

Market Notice

Number: A1629
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Clarification of the existing MTM volatility process

This market notice serves to further clarify the process applied by the exchange in order to determine the mark-to-market (MTM) volatility specifically on the day when the futures MTM level is exactly in the middle of the selected strike intervals, then an additional strike is included in order to finalize the MTM volatility. Further clarification is also included in terms on using delta option activity on limit days. Please see a summary of the process below with the additional clarification highlighted:

- Options traded over the last hour of the trading session will be considered for the m-t-m process
- Three strike prices either side of the option at the money will be considered eg if at the money strike is 1600, then 1540, 1560, 1580 and 1620, 1640 and 1660 strikes will be considered in the process
- **Should the Futures MTM be 1590, then an additional strike is included in the calculation process namely: 1520, 1540, 1560, 1580 and 1600, 1620, 1640, 1660**
- If 60 or more contracts have traded across all strikes for the entire day, the contract will be considered liquid
- The opposite applies to illiquid contracts, if less than 60 contracts across all strikes have traded for the entire day then the contract is classified illiquid
- If classified as liquid, then a volume weighted average of 40 or more contracts across the selected strikes will be required in the last hour of trade as the m-t-m volatility, if this quantity does not trade then the volatility will remain unchanged
- If classified as illiquid, then a volume weighted average of 20 or more contracts across the selected strikes will be required in the last hour of trade for the m-t-m volatility, if this quantity does not trade then the volatility will remain unchanged
- As an exception, where the future contracts trade limit up or down for most of the option m-t-m period, only options traded on the delta option window will be considered for m-t-m volatility purposes
- No options traded on price through the naked option window will be considered in this instance
- **Should the number of delta options traded not meet the liquid or illiquid criteria as described above or if no delta options trade, the m-t-m volatility will remain unchanged unless there is a higher bid or lower offer compared with the previous days m-t-m volatility quoted throughout the mark-to-market period, this quoted information will then be considered at the exchanges discretion as a last resort to reflect the m-t-m volatility**
- The exchange reserves the right to make the final decision regarding the m-t-m volatility and may exercise its discretion as need be.

As always, if there are any questions regarding this process please contact the Commodities Team on 011 520 7535 or e-mail commodities@jse.co.za



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