

MARKET NOTICE

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Stock Exchange

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Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
Date: 10 December 2015

SUBJECT: INTRODUCTION OF THE CASH SETTLED BEEF CARCASS CONTRACT – MONDAY 14 DECEMBER 2015

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Dear Market Participant,
Please feel free to distribute to any interested beef industry participants.

This market notice follows Market Notice 472/2015 of 01 August 2015 where we committed to introduce two separate products into the market, namely beef carcass and weaners contracts. Subsequent to this market notice, a workshop was conducted to obtain industry input on the product design.

It was at this workshop where we resolved to rename the weaners contract to feeder calves contract and to launch the beef carcass first while delaying the launch of the feeder calves contract to allow for further consultations with feedlots and other participants in this sector on potential contributions of relevant feeder calf price information. All the applicable JSE legal and technical committees have endorsed the Beef carcass contract and we are at the stage now where we present to you the final specifications of the product.

We will introduce two expiries initially for the BEEF contract, namely Mar16 and Jun16 for trading on Monday 14 December 2015. In brief the details of the two expiries will be as follows:

	Last Trading Day	Clearance date	Initial margin	Calendar Series Margin	Spread
Mar16 BEEF	9 March 2016	11 March 2016	7480	3740	
Jun16 BEEF	8 June 2016	10 June 2016	7480	3740	

One of the preconditions to proceed with the beef carcass contract was for participating abattoirs to sign service level agreements with the JSE in order for the JSE to be able to audit the facilities and to validate the price information supplied on an as-and-when basis. This information is handled confidentially by the JSE and thus far 20 participating abattoirs have signed up.

Another issue we had to deal with was the composition of price information being supplied to the Red Meat Abattoirs Association (RMAA). Currently, all weekly slaughters are captured in the system but the average selling price being published is only limited to the number of carcasses (sides) sold as whole. To further improve the data contribution set the deboned side prices will also be considered in the Final Settlement Price. This remains work in progress and expect, going forward, this information to be included in the RMAA weekly reports.

We have been working with RMAA and the industry to agree on a formula that will allow us to work back the average carcass prices off the transfer prices of deboned carcasses and thereby producing a representative selling price based on actual experience at abattoirs. The RMAA has in the meantime adapted its price information template that gets completed on a weekly basis by participating abattoirs so as to capture the requisite information that would allow us to determine carcass prices off transfer prices.

For more information on the RMAA, please feel free to visit www.rmaa.co.za

Attached below is the latest contract specification as well as the final settlement and audit processes.

This Market Notice will be available on the website at <https://www.jse.co.za/redirects/market-notice-and-circulars>

FUTURES CONTRACT	BEEF CARCASS CONTRACT
Trading system code	BEEF
Trading Hours	09:00 to 12:00 South African Time
Underlying Commodity	Chilled beef carcasses consisting of two sides per carcass, graded as A2/A3 and having conformation of 2, 3, 4 or 5, a damage class of not more than 1 on either the buttock, loin or forequarter, and no measles, in terms of the national beef grading guidelines. Carcasses must comply with minimum dressing standards and must be fit for human consumption. For the purposes of this contract, deboned carcasses shall be considered only in instances where it is possible to work back the original carcass price.
Contract Size	1 contract = 1000kg
Expiry Dates & Times (Last Trading Day)	Second Wednesday of the expiry month at 12h00.
Contract Months	Contract Months shall be the four main hedging months, namely, March, June, September and December.
Settlement Method	Daily mark-to-market procedure for this contract will follow the current daily settlement process applied to the grains market. Upon expiry, settlement shall take place in cash. The settlement price shall be determined by the JSE by incorporating volume weighted average weekly selling prices of A2 and A3 carcasses, over two weeks preceding the Last Trading Day. Where applicable, the settlement price will also include volume weighted selling prices derived from the transfer prices of deboned hindquarters. Price information for the desired grades will be contributed by Red Meat Abattoirs Association through associated agreements with specific members in order for the JSE to validate contributions directly with the contributing abattoirs. The JSE will publish its indicative settlement price after last trading day; subject to audit with the final settlement price (FSP) applied on clearance date (2 business days following last trading day). The JSE reserves the right to revise its settlement methodology from time to time.
Quotations	Rand/Kg
Min Price Movement	Five cents per kg

Daily Limits	R2.50/kg above or below previous day's mtm price. Extended to R3.50/kg as per JSE Rules.
Initial Margin	As determined by JSE Risk from time to time referencing the current margining methodology.
Maximum position limits	No participant (defined as a member or registered client) or associated group of participants may hold in excess of 1450 contracts as a net position across all listed expiries. This position limit may be adjusted from time to time.
JSE Booking Fees	R15.00/Contract (VAT incl.)

1. DAILY FUTURES MARK TO MARKET (MTM) PRICE

- a. MTM for the day, which is also referred to as the daily settlement price, will rely on a random sample selected any time in the last 5 minutes of trading at the discretion of the exchange.
- b. In line with the existing grain mtm procedure, based on the random snapshot selected, the MTM price is a function of referencing the last traded price unless there is a better bid or lower offer. If the closing bid is above the last traded price this will then be used MTM, alternatively if the offer is lower than the last traded price then the offer will be used as the MTM.
- c. Then to recognize the liquid expiries within the MTM process, the most liquid expiry per product meeting the Volume Weighted Average Price (VWAP) criteria is selected as the reference from which all other expiries are adjusted by the spread difference, the following applies:
 - o An expiry will be considered liquid on the trading day for the purpose of determining the MTM if 50 or more contracts trade during the last 15 minutes of a trading session
 - o The spot month will not be included in the VWAP calculations and therefore never eligible to be considered liquid
 - o Should multiple expiries per product meet this criteria, only the most liquid non spot month will be selected as the reference expiry month
 - o Only on screen traded activity will be taken into account when determining the VWAP
 - o Please note the VWAP will not be taken into consideration on the day should the following occur, in which case the random snapshots will prevail:
 1. where at least one expiry of the contract series is MTM at the daily price limit,
 - or
 2. when the VWAP has resulted in the MTM for any of the expiries of the contract series to be outside of the daily price limits.
- d. Once the reference VWAP value is determined, it becomes the reference price from which all the other expiries are adjusted by the spread difference. This is done in order to maintain the same spread relationship amongst the contract expiries before and after the VWAP is recognized. In the event that no product has any expiries meeting the VWAP criteria, the random snapshot as selected will prevail without any further adjustments

2. FINAL SETTLEMENT VALUE (FSV)

Upon expiry of the BEEF contract on Last Trading Day, settlement shall take place in cash based on the Final Settlement Price (FSP) calculated by JSE. Since one contract shall be equivalent to 1000 kg, the final settlement value (FSV) is therefore

$$FSV = 1000xNxFSP$$

Where N is the number of contract held at expiration. Last Trading Day is the last Wednesday of the expiry month.

3. PRICE INFORMATION PROCESS

- a. For each of the relevant beef grade, A2 or A3:
 - i. the number of carcass units is multiplied by the corresponding weighted average mass to obtain the total kilograms sold in that grade category for each contributing abattoir; and
 - ii. the resulting product in i. above is then multiplied by the corresponding weighted average selling price, to obtain the total Rands sold in that grade category for that reporting period.

- b. For each transaction week:
 - i. the Total Kilograms sold in the relevant grade categories (i.e., the results from a.i., above) are aggregated to obtain the Total Kilograms sold per grade for that week; and
 - ii. the Total Rands sold in the relevant grade categories (i.e., the results from a.ii, above) are aggregated to obtain the total Rands sold per grade for that week.
 - iii. Weekly Settlement Price (WSP) for the week is obtained by dividing Total Rands (in b.ii. above) by Total Kilograms (obtained in b. i. above) for grade A2 and grade A3 and then taking an average.

- c. For the week preceding Last Trading Day:
Settlement Price of week I is added to Settlement Price of week II on a volume-weighted basis of total average carcass masses over the two-week period. The result is the **Final Settlement Price**.

- d. **Final Settlement Value = Nominal *N* Final Settlement Price**, where N is number of contracts held at expiration.

4. PRICE INFORMATION VALIDATION AND AUDIT

- a. Price information from contributing abattoirs shall be received by the JSE weekly at Close of Business but no later than 18h00 on Tuesdays (T-1).
- b. No price information received later than the set time will be considered by the JSE for final price settlement purposes.
- c. On second Wednesday of the expiry month - the Last Trading Day (T), the JSE will validate the quality of data before publishing an indicative Final Settlement Price (FSP) to the market. Specifically, the following trigger points will be given special attention:
 - o Prices that are more than or less than 10% from the mean will be flagged.
 - o Contributors of flagged information will be monitored for holding positions in the derivatives market.
- d. Once flagged, the JSE will request detailed ledgers from the flagged contributor to satisfy it that the contributed price information is indeed correct. (T).
- e. If submitted information is indeed verified, the JSE will uphold the contributed price information from the flagged abattoir. (T+1)
- f. Alternatively, if the JSE is still concerned after the initial enquiry, the JSE may request to send in an independent accounting auditor on site to do further audits and inspections. The finding of the independent auditor will be final. In this case the contributed price information from the flagged

contributor will be excluded from the final price settlement to allow the independent audit to take its course.

- g. Final Settlement Price will be calculated and published at 12h00 on Friday (T+2) immediately following Last Trading Day.

5. SELLING PRICE CALCULATION FOR DEBONED HINDQUARTERS

To further extend the pricing received from registered abattoirs, the Red Meat Abattoirs Association (RMAA) will include internal transfer prices of the deboned hindquarters to derive the carcass selling price.

Only those abattoirs who have entered an agreement with the JSE and RMAA to be an approved price contributor will be included in the determination of the Final Settlement Price.

To be able to do this, RMAA has updated the price information template and now requires the following price information from participating abattoirs:

- Number of cattle slaughtered per grade per week;
- Total average mass per grade
- Average selling price of carcass sides
- Average selling price of forequarters (FQ)
- Average selling price of FQ
- Average transfer price of hindquarters (HQ)
- Number of HQ Pistolas processed
- Number of HQ defatted

The above information is used in conjunction with the following industry metrics to finally determine a carcass side selling price off transfer prices:

- A carcass side constitutes two parts, namely a Forequarter (FQ) and a Hindquarter (HQ)
- The mass ratio for FQ:HQ = 46%:54%
- Pistola = 84% of HQ; Flank = 14% of HQ and Fat = 2% of HQ. These figures are an industry consensus and can be reviewed from time to time.

The result is a carcass average selling price for the deboned carcasses. This price is aggregated on a volume weighted basis with the average selling price of whole carcasses to arrive at the final average selling price for the grade for the week.

RMAA price information is made available on their web page or can be subscribed to, for more information visit www.rmaa.co.za