
FINANCIAL SECURITIES EXCHANGE (PRIVATE) LIMITED



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OPTION CONTRACTS - OPERATIONAL GUIDELINES

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DEFINITIONS

<u>Term</u>	<u>Definition</u>
Best Bid (BB)	The highest quoted price a Participant is willing to pay for a particular security among all those offered by competing Participants.
Best Offer (BO)	The lowest quoted price a Participant is willing to sell a particular security among all those offered by competing Participants
Call Option Contract	A contract that gives the buyer the right but not the obligation to buy a specific quantity of the underlying security at an agreed price and at a predetermined date.
Cash Settlement	Is settlement by an exchange of cash instead of delivery of the physical underlying securities.
Clearing	The presenting and exchanging of information relating to the transfer of securities or funds
Clearing Participant	Is a Participant on the Exchange responsible for the clearing and settlement of trades.
Directive	Any instruction issued by the Exchange to a Participant, listed entity or any other person whose interaction with the Exchange is governed by these rules.
Exchange	Refers to the Financial Securities Exchange.
FINSEC Rule Book	Refers to the Financial Securities Exchange (Alternative Trading Platform) Rules, 2019.
Guarantee Fund	A fund setup by the Exchange for the purposes of guaranteeing settlement of derivatives contracts.
Issuer	An entity that issues a security
Option Contract	A contract giving the buyer the right to buy or sell a specific quantity of an underlying security at a predetermined date and price.
Order	A bid for or offer of securities in the secondary market of the Exchange.
Participant	A person or entity entitled, through admission on the Exchange, to use the services and facilities thereof.
Primary Issuance	The initial issuance and placement of securities including all the operations related to the primary sale of securities.

Premium	The price of an option contract.
Put Option Contract	A contract in terms of which the buyer obtains the right and not the obligation to sell a specific quantity of the underlying asset at an agreed price on a predetermined date.
Secondary Market	The market for the trading of securities after they are issued
Settlement	The discharge of obligations by the transfer of funds or securities.
Strike Price	The price or yield at which the holder of an option contract has the right to buy or sell the underlying security.
Underlying Security	The listed security on which the option contract derives its value.

1. FINSEC DERIVATIVES MARKET OVERVIEW

- 1.1 The FINSEC derivatives market comprises of Option Contracts. The market is operated in accordance with the FINSEC Rule Book as well as these Operating Guidelines. The FINSEC Rule Book shall be read together with the Securities and Exchange Act [Chapter 24:25] and S.I and any other applicable statutes and rules.
- 1.2 Eligible underlying securities of the Option Contracts are listed in Annexure 1 of these Operating Guidelines and shall be subject to review at the discretion of FINSEC. Option Contracts shall be exercised only on the expiration date of the contract (European Option style).
- 1.3 There are four option positions that an investor can take under the Option Contract Rules: -

Table A.

Option Position	Description
Long call – the buyer of a call option contract	The Buyer has the right to buy an underlying asset to the contract.
Short call - the writer of a call option contract	The writer has the obligation to sell the underlying asset to the contract.
Long put - the buyer of a put option contract	The buyer has the right to sell the underlying asset to the contract.
Short put - the seller of the put option contract	The seller has the obligation to buy the underlying asset to the contract.

2. ELIGIBLE PARTICIPANTS AND ADMISSION REQUIREMENTS

- 2.1 This section provides for the general procedures for the admission of Participants. For additional information refer to the FINSEC Rule Book.
- 2.2 The Exchange may admit the following Participants: -
- (1) Persons licenced in terms of the Securities and Exchange Act [Chapter 24:25];
 - (2) Persons licenced in terms of the Collective Investments Act [Chapter 24:19];
 - (3) Persons licenced in terms of the Banking Act [Chapter 24:20]; and
 - (4) Any other category of person that may be prescribed by the Exchange from time to time.
- 2.3 Applicants shall submit the following in duplicate: -

- (1) A Participants Application Form (Form FSA2) as set out in Tenth Schedule of the FINSEC Rule Book;
- (2) Copy of the licence issued by the relevant regulatory authority;
- (3) Copy of identity documents for each director and Authorised User(s) of the Applicant; and
- (4) Proof of payment of applicable fees.

3. ELIGIBLE OPTION CONTRACT ISSUERS (WRITERS)

3.1 For Option Contract Writers, they shall submit Application Forms and any other documents required in support of the application as per the FINSEC Rule Book. The required documents shall include: -

- (1) For Corporate applicants: -
 - (a) Name of entity;
 - (b) The legal status of the entity and constitutive documents;
 - (c) The identities of the directors, and their proof of residence;
 - (d) The identity of any person purporting to act on behalf of the entity
 - (e) Board of Directors resolution to invest, and identification of those who have authority to operate the investment account
 - (f) The ownership and control structure of the entity and the ultimate beneficial owners
 - (g) Principal place of entity's business operations;
 - (h) Mailing address of the entity and contact numbers;
 - (i) Nature and purpose of business and its legitimacy;
 - (j) Financial statements; and
 - (k) Valid registration with Clearing Participant.
- (2) For Individual applicants:
 - (a) Full name;
 - (b) Valid identity document (if a Zimbabwean National);
 - (c) Passport Number (if a Non-Zimbabwean National);
 - (d) Certified copies of the National ID or Passport (notarised with respect to foreign nationals), as the case may be;
 - (e) Certified copies of proof of residential address (not more than 3 months old);
 - (f) Declaration of source of funds/wealth;
 - (g) Valid email address;

- (h) Contact details;
- (i) Valid banking details,
- (j) Valid securities trading accounts on FINSEC;
- (k) Proof of competence of principal; and
- (l) Valid registration with Clearing Participant.

3.2 All submissions should be made in duplicate.

3.3 The Applicant shall pay the applicable Application Fees as per Eleventh Schedule in the FINSEC Rule Book.

3.4 FINSEC shall process an application and advise the Applicant of the outcome within fourteen (14) days of receipt of the application.

3.5 If FINSEC determines that a submitted application is defective in any respect, it shall notify the Applicant of such deficiency, whereupon the Applicant shall take the necessary remedial action to remedy the deficiency within ten (10) working days. Failure to resubmission of the application shall be attracting a new Application Fee as per Eleventh Schedule.

3.6 FINSEC may request the applicant to attend one or more interviews.

3.7 Upon approval, the Option Contract Writer will be set up and given access rights to the Option Contract writing system.

3.8 Where an application has been rejected, FINSEC shall advise the Applicant of its decision and give the Applicant reasons for the rejection as well as reasonable time to make representations.

3.9 Where an Applicant resubmits an application in terms of this rule, FINSEC shall proceed to take delivery of the application as if it has been submitted for the first time.

3.10 All application fees shall be non-refundable.

4. OPTION CONTRACT BUYER REGISTRATION PROCEDURE

ATP Investor Account Registration Procedures

4.1 The Investor shall open a trading account by completing and signing account opening forms through their Securities Dealer or Custodian.

4.2 The Securities Dealer or Custodian shall submit a duly completed and signed Investor Account Creation Form (Appendix 1) together with all the required KYC (Know Your Customer) documentation as defined in Table B.

Table B.

MINIMUM KYC REQUIREMENTS AS DEFINED BY SECURITIES EXCHANGE COMMISSION OF ZIMBABWE (SECZ)	
Citizenship	Documents Required
For Local Investors	<ul style="list-style-type: none"> • Copy National Identity Card • Securities Trading Account Opening Form
For Zimbabweans in Diaspora	<ul style="list-style-type: none"> • Securities Trading Account Opening Form • Copy Valid passport
For Foreigners	<ul style="list-style-type: none"> • Copy Valid Passport • Securities Trading Account Opening Form
For Companies-Local/Foreign	<ul style="list-style-type: none"> • Certified Copy of Certificate of Incorporation • Board Resolution • Copy National Identity Card or Valid passport for signatories • Securities Trading Account Opening Form

4.3 The Transfer Secretaries shall receive all the KYC documents required by the CDS, Custodian and initiate the account creation on the FINSEC ATP System and shall remain with the “White Copy”, “Pink Copy” and original KYC documents. The Transfer Secretaries shall stamp and return the “Blue Copy” to the applicant.

4.4 Upon acceptance of the Investor Account Opening Form, KYC submissions as well as physical securities certificates (where applicable) the Transfer Secretary may initiate the account creation by capturing the Form and uploading the KYC documents onto the FINSEC ATP System.

4.5 Where the Transfer Secretary has initiated the account creation on the FINSEC ATP System, the Custodian will spool the initiated account on the FINSEC System for verification and completion of the account creation.

5. CONTRACT WRITING PROCEDURE

5.1 Only a registered Option Contract Writer shall be able to write an Option Contract using the Option Contract Writing System.

- 5.2 The Option Contract Writer shall deposit the required collateral with the Clearing Participant either in electronic or physical form.
- 5.3 The electronic form uses the Pledging Mechanism whereby the securities are pledged to the Clearing Participant hence will be locked and inaccessible for further trading by the Option Contract Writer.
- 5.4 If depositing in physical form, then the Option Contract Writer shall submit acceptable and legal certificate of title to the underlying and the dematerialization form (where applicable) whose effective date is the settlement date in the event that they default on their contract obligations.
- 5.5 Upon pledging, the Option Contract Writer also submits a signed transfer of entitlement form whose effective date is the settlement date in the event that they default on their contract obligations.
- 5.6 Upon a successful deposit of the collateral, the Clearing Participant shall pre-authorize and set position limits for the Option Contract Writer based on the corresponding collateral deposited.
- 5.7 Once the Option Contract Writer is authorized by the Clearing Participant, the Option Contract Writer proceed to write the option contract using the FINSEC Option Contract Writing System.
- 5.8 The system provides a standard electronic contract writing form and the Contract Writer shall write the contract parameters within the limits set by the Clearing Participant.
- 5.9 If there is a mismatch on the underlying security volumes and the pre-set limits by the Clearing Participant, then the system will reject the contract order.
- 5.10 The contract orders are posted into the Primary Market Order Book at a premium set by the Option Contract Writer where they are open for matching with the corresponding buy orders.
- 5.11 Through the market watch on the ATS, investors are able to see the option contracts available.
- 5.12 The option contracts become listed for secondary market trading.

6. CONTRACT PRICING

- 6.1 The Option Contract Writer shall set the price of the contract that they write.
- 6.2 However, FINSEC shall provide an Online Option Pricing Calculator based on the Black Scholes Option Pricing Model for reference purposes only.
- 6.3 The Online Option Pricing Calculator allows users to input their own variables to compare the resulting price against that determined by the Option Contract Writer for informed decision making.
- 6.4 The Option Contract Pricing Calculator shall function as follows: -

- (1) Strike Price - The investor shall input the strike price i.e. the settlement price agreed in the contract.
- (2) Time to Maturity - The investor shall input the time remaining to reach the maturity of the contract as agreed in the contract.
- (3) Risk Free Rate - The investor shall input the rate he expects to earn on an investment that carries zero risk.
- (4) Spot Price - The investor shall input the spot price of the underlying if not auto- populated by the system.
- (5) Volatility - Where feasible, the system shall auto calculate volatility however, the investor is able to input their own volatility or over write that generated by the system.

7. CONTRACT PRIMARY MARKET

- 7.1 The Option Contract Buyer shall place buy orders on the FINSEC platform through a FINSEC registered Clearing Participant.
- 7.2 Once the Option Contract Buyer is authorized by the Clearing Participant, the buyer can proceed to post a buy order on the FINSEC Option Contract Trading Platform.
- 7.3 Buying an option is called ‘opening a position’.
- 7.4 The Buy Order shall specify whether it’s a call or put option.
- 7.5 The Option Contract Buy orders are posted into the Primary Market Order Book where they match with the corresponding written contracts posted by Contract Writers.
- 7.6 If there is a mismatch on the prefunded cash volumes and the pre-set limits by the Clearing Participant, then the system will reject the buy order.
- 7.7 The buy orders are posted into the Primary Market Order Book at a price set by the Option Contract Buyer where they are open to matching with the corresponding sell orders.

8. TRADE FUNDING

- 8.1 The funding of the Option Contract transactions shall be facilitated by the Clearing Participant.
- 8.2 The Option Contract Writer shall deposit acceptable collateral with the Clearing Participant.
- 8.3 The Clearing Participant shall authorise post and pre funding to their client based on their internal creditworthiness assessment.
- 8.4 The Option Contract Writer shall deposit the collateral with their designated Clearing Participant as follows: -

(1) For Call Options the Option Contract Writer shall deposit the underlying security as the collateral

(2) For Put Options, bank guarantee shall be an acceptable collateral.

8.5 The Option Contract Buyer shall deposit cash with the Clearing Participant which shall be used for premium payment.

8.6 From these collateral and cash deposits, the Clearing Participants shall set issuance and trading limits for the Option Contract Market Participants.

9. CONTRACT SECONDARY MARKET

9.1 In the Secondary Market, the Option Contracts shall be listed to facilitate trading in accordance with the FINSEC Trading Rules.

9.2 Secondary Buy and Sell Orders shall be posted by a Securities Dealer who has been authorised with access to the ATS.

9.3 Secondary buy orders shall be posted onto the ATS by Option Contract Buyers through their Securities Dealer, whom shall be cleared and authorized by the Clearing Participant to do so on behalf of its client.

9.4 Secondary sell orders shall be posted by option contracts holders from Primary Market.

9.5 For Option Contract Buyers who are authorized for post funding, clearing shall be triggered by a buy order posted on the ATS.

9.6 Clearing shall also be triggered by a cash deposit from by the Option Contract Buyer into his Clearing Cash Account.

9.7 The Clearing Participant shall pre-set position limits determining the volumes of contracts which the buyer can purchase.

9.8 On the other hand, the Option Contract holder shall post sell orders according to the volumes of the contracts they hold.

9.9 Delivery shall be undertaken by the Clearing Participant upon receiving a trade execution message from FINSEC that will trigger release of the security to the buyer.

10. PRIMARY MARKET SETTLEMENT

Initial Premium Settlement

- 10.1 Once the order matches, the Clearing Participant shall transfer funds from the Clearing Cash Account of the Option Contract Buyer to the Settlement Cash Account of the Option Contract Writer for premium payment.
- 10.2 The Clearing Cash Account of the Option Contract Buyer shall be debited with the premium cost while the Settlement Cash Account for the Option Contract Writer shall be credited with the same amount.

Final Contract Settlement

- 10.3 All Option Contracts shall be on Cash Settlement basis in which settlement and delivery shall be the crediting of the Option Contract Buyer with the difference between the spot and strike price of the underlying security at the expiration date if the Buyer is in a profitable position.
- 10.4 Upon expiration of the contract, if the option contract is exercised the writer shall pay the holder of the contract the difference between the strike price and the spot price.
- 10.5 If an option contract holder in a profitable position, does not provide instructions to the contrary, FINSEC shall automatically exercise the option for their benefit.
- 10.6 FINSEC shall allow up to 1 hour following market closure on the Exchange on which the underlying security is listed for the holder to register their exercise request.
- 10.7 After the system cut-off time, FINSEC may automatically exercise their profitable position in favour of the option holder.
- 10.8 FINSEC shall notify the Clearing Participant to clear the exercise requests and release funds held for settlement.
- 10.9 If the contract writer fails to meet the contract obligations, they shall be in default.

When the option is exercised the following shall apply: -

- 10.10 The securities dealer shall submit the exercise request before the system input cut-off time on contract expiry date.
- 10.11 FINSEC shall request the Clearing Participant of the securities dealer to confirm the availability of funds.
- 10.12 The Clearing Participant shall release the amount required for settlement that is the difference between the strike and the spot price.

10.13 The writer's account with the Clearing Participant shall be debited with the difference which shall be credited to the account of the holder of the contract.

10.14 Funds Settlement must be completed by day 3 (three working days) following the exercise date.

When the option is not exercised the following shall apply

10.15 The securities dealer shall advise the Exchange of their intention not to exercise the option contract.

10.16 If the option contract is in a profitable position to the holder, the contract shall be exercised for the benefit of the contract holder.

10.17 If the option contract is not in a profitable position to the holder, FINSEC shall automatically terminate the option contract.

11. SECONDARY MARKET SETTLEMENT

11.1 On T+1

(1) For all trades requiring Clearing Participant's affirmation: -

- (a) Deal notes are sent to the buyer's and seller's Clearing Participants;
- (b) Clearing Participant shall download (from FINSEC ATP System) the Settlement Report to corroborate Contract Writer or Buyer' Deal Notes;
- (c) Clearing Participant affirms buy side and sell side transactions on the FINSEC ATP System (the "buy side" affirmation authorises payments on T + 3 whilst the "sell side" affirmation authorises release of securities on T + 3);
- (d) Custodian notifies the Clearing Participants of all withheld affirmations and the reasons; and
- (e) Lastly, the Clearing Participant will arrange for gross funding of the Clearing Settlement Accounts at the Settlement Bank.

(2) All pre-funded deals: -

- (a) The Settlement Bank will constantly release settlement responses for each deal;
- (b) The settlement responses will be spooled, in real-time, to the FINSEC ATP System which, on receipt of settlement success, will immediately move the respective funds from the Option Contract Writer's accounts to the Option Contract buyers' cash accounts;
- (c) The FINSEC settlement message to the Settlement Bank will debit the Option Contract Buyer Trading Account at the Settlement Bank and directly pay Writers who hold bank accounts within the bank from which the settlement is affected;

- (d) For all Option Contract Writers who don't hold bank accounts within the settlement bank/platform, FINSEC will, on a deal by deal basis, forward the sell proceeds into the account designated by the sellers' Custodian for onward transmission of the funds to the sellers; and
- (e) The Custodian can generate a Payment Advice from the FINSEC ATP System for confirmation of settlement and distribution of any proceeds paid into the Clearing Participant's designated account.

(3) On T+2

Both FINSEC and the Clearing Participant shall sort out any possible issues that need to be addressed.

(4) On T + 3

- (a) FINSEC releases the settlement message to the Settlement Bank.
- (b) The Settlement Bank will release settlement responses for each deal.
- (c) The settlement responses will be spooled, in real-time, to the FINSEC ATP system which, on receipt of settlement success confirmation, will immediately move the respective funds from the sellers' securities accounts to the buyers' securities accounts.
- (d) The FINSEC settlement message to the Settlement Bank will debit the buyer Custodian's Settlement Account and move the funds into the seller Custodian's designated account.
However: -
 - (i) Where the Custodian prefers, and with prior agreement, FINSEC can, on sweeping the Custodian's Settlement Account, directly pay sellers who hold bank accounts within the bank from which the settlement is affected;
 - (ii) For all sellers who don't hold bank accounts within the settlement bank, FINSEC will, on a deal by deal basis, forward the sell proceeds into the account designated by the sellers' Custodian for onward transmission of the funds to the sellers by their Custodian.
 - (iii) The Custodian can download a Post-Payment Advice from the FINSEC ATP System for confirmation of settlement and for the Custodian's distribution of any proceeds paid into the Custodian's designated account.
- (e) Where funds in the Clearing Participant's Settlement Account are insufficient to fully cover the requisite settlement file, the FINSEC ATP System will generate a report for the Clearing Participant from which the Clearing Participant can identify deals that should not settle. The Clearing Participant may be liable for any penalties arising out of such delayed settlement.

- (f) In respect to deals that the Clearing Participant had omitted from settlement, the Clearing Participant may, after funding the deals, request FINSEC to release another settlement message for settlement of the respective deals.

12. DELIVERY

- 12.1 All Option Contracts shall settle based on the Contracts for Difference Approach.
- 12.2 Given the contract is exercised, the Option Contract Writer shall pay the difference between the strike price and the spot price and the Option Contract Holder shall receive the same amount.
- 12.3 The Spot Price shall be the Value Weighted Average Price (VWAP) of that particular day.

13. EXERCISE

- 13.1 Participants in a long open position may exercise Option Contracts by taking the following action by requesting its designated Clearing Participant to exercise an Option Contract or to send direct exercise request on FINSEC, before the System Input Cut-off Time on the expiry day in accordance with the Operational Clearing Procedure.
- 13.2 At the time at which such Option Contract is validly exercised pursuant to the Clearing Rules, that Option Contract shall be treated for all purposes as having been validly exercised.
- 13.3 On an expiry day, FINSEC Option Trading System shall automatically generate exercise requests in respect of all open long positions which are profitable to the Option Contract Holder.
- 13.4 Upon exercise of an Option Contract Writer delivery obligations shall arise. Such delivery obligations shall be performed in accordance with the FINSEC Rules.

14. EXPIRY

- 14.1 All Option Contracts traded on FINSEC shall have a maturity date i.e. date of expiration of a securities contract and the standard tenure is 3 months.
- 14.2 Contracts shall be deemed as expired under the following circumstances: -
- (1) When on the maturity date, the Option Contract holder doesn't not exercise the right granted by the Option Contract whether to buy or sell the underlying security; or
 - (2) If the Option Contract Holder does not send through the exercise request to the Clearing Participant or FINSEC yet the Option Contract is not profitable to the Holder.

15. DEFAULT PROCEDURES

- 15.1 Occurs when the option contract is exercised but the contract writer fails to meet their obligations to the contract holder.
- 15.2 Default may occur when either: -
- (1) negative affirmation of settlement request by the contract writer's Clearing Participant; or
 - (2) failure of crediting of settlement proceeds to the contract holder's custodian/clearing account within 3 working days of exercise date; or
 - (3) failure of contract writer to provide acceptable proof of payment, within three (3) working days of exercise date.
- 15.3 FINSEC shall liquidate or direct its responsible Participant to liquidate the collateral held and apply the proceeds thereof to all outstanding balances that the contract writer owes.
- 15.4 The contract writer shall be liable for all transaction costs involved as well as any applicable interest and charges.
- 15.5 If the collateral is not sufficient to cover the default exposure, FINSEC may, to the extent possible, use funds in the Guarantee Fund (if available and adequate) to extinguish the uncovered exposure.
- 15.6 If the cash settlement is done, then FINSEC shall instruct the Clearing Participant to release the collateral back to the writer of the contract. In the event of default, FINSEC shall liquidate the respective collateral in terms of the contract. If the securities are in physical form, FINSEC shall carry out the dematerialization and transfer process.

16. FEES AND LEVIES

- 16.1 Participants shall pay the applicable fees in accordance to the FINSEC Fees/Charges Schedule of the Rule Book, as may be amended from time to time.
- 16.2 Where payments are due from the Participant, payments will have to be effected to FINSEC by the Participant before the expiry of 14 days following receipt of the statement and the mode of payment will be by direct credit to the FINSEC bank account as provided by FINSEC.
- 16.3 Unless otherwise arranged, for payments received by the Participant, the Participant will have responsibility for disbursement of ZIMRA taxes arising out of the Participant's activities on FINSEC.

Table C.

Option Contract Charges/Fees	
Annual Option Contract Writing Membership Fees	\$15, 000
Option Contract Writing Fees	0.75% of the value of the premium of the contract
Option Buying Fees	0.75% of the value of the premium of the contract
Option Exercise Fees	0.75% of the value of the premium of the contract

Table D.

TRANSACTIONS FEES AND CHARGES		
Trading Related Fees	Buying	Selling
Platform (Trading) Levy	0.1000%	0.1000%
Settlement Levy	0.1000%	0.1000%
Brokerage Fees	0.9200%	0.9200%
Stamp Duty	0.2500%	
Capital Gains Withholding Tax		1.0000%
Investor Protection Levy	0.0250%	0.0250%

VAT (15% On Brokerage)	0.1380%	0.1380%
SECZ Levy	0.1600%	0.1600%

ANNEXURE 1

To Be Advised