JOHANNESBURG STOCK EXCHANGE
Equity Derivatives

Market Notice

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SSF On-screen Trading Feedback

Market participants should be aware of the on-screen rules implemented earlier this year. A lot of misconceptions have accompanied the changes to our market structure. This market notice is intended to provide feedback and clarity on the current pricing related to trading Single Stock Futures (SSFs) on-screen.

The following table summarises observations around the on-screen SSF market from snapshots of the best bid and offer taken every 30 seconds between 9:00 and 16:50 from Monday 15th August 2011 to Thursday 18th August 2011:

Group	Instruments included (ranked in terms of Market Maker's Turn)	Average Market Maker's Turn per leg
Top 10 SSF's	OML, REI, FSR, GRT, SHF, AGL, RMH, SML, BIL, NPN	0.09%
Top 20 SSF's	Top 10 plus CFR, SOL, SAB, ANG, MTN, SBK, ASA, CSO, MNP, MSM	0.10%
Top 30 SSF's	Top 20 plus GFI, REM, APN, TRU, INP, BVT, INL, HAR, NED, VOD	0.11%
Top 40 SSF's	All 42 Instruments included in the Top 40 Index	0.12%

An **Average Mid Interest Rate** of **5.4%** Nominal Annual Compounded Monthly (NACM) was also observed during the above recordings.

The example below applies the above observations in order to calculate the futures price. With an AGL Spot Bid of R280 and Offer of R281 the futures prices for the 15th September 2011 SSF contract can be calculated as follows:

Steps	Description	Formula *	Example *
Step 1	Forward value the Spot Bid and Offer by using the Average Mid Interest Rate	**Spot Bid Forward value = Spot price * [(1 + mid interest rate/compound)^(compound*time)]** Since our mid interest rate was backed out using NACM we will continue using	Spot Bid Forward Value = 280 * [(1 + 0.054/12)^(12*0.6575)] = 281 Offer Bid Forward Value = 281 * [(1 + 0.054/12)^(12*0.6575)]

		this standard. It also makes it understandable for retail users who are used to Prime which is a version of NACM.	= 282
Step 2	Calculate the Market-Maker turn	**Market maker's turn * Spot Price**	Bid Market Maker's Turn = 280 * 0.0009 = 0.252 Offer Market Maker's Turn = 281 * 0.0009 = 0.2529
Step 3	Calculate the Future Bid and Offer	**Future Bid = Step 1 - Step 2** **Future Offer = Step 1 + Step 2**	Future Bid = R281 - 0.252 = 280.75 Future Offer = R282 + 0.2529 = 282.25

*Appendix A is an MS Excel Interest Rate Calculator which can be used by participants to calculate the values shown above without having to understand the formulas. There is NO copy write on this calculator and participants are encouraged to reuse and distribute the calculator to their clients. Participants can also download the calculator from www.jse.co.za/bscalc

Note that Bid/Offer spreads are calculated as follows:
(Offer – Bid) / [(Bid + Offer) / 2]
From the above examples you will observe a Spot Bid/Offer spread of **36 basis points** and a Futures Bid/Offer spread of **54 basis points**. The reason the one spread is greater than the other spread is due to the fact that the Futures Bid/Offer spread includes the Market Maker's Turn.

If you so wish the JSE's Equity Derivatives team will visit your office and implement a spreadsheet which will allow you to calculate/track the above live statistics yourself.

It was brought to the JSE's attention that the volumes (Bid & Offer quantities) shown by the Market Makers on the Futures Market Central Order Book are only a portion of the volumes available on the spot market. The Market Makers make use of algorithmic software which will keep resubmitting a new Futures Bid/Offer until they are unable to satisfy their hedge trades in the underlying spot market. The reason they only show a portion of this volume is to protect themselves from execution risk, i.e. the spot market moving prior to them being able to execute at a given level. As a result Futures Market participants might execute multiple times in the Futures Market in order to fill a large order.

Note that the Equity Derivatives Market makes use of a value based billing model and as a result there is no extra booking fee cost for executing a SSF multiple times. Currently the maker-taker billing model is applied to On-screen SSF trading which implies that the passive participant will get the trade at zero exchange booking fees and the aggressor will pay the exchange 1 basis point. For reported trades both the passive and aggressive participants pay the exchange 1.75 basis points.

Dividend Neutral Contracts are virtual contracts designed to eliminate dividend risk. This valuable contract is explained in Appendix B of this market notice.

The JSE acknowledges that trading SSFs on-screen has been a paradigm shift and is therefore happy to share the above statistics in proving the on-screen market is competitive and efficient. As always we are open to suggestions in order to assist participants in overcoming problems they may have thus enabling them to

participate further. The above competitive pricing cannot be accomplished without committed market-makers. The JSE would like to extend their thanks to these participants.

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

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