

EQUITY INDEX OPTIONS

Key Information Document (KID)

2018

PURPOSE

This document provides you with key information about the Index option investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

PRODUCT

Product name: Index Options

Manufacturer: JSE Limited

Website: <https://www.jse.co.za/trade/derivative-market/equity-derivatives/index-derivatives/equity-index-futures-and-options>

Email: edm@jse.co.za

Tel: 011 520 7198

You are about to purchase a product that is not simple and may be difficult to understand

WHAT IS THIS PRODUCT?

Type: Equity Index Option

Product overview: Equity Index Options are derivatives instruments that give investors exposure to price movements on an underlying Index. Market participants therefore can profit from the price movements of a basket of equities without trading the individual constituents. An index Option contract gives investors the option to buy or sell futures in an underlying listed financial instrument at a fixed price on a future date. These products are cash settled and easily accessible via JSE Equity Derivatives members. The JSE lists options on Equity Index Futures.

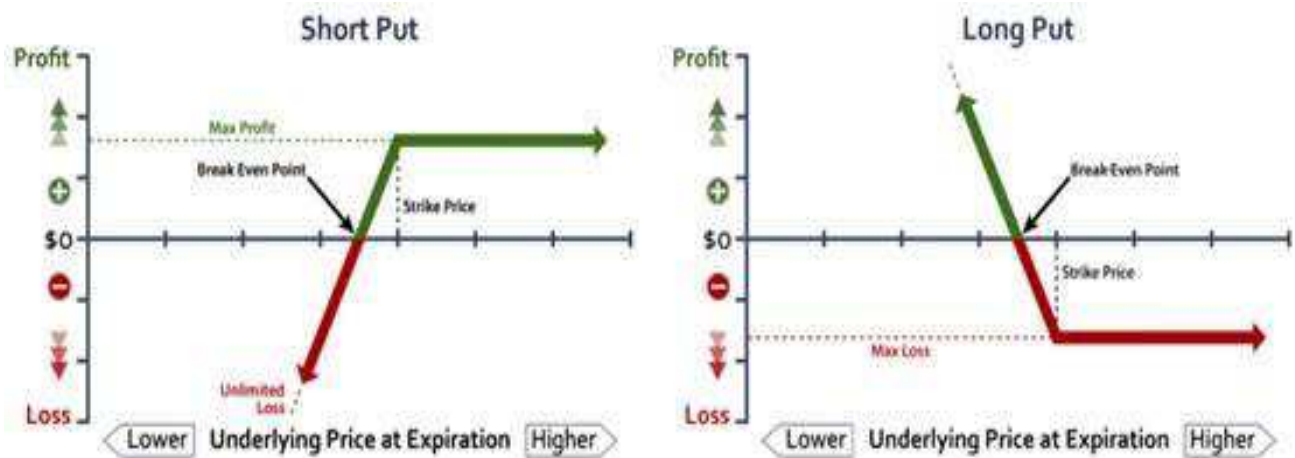
Intended User: This product is suited to both professional and private investors who want to gain exposure to basket of listed companies without purchasing individual shares or Single Stock Futures. When trading in Equity Index Options, market participants can either buy long or sell short. The products are traded by speculators hoping to make a profit on short-term movements and investors seeking to hedge or diversify their portfolios.

WHAT ARE THE RISKS AND WHAT COULD I GET IN RETURN?

The risk in options differs between buyers and sellers. Buying an option involves limited risk that is limited to the price paid for the option (premium) and is therefore known at the outset. Writing an option, whilst a good source of income, is a potentially high-risk strategy requiring intimate product knowledge and valuation.

Performance Scenarios:

These graphs illustrate how your investment could perform on a Put Option trade. The horizontal axis shows the range of possible prices of the underlying asset on the expiry date and the vertical axis shows the profit or loss of the contract.



The payoff profile of the option is asymmetrical as shown above.

A Buyer enters into a long position on the Put Option in expectation of rising market prices. As the market level closes on expiry, the P/L is represented by the position of green line at that market level.

A Seller enters into a short position on the Put Option in expectation of falling market prices. As the market level closes on expiry, the P/L is represented by the position of red line at that market level.

The profit or loss is calculated by taking the closing value of the contract and subtracting the initial value of the contract at initiation of the transaction. If the result is positive, the buyer makes a profit and if it is negative, the seller makes a profit.

The following table provides further detail on the risks and rewards for both the buyer and seller of an option:

| | Buyer | Seller |
|-------------------------------|--------------------|---------------------------------|
| Call option | | |
| Premium | Paid | Received |
| Position taken | Can buy the share | May be forced to sell the share |
| View of future price movement | Will rise | Will not rise |
| Maximum gain | Unlimited | Option premium |
| Maximum loss | Option premium | Unlimited |
| Put Option | | |
| Premium | Paid | Received |
| Position taken | Can sell the share | May be forced to buy the share |
| View of future price movement | Will fall | Will not fall |
| Maximum gain | Limited* | Option premium |
| Maximum loss | Option premium | Limited* |

WHAT HAPPENS IF THE PRIIP MANUFACTURER IS UNABLE TO PAY?

JSE Clear (formerly known as Safcom), a wholly owned subsidiary of the JSE, is the clearing house for all Exchange-Traded Derivatives in South Africa. In this capacity, JSE Clear novates all matched trades transacted through the JSE.

JSE Clear has a number of clearing members, who clear for its members, through which clients' trade. Each member is responsible for its client's losses (if a client defaults); just as each clearing member is responsible for the losses of the members for which it clears, should those members default. If a client (or trading member) cannot make good on its obligations, the trading member (or clearing member) will stand good for those obligations. JSE Clear, therefore, ultimately protects against the risk that one of the clearing members possibly default on their obligations.

For further information on the mechanisms that JSE clear employs, please refer to the following website: <https://www.jse.co.za/services/post-trade-services/risk-management/derivative-market>

WHAT ARE THE COSTS?

The following transaction fees would be applicable:

Central Order Book

- A value based fee structure.
- Charged at 0.04 of a basis point (i.e. 0.000004), calculated off the end-of-day index spot price
- A floor of R0.01 per contract
- A maker-taker (passive/aggressor) pricing model, where price makers are rewarded for providing liquidity.
 - Maker of the price = Zero fees to be charged
 - Taker of the price = Central order book fees to apply

Example:

NB: Only the price taker (aggressor) will be charged

Spot Close x Nominal x Basis Points x Quantity Traded = Trading Fees

| Index Spot Close | Nominal | Basis Points | Quantity Traded | Trading Fees |
|------------------|---------|--------------|-----------------|--------------|
| 48 053 | 10 | 0.000004 | 689 | R 1 324.34 |

Reported Trades

- A value based fee structure.
- Charged at 0.054 of a basis point (i.e. 0.0000054), calculated off the end-of-day index spot price
- A floor of R0.01 per contract

Example:

Spot Close x Nominal x Basis Points x Quantity Traded = Trading Fees

| Index Spot Close | Nominal | Basis Points | Quantity Traded | Trading Fees |
|------------------|---------|--------------|-----------------|--------------|
| 48 053 | 10 | 0.0000054 | 689 | R 1 787.86 |

HOW LONG SHOULD I HOLD IT AND CAN I TAKE MONEY OUT EARLY?

There is no recommended holding period for these products. The optimal holding period depends upon the retail investor's individual strategy and risk profile. A derivative position can be traded and closed out on any trading day until expiration date. In particular, a long position can be closed by entering a sell order in the market on any day up to and including the expiration date of the contract, and a short position can be closed by entering a buy order in the market on any day up to and including the expiration date of the contract. An investor should contact a broker who will be able to provide a recommendation.

HOW CAN I COMPLAIN?

Retail investors should address complaints to the broker or intermediary with whom the investor has a contractual relationship or directly to the Financial Services Board (FSB) at 012 428 8000. Furthermore, the retail investor can address complaints to the JSE at info@jse.co.za