activity, Nutron will also allow for a trade with decimal points when using the "report-only" functionality. The Exchange will maintain this stance going forward.

9. Trading during the underlying spot market Closing Auction:

As a result of the underlying market being in an auction, liquidity providers are not making markets. Equity Derivative Market participants have expressed their disappointment and frustrations with regards to this. Unfortunately there is no quick and easy answer to this problem. Market participants have indicated that they would not mind if liquidity providers widen their doubles during the closing auction, as long as there's a price. The JSE are discussing various options and are in discussions with Liquidity Providers.

10. Good till date Orders:

Multiple market participants have requested “good-till-date” orders. These orders will allow market participants to enter orders that will remain as active orders, on the central order book, until close of market of the specified date or the expiry date of the contract.

The market will be informed of the implementation date in due course.

11. Strike Intervals and publishing of traded volatility levels for Options:

Currently the strike price intervals on Safex Style Options are dated. The ALSI is still on 50 point intervals from the days when the index was at the 5,000 level. Single Stock Options don't have strike intervals and are therefore set at 1 cent. In order to ensure liquidity when trading on-screen, the JSE needs to set more up to date strike intervals. The following strike intervals were proposed at the Equity Derivative advisory committee meeting:

For Indices a 1% of current index level strike price was proposed:

- ALSI – 250 points
- DTOP – 50 points

For Single Stock Options the following sliding scale was proposed:

Underlying Share Price	Strike Interval
≤ R10	R0.50
> R10 and ≤ R30	R1.00
> R30 and ≤ R50	R2.00
> R50 and ≤ R100	R2.50
> R100 and ≤ R200	R5.00
> R200 and ≤ R500	R10.00
> R500	R15.00

Market Participants not wanting to trade the standardised strike intervals will always be accommodated via the Can Do Options product range. The Advisory Committee meeting agreed that the proposed Strike Intervals should be discussed and agreed with the Options Sub Committee.

The publishing of volatilities on reported trades as raised through Market Notice F4442 (Off-market trades in equity option contracts) will also be discussed and progressed with the Options Sub Committee.

12. Small deltas from large structured trades:

When creating a multi-leg trading structure, the JSE acknowledges that there could be a scenario where all legs of the trading strategy are above the minimum contract rules but the delta could be below. Keeping the off-market trade rule in mind, there is currently no mechanism to book this delta leg via the Nutron Trading System. In the short term, the JSE requires market participants to send an e-mail to the exchange providing them with the details of the entire structure. The counterparty must be copied on this e-mail. The JSE will capture the delta leg on behalf of both participants.

In the long term the JSE will be providing “Request for Quote” functionality on the Nutron trading System. The design of this functionality will be based on the NYSE Euronext Life functionality. In summary, market participant's structures will go to the entire market for quote. Once the preferred quote is selected, the trade

will be reported to the exchange bypassing the minimum off-market trade rules. It was agreed that this design should be discussed and progressed with the Options Sub Committee.

The "Request for Quote" functionality is scheduled for the June 2011 Nutron Software release, depending on agreement from the Options Sub Committee.

13. JSE Booking Fees:

Market participants are reminded that it is cheaper to trade on screen. The table below summarises the JSE's Booking Fees which were implemented in July 2010:

Contract	Type	On-Screen Fees		Off-Screen Fees	Floor	Cap
		Aggressor	Passive			
Indices	Future	1/10 of BP		On-screen + 20%	N\A	N\A
	Option	Delta of 1/10 BP	Zero fee			
Single Stock	Future	1 BP	Zero fee	1.75 BP	0.01	120.00
	Option	Delta of 1 BP	Zero fee	Delta of 1.75 BP		

Market Notice Summary:

The table below summarises the proposed implementation dates for items raised in this market notice:

#	Issue	Solution implementation date
1.	On-screen trading stats	No implementation
2.	Rules next steps	January 2011 - 10 more Single Names from Top 40 February 2011 - 10 more Single Names from Top 40 March 2011 – All remaining Top 40 Single Names
3.	N-Contract trade history	Post December 2010 Closeout Emergency Change
4.	Delta Options deriving Mid-Price from N-Contracts	To be discussed with Options Sub Committee
5.	N-Contract Spreads	February 2011 Software Release
6.	Forward Valuing of Dividend Future Contracts	Already implemented in November 2010
7.	New Proposed Trading Period Rules	February 2011 Software Release
8.	On-screen not allowing for decimals when trading ALSI	No implementation
9.	Trading during the underlying spot market Closing Auction	No implementation
10.	Good till date Orders	No implementation date agreed as yet
11.	Strike Intervals and publishing of traded volatility levels for Options	To be discussed with Options Sub Committee
12.	Small deltas from large structured trades	June 2011 Software Release
13.	JSE Booking Fee	Already implemented in July 2010