

# SINGLE STOCK OPTIONS

Key Information Document (KID)

2018



## PURPOSE

This document provides you with key information about the Single Stock Options 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: Single Stock Options

Manufacturer: JSE Limited

Website: <https://www.jse.co.za/trade/derivative-market/equity-derivatives/single-stock-derivatives/equity-options>

Email: [edm@jse.co.za](mailto:edm@jse.co.za)

Tel: 011 520 7198

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

## WHAT IS THIS PRODUCT?

**Type:** Single Stock Option

**Product overview:** Single Stock Options are Derivative Instruments that give investors the right, but not the obligation to buy (Call Option) or sell (Put Option) Shares at a fixed price at a future date. Single Stock Options are traded on South Africa's largest and most liquid companies as well as being available on most FTSE/JSE indices. The product is easily accessed through Equity Derivatives trading members and can either be physically settled or cash settled.

**Intended User:** Single Stock Options are used by a number of market participants, including investors seeking exposure to Share price movements for a fraction of the cost of the actual Share, investors who are uncertain whether to buy or sell Shares and need time to decide, and hedgers seeking to reduce risk by protecting an existing Share portfolio against adverse price movements.

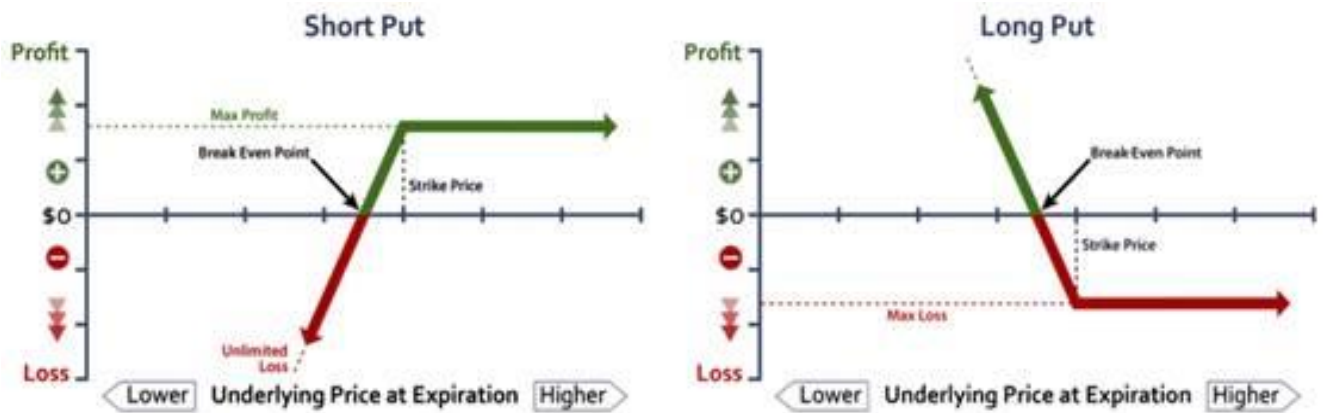
## WHAT ARE THE RISKS AND WHAT COULD I GET IN RETURN?

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 to the buyer and seller of an option:

	Buyer	Seller
<b>Call Option</b>		
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
<b>Put Option</b>		
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

- 0.25 basis point (i.e. 0.000025), calculated off the end-of-day SSF 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 Quantity Traded x Basis Points = Trading Fees

SSF Spot Close	Nominal	Quantity Traded	Basis Points	Trading Fees
334.00	100	550	0.000025	R 459.25

### Reported Trades

- 0.43 basis point (i.e. 0.000043), calculated off the end-of-day SSF spot price
- A floor of R0.01 per contract

Example:

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

SSF Spot Close	Nominal	Quantity Traded	Basis Points	Trading Fees
334.00	100	550	0.000043	R 789.91

#### **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](mailto:info@jse.co.za)