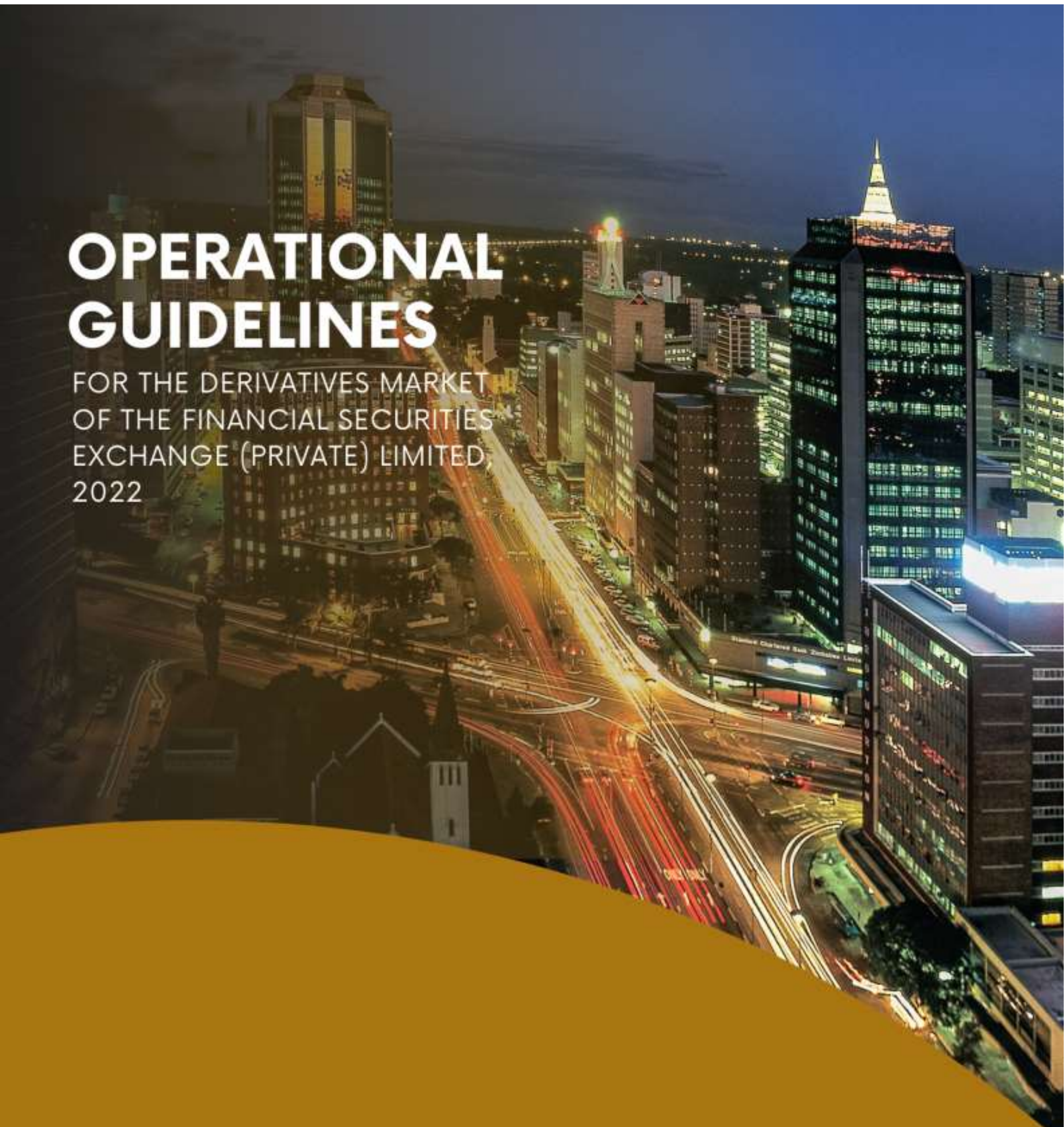

OPERATIONAL GUIDELINES

FOR THE DERIVATIVES MARKET OF THE FINANCIAL SECURITIES EXCHANGE (PRIVATE) LIMITED, 2022

FINSEC
Market Wise

OPERATIONAL GUIDELINES FOR THE DERVATIVES MARKET
OF THE FINANCIAL SECURITIES EXCHANGE (PRIVATE) LIMITED, 2022

ARRANGEMENT OF SECTIONS

Section

PART VIII

SELECTION OF UNDERLYING SECURITIES AND THEORETICAL PRICING METHODOLOGIES

IN exercise of the powers conferred by section 85 of the Securities Exchange (Financial Securities Exchange) Rules, 2021 FINSEC, issues the following Guidelines:—

PART I

PRELIMINARY

Title

1. These Guidelines may be cited as the Operational Guidelines for the Derivatives Market on the Financial Securities Exchange (Private) Limited, 2021.

Object

2. (1) These guidelines amplify and explain obligations that participants and investors are required to comply with under the Securities Exchange (Financial Securities Exchange) Rules, 2021 (hereinafter referred to as the FINSEC "Rule Book").

(2) The guidelines are issued in terms of the Rule Book and are legally binding. They lay down the minimum operational standards and requirements participants and investors.

Interpretation

3. In these guidelines—

TERM	**DEFINITION**
Aggregate position	Means collectively all the proprietary positions in related Exchange contracts registered in the name of a Clearing Participant or collectively, all the positions in related Exchange contracts registered in the name of a client who has traded with a particular Clearing Participant to open such positions.
Auction	Means the matching of buy and sell orders cumulated over a period of time to determine the execution price of a security based on volume maximization principle.
Clearing Participant	Is a Participant on the Exchange responsible for the clearing and settlement of trades
Clearing House	Means the Exchange or its wholly owned subsidiary designated and appointed by the Exchange for purposes of clearing contracts on the Exchange in accordance with these Rules.

Client	Means any person or entity to which a regulated person provides securities services, and includes a person that acts as an agent for another person in relation to those services.
Close Out	Means the cancellation of a position in one direction with an equal and opposite direction, that is to say, a long position in a contract is cancelled by a short position in a long position and vice versa.
Closing Price	Means the price of a security determined at the closing session and is its last execution price.
Contract Month	Means the month in which futures contracts may be satisfied by making or accepting delivery.
Daily Settlement Price	Means the reference price determined for margining and daily settlement purposes of such Future Contracts. Means the price of a contract as may be determined by the Clearing House for the purpose of settlement to market in accordance with the rules of the Clearing House.
Delivery Date	Means the Business Day on which the contract is to be settled.
Delivery Point	The location where the physical security or commodity underlying the contract will be delivered.
Futures Contract	Means a contract that provides for the acquisition or disposal of a security or commodity that is to be delivered at a future date at a price agreed when the contract is made or determined in accordance with the contract.
Index Future	Means a contract that provides to buy or sell an index today to be settled at a future date.
Index	It is a measure of the price performance of a basket of securities or commodities.
Initial Margin	Means the amount of money determined by the Clearing House on the basis specified by the Exchange and held in respect of the aggregate position of a Clearing Participant or client.

Long Position	In relation to a Futures Contract, means an obligation to buy the underlying asset from the other party.
Maintenance Margin	Means the minimum amount deposited that an investor must maintain in the Margin Account after the purchase has been made.
Margin	Means either an initial margin, special margin, additional margin, variation margin, and any other margin as the context may require.
Margin Call	Means a demand by a Clearing Participant to its client(s) for cash or collateral to meet the client(s) obligations pursuant to trading in futures contracts.
Mark to market	Means the daily calculation of gains and losses of outstanding positions as a result of actual changes in the underlying asset or market prices of the underlying asset and market prices of futures contracts.
Opening Price	The price determined by the auction in the opening session.
Physical settlement	Means settlement through the delivery of the physical underlying security or commodity instead of an exchange for cash.
Position	Means either a long position or a short position.
Position Limits	Means the minimum or maximum buy or sell thresholds of the underlying security or commodity a Clearing Participant or client shall be allowed to trade in as prescribed by the Exchange from time to time.
Proprietary Position	Means a position registered by the clearing house in the name of a Clearing Participant for the Clearing Participant's own account.
Settlement Price	Means the price at which an underlying asset is to be exchanged at or is the final price used in the determination of profit or loss for cash settled futures contracts.
Short Position	In relation to a Futures Contract, means an obligation to sell the underlying asset to the other party.

Special Margin	Means the margin paid as collateral by the Clearing Participant to the Guarantee Fund for the due performance for clearing the Participant's obligations as set out in the rules or the margin paid to a Clearing Participant over and above that required by the Clearing House.
Variation Margin	Means the additional amount of cash required to be deposited into a Margin Account after it falls below the set maintenance margin level as determined by the Clearing House from time to time.

PART II

DEVERIVATIVES BOARD

Derivatives Board Overview

4. (1) The Exchange has established the Derivatives Board where market participants and investors alike can trade standardized futures and options contracts; a contract to buy or sell specific quantities of a commodity or other underlying assets at a specified price with delivery set at specified time in the future.

   (2) The FINSEC Derivatives Market comprises of Option and Futures Contracts.

   (3) The market is operated in accordance with the FINSEC Rule Book, these Guidelines and shall be read together with the Securities and Exchange Act [*Chapter 24:25*], Statutory Instruments and any other applicable rules, regulations and or directives as may be published from time to time.

   (4) Eligible underlying securities of the Futures Contracts shall be updated in these Operating Guidelines and shall be subject to review at the discretion of the Exchange.

   (5) Eligible underlying securities of the Options Contracts are listed in Annexure 2 of these Operating Guidelines and shall be subject to review at the discretion of the Exchange. The list of eligible Option Contracts shall be exercised only on the expiration date of the contract (European style).

Functions of the Exchange

5. (1) The objectives of the Exchange shall be –

   (a) to provide a marketplace and associated facilities for investors and market participants to trade in option and future contracts in an efficient, transparent, and orderly manner;

   (b) to reduce systemic risk, that is to say, a risk that a failure on the part of one or more admitted participants to meet their obligations may result in other admitted participants and investors unable to meet their respective obligations;

   (c) to promote market integrity and public confidence;

   (d) to promote public education;

   (e) to disseminate market information and price information;

   (f) to deploy mechanisms for dispute resolution;

   (2) To achieve its objectives, the Exchange shall the following functions, subject to the Rule Book and these Guidelines –

   (a) to monitor and regulate trading and dealing of option and futures contracts;

   (b) to admit, train, supervise and regulate admitted participants in order to ensure high standards of professionalism and integrity on their part;

(c) to undertake surveillance of the clearing house(s);

(d) to accept lawfully issued option and futures contracts for the purpose of trading and settlement of the same through the Exchange;

(e) to encourage the development of free, fair and orderly derivatives market in Zimbabwe;

(f) to exercise any other function that may conferred or imposed upon the Exchange by or under the Rule Book and any other enactment.

(3) For the fulfillment of its objectives and in exercise of its functions, the Exchange shall have power to do or cause to be done, by itself or through agents, all or any of the things specified in the Rule Book and herein these Guidelines, either absolutely or conditionally and either alone or jointly with others.

Responsibilities of the Board of Directors

6. (1) Without derogation from any other provision of the rules of the Exchange or any other law, the responsibilities of the Board shall include –

(a) formulating policies to ensure the efficient achievement of the Exchange's objectives;

(b) supervising all the activities engaged in by the Exchange;

(c) ensuring efficient and economic use of the Exchange's resources; and

(d) formulating and enforcing rules of corporate governance and ethical practice for observance by the directors and staff of the Exchange.

PART III

DERIVATIVES BOARD PARTICIPATION

Participant Eligibility and Admission

7. (1) The following Participants shall be permitted to participate on the Derivatives Markets: -

(a) banks;

(b) custodians;

(c) securities dealers;

(d) investors;

(e) option contract writers; and

(f) clearing house(s).

(2) The Applicant shall submit the applicable form and the following supporting documents in duplicate: -

(a) For Corporate applicants: -

(i) Participation Application Form FSA2;

(ii) certified incorporation documents;

(iii) certified proof of particulars for each director, Principle, Authorised and Administrative Officers of the Applicant, including their identity document and proof of residence (not more than 3 months old from the date of submission);

(iv) board resolution to invest, which should specify the persons authorised to transact and participate on the derivatives board of the Exchange on behalf of the Applicant. For all Participants already onboarded, they have to sign up to the Derivatives terms and conditions only

(v) In the case of an Applicant who wishes to be admitted as a Clearing Participant, the Applicant shall so submit a valid banking licence.

(b) For individual Applicants: -

(i) Participation Application Form FSAD1;

(ii) certified identity document (if a local resident) or a certified copy of passport;

(iii) two passport size photos;

(iv) certified copies of proof of residential address (not more than 3 months old);

(v) declaration of source of funds/wealth;

(vi) valid banking details;

(vii) valid email address; and

(viii) contact details;

(c) For applicants wishing to be considered for admission as a Clearing Participant: -

(i) certified copy of licence issued by the Securities and Exchange Commission of Zimbabwe;

(ii) a licence renewal letter for the applicable year issued by the Securities and Exchange Commission of Zimbabwe;

(iii) a board resolution stating its approved position limits;

(iv) a declaration confirming that it: -

(aa) is not subject to an event of insolvency or an event of default or any circumstances pursuant to which either an insolvency event or an event of default could be declared;

(bb) it has a minimum fully paid-up capital amount that shall be prescribed by the Exchange from time to time; and

(cc) assumes all responsibility and any liability however so arising from its trading of futures contracts on the Exchange.

(d) Proof of payment of the applicable fee;

(e) Where an Applicant wishes to participate as a Market Marker on the Derivatives Boards, the applicant shall: -

(i) submit proof of adequate experience of trading in the underlying securities and or assets approved by the Exchange with respect to futures contracts and or option contracts; and

(ii) in the case of futures contracts, deposit the prescribed collateral with the Clearing House that will act as the Central Counter Party for all futures contracts offered on the Exchange.

(f) And any other information that may be requested by the Exchange.

(3) The application shall be processed in terms of section 3 of the Rule Book.

(4) Where the Exchange deems it necessary, it may request the Applicant to attend one or more interviews as part of the admission process.

(5) In the event the application is approved, the Applicant shall: -

(a) In the case of a futures contract, be set up as a futures contract trader and credentials to a trading account to the futures contract trading system shall be shared; and

(b) In the case of option contracts, the option contract writer or their broker will be set up and given access rights to the option contract writing system of the Exchange.

(6) In the event that application is rejected or approved with conditions, the Applicant shall be advised with the reason for the rejection or the applicable conditions of approval in terms of the Rule Book.

(7) All application fees shall be non-refundable.

Investor Account Registration

8. (1) The Investor shall open a trading account by completing and signing account opening forms through their securities dealer or custodian.

(2) The securities dealer or custodian shall submit a duly completed and signed Investor Account Creation Form together with all the required KYC (Know Your Customer) documentation as defined in Table A.

Table A.

MINIMUM KYC REQUIREMENTS AS DEFINED BY SECURITIES EXCHANGE COMMISSION OF ZIMBABWE (SECZ)	
Citizenship	**Documents Required**
For Local Investors	• Copy National Identity Card • Securities Trading Account Opening Form
For Zimbabweans in Diaspora	• Securities Trading Account Opening Form • Copy Valid passport
For Foreigners	• Copy Valid Passport • Securities Trading Account Opening Form
For Companies-Local/Foreign	• Certified Copy of Certificate of Incorporation • Board Resolution • Copy National Identity Card or Valid passport for signatories • Securities Trading Account Opening Form

(3) The Exchange shall receive all the KYC documents required by the CDS, Custodian and initiate the account creation 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) 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.

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

PART IV

OPTION CONTRACTS

Contract Writing Procedure

9. (1) Option Contract Writers shall open accounts with Brokers for them to be able to participate on the Derivatives Market.

(2) The Option Contract Writer shall deposit the required collateral with the Clearing Participant either in electronic or physical form.

(3) The electronic form uses the Pledging Mechanism whereby the securities are pledged to the Clearing House hence will be locked and inaccessible for further trading by the Option Contract Writer.

(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) 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.

(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.

(7) Once the Option Contract Writer is authorised by the Clearing Participant, the Option Contract Writer proceed to issue the option contract on the FINSEC ATS System and or through their Broker.

(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.

(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.

(10) The contract orders are posted into the Market Order Book at a premium set by the Option Contract Writer where they are open for matching with the corresponding buy orders.

(11) Through the market watch on the ATS, investors are able to see the option contracts available.

(12) The option contracts become listed for trading.

Pricing of Option Contracts

10. (1) The Option Contract Writer shall set the price of the contract they issue.

(2) However, FINSEC shall provide an Online Option Pricing Calculator based on the Black Scholes Option Pricing Model **for reference purposes only.**

(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.

(4) The Option Contract Pricing Calculator shall function as follows: -

(a) Strike Price - The investor shall input the strike price i.e., the settlement price agreed in the contract.

(b) Time to Maturity - The investor shall input the time remaining to reach the maturity of the contract as agreed in the contract.

(c) Risk Free Rate - The investor shall input the rate he expects to earn on an investment that carries zero risk.

(d) Spot Price - The investor shall input the spot price of the underlying if not auto- populated by the system.

(e) 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.

Option Contracts Buying Procedure

11. (1) The Option Contract Buyers shall place buy orders on the FINSEC ATS platform and or through a through their Broker.

(2) Once the order is authorized by the Clearing Participant, the Broker can proceed to post a buy order on the FINSEC ATS Platform.

(3) Buying an option is called ‘opening a position’.

(4) The Buy Order shall specify whether it’s a call or put option.

(5) The Option Contract Buy orders are posted onto the ATS where they match with the corresponding sell orders.

(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.

Trade Funding of Option Contracts

12. (1) The funding of the Option Contract transactions shall be facilitated by the Clearing Participant.

(2) The Option Contract Writer shall deposit acceptable collateral with the Clearing Participant.

(3) The Clearing Participant shall authorise post and pre funding to their client based on their internal creditworthiness assessment.

(4) The Option Contract Writer shall deposit the collateral with their designated Clearing Participant as follows:

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

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

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

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

Option Contracts Trading

13. (1) The Option Contracts shall be listed to facilitate trading in accordance with the FINSEC Trading Rules.

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

(3) Buy orders shall be posted onto the ATS by investors and or through their Securities Dealer, whom shall be cleared and authorized by the Clearing Participant to do so on behalf of its client.

(4) Sell orders shall be posted by option contracts holders who wish to exit their positions.

(5) For Investors who are authorized for post funding, clearing shall be triggered by a buy order posted on the ATS.

(6) Clearing shall also be triggered by a cash deposit from by the investor into his Clearing Cash Account.

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

(8) On the other hand, the investors shall post sell orders according to the volumes of the contracts they hold.

(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.

PART V

SETTLEMENT OF OPTION CONTRACTS

Initial Premium Settlement

14. (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.

(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

15. (1) All Option Contracts shall be on Cash Settlement basis in which settlement and delivery shall be the crediting of the Option Contract Holder 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.

(1) 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.

(2) If an option contract holder in a profitable position, does not provide instructions to the contrary, the Exchange shall automatically exercise the option for their benefit.

(3) The Exchange 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.

(4) After the system cut-off time, the Exchange may automatically exercise their profitable position in favour of the option holder.

(5) The Exchange shall notify the Clearing Participant to clear the exercise requests and release funds held for settlement.

(6) If the contract writer fails to meet the contract obligations, they shall be in default.

(7) When the option is exercised the following shall apply: -

(a) The securities dealer shall submit the exercise request before the system input cut-off time on contract expiry date.

(b) FINSEC shall request the Clearing Participant of the securities dealer to confirm the availability of funds.

(c) The Clearing Participant shall release the amount required for settlement that is the difference between the strike and the spot price.

(d) 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.

(e) Funds Settlement must be completed within 3 working days following the exercise date.

(8) When the option is not exercised the following shall apply: -

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

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

(3) If the option contract is not in a profitable position to the holder, the Exchange shall automatically terminate the option contract.

Secondary Market Settlement

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

(a) Deal notes shall be sent to the respective Clearing Participant of the buyer and seller;

(b) Clearing Participant shall download (from FINSEC CDS 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 CDS 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 CDS 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 Exchange sends settlement message to the Settlement Bank, which 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 do not hold bank accounts with the settlement bank, The Exchange will, on a deal-by-deal basis, forward the sell proceeds into the account designated by the contract writer's 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, the Exchange and Clearing Participant shall where necessary and within its control, address any issues that may arise that may affect settlement.

(4) On T + 3: -

(a) the Exchange shall release the settlement message to the settlement bank;

(b) the settlement bank will release settlement responses for each matched deal;

(c) the settlement responses will be spooled, in real-time, to the CDS. On receipt of a confirmation message, the Exchange will immediately transfer the respective funds from the respective securities account of the seller to the respective buyer securities accounts.

(d) The Exchange settlement message to the Settlement Bank will result in a debit of the buyer custodian's settlement account and transferring 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 effected;

(ii) For all sellers who do not hold bank accounts with an admitted settlement bank of the Exchange, on a deal-by-deal basis, the Exchange will forward the sell proceeds into the account designated by the sellers' custodian for onward transmission of the funds to the sellers by their custodian.

(e) A custodian shall be able to download a Post-Payment Advice slip from the Exchange's system for confirmation of settlement and for the custodian's distribution of any proceeds received.

(f) Where funds in the Clearing Participant's Settlement Account are insufficient to fully cover the requisite settlement file, the Exchange system will generate a report for the Clearing Participant, from which the Clearing Participant shall be able to identify the matched deals that had failed to settle. The Clearing Participant shall be liable for any penalties arising out of such failed and delayed settlement in accordance with Twelfth Schedule of the Rule Book.

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

Delivery

17. (1) All option contracts shall be cash settled. That is, the option contract writer shall pay the difference between the strike price and the spot price and the option contract holder shall receive the said amount.

(2) The Spot Price shall be the Value Weighted Average Price (VWAP) of that particular day.

Exercising Option Contracts

18. (1) Participants in a long open position may exercise option contracts by taking the following action;

1. by requesting its designated Clearing Participant to exercise an Option Contract or
2. 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.

(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.

(3) On an expiry day, the Option Trading System shall automatically generate exercise requests in respect of all open long positions which are profitable to the Option Contract Holder.

(4) Once, a buyer decides to exercise an option contract, the obligation of the option contract writer to deliver the underlying shall become due. Delivery of the obligations shall be performed in accordance with the Rule Book.

Expiration of Option Contracts

19. (1) All Option Contracts traded on the Exchange shall have a maturity date (i.e., date of expiration of the contract) and the standard tenure is one month.

(2) Contracts shall be deemed as expired under the following circumstances: -

(a) When on the maturity date, the Option Contract holder does not exercise the right granted by the Option Contract whether to buy or sell the underlying security; or

(b) 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.

Default Procedures

20. (1) Default occurs when the option contract is exercised but the contract writer fails to meet their obligations to the contract holder.

(2) Default may occur when either: -

(a) negative affirmation of settlement request by the contract writer's Clearing Participant; or

(b) failure of crediting of settlement proceeds to the contract holder's custodian/clearing account within 3 working days of exercise date; or

(c) failure of contract writer to provide acceptable proof of payment, within three (3) working days of exercise date.

(3) The Exchange 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.

(4) The contract writer shall be liable for all transaction costs involved as well as any applicable interest and charges.

(5) If the collateral is not sufficient to cover the default exposure, the Exchange may, to the extent possible, use funds in the Guarantee Fund (if available and adequate) to extinguish the uncovered exposure.

(6) If the cash settlement is done, then the Exchange shall instruct the Clearing Participant to release the collateral back to the writer of the contract. In the event of default, the Exchange shall liquidate the respective collateral in terms of the contract. If the securities are in physical form, the Exchange shall carry out the dematerialization and transfer process.

Fees and Levies – Option Contracts

21. (1) Participants shall pay the applicable fees in accordance to the Twelfth Schedule of the Rule Book, as may be amended from time to time.

(2) Where payments are due from the Participant, payments will have to be effected to the Exchange by the Participant before the expiry of 14 calendar days following receipt of the statement. The mode of payment shall be by direct credit to the bank account of the Exchange as per the invoice.

ANNEXURE 1

Type of Charge	**Buying %**	**Selling %**
Securities and Exchange Levy	0.05	0.05
Investor Protection Levy	0.025	0.025
Platform Levy	0.14	0.14
Guarantee Fund Levy	0.025	0.025
Brokerage Fees (Maximum)	0.14	0.14
VAT @ 15% on Brokerage	0.0145	0.0145
Total transaction costs	**0.3945**	**0.3945**
Total costs for buying and selling	**0.789**	

PART VI

FUTURES CONTRACTS

Contract Issuance

22. (1) The Exchange shall issue standardized Futures Contracts on the Platform. The following features of the contract shall be determined by the Exchange:

REQUIREMENT	CRITERIA
Terms and Conditions	Futures Market Participants shall be subject to the terms and conditions prescribed by the Exchange.
Client Requirements	An individual: - (i) Full name; (ii) Certified copy of valid identity document (if a Zimbabwean National); (iii) Notarised copy of a valid passport (if a Non-Zimbabwean National); (iv) Certified copies of proof of residential address (not more than 3 months old); (v) Declaration of source of funds; (vi) Valid banking details; (vii) Valid securities trading account on the Exchange; (viii) Valid registration with a Clearing Participant; (ix) Valid email address; and (x) Contact details. Corporate entities: - (i) Name of entity; (ii) The legal status of the entity and incorporation documents; (iii) The identities of the directors, and their proof of residence; (iv) The identity of any person purporting to act on behalf of the entity; (v) Board of Directors resolution to invest, and identification of those who have authority to operate the investment account; (vi) The ownership and control structure of the entity and the ultimate beneficial owners; (vii) Principal place of entity's business operations; (viii) Mailing address of the entity and contact numbers: (ix) Nature of business; and (x) Valid registration with a Clearing Participant.
Last Trading Day	Trading ends at the close of the Trading last business day of the month proceeding the named contract month or on a day specified by the Exchange as the last trading day.
Tick size	The minimum price fluctuations shall be as determined by the Exchange from time to time.
Contract Size	The Exchange shall determine the contract size for all futures contracts.

Underlying Assets	The Exchange from time to time shall determine the underlying assets to a Futures Contract.
Tenure of Contract	The Exchange shall specify the tenure of the futures contract.
Contract Months	The Exchange shall offer and make available Futures Contracts during the following months during each financial year: - (a) March (b) June (c) September; and (d) December
Settlement Modes	The Exchange shall prescribe the settlement mode on a product and/or underlying securities basis.

(2) Market Participants shall only take positions on the platform that's long or short position.

(3) The Exchange shall facilitate Futures Contracts transactions through its Clearing House.

(4) The Clearing House shall act as a Central Counterparty that's being the Buyer to those in Short Position and Seller to those in Long Position.

(5) Futures Market participants shall be able to buy and sell Contracts listed on the platform by the Exchange.

(6) Clearing and settlement shall be according to the Exchange and Clearing House Rules.

Contract Pricing

23. (1) Liquid Contracts shall be valued based on either market value using the volume weighted average pricing model;or

(2) For illiquid contracts, the Exchange shall use the theoretical value.

(3) The Exchange shall disclose all the methodologies used to determine the variables used.

(4) Due to marking to market on a daily basis, The Exchange shall value illiquid contracts on theoretical basis.

Margins and Margin Requirements

24. (1) Each party to a Futures Contract must deposit a margin with the Clearing House. Margin acts as a cushion against potential losses, which the parties may suffer from future adverse price movements.

(2) When the contract is first struck, the initial margin is deposited with the Clearing House. Positions are tracked and monitored on a daily basis and the Exchange can call for additional payments of variation margin to ensure that the Clearing House's exposure to credit risk is controlled.

(3) Initial Margins shall be determined by the Clearing House through the methodology in Initial Margin Methodologies and every trader shall prefund their accounts before taking a position in a futures contract.

(4) Marking-to-market, a process for calculating the market value of a trader's position and calling for margin requirements shall be done daily.

(5) A Margin account shall be opened for every trader with an open position and the following shall be monitored until a position is closed out: -

(a) Futures Price;

(b) Changes in value;

(c) Gains/ losses;

(d) Cumulative Gains/Losses; and

(e) Account Balance.

(6) The Clearing House shall set a Maintenance Margin level from which all Margin Accounts will not be permitted to go below the set level.

(7) Once the Margin Account balance goes below the Maintenance Margin level then, a Margin Call is triggered to the Clearing Participant for a top-up to the initial margin level.

(8) The Clearing House shall declare margin requirements and variation adjustments at least once on every Business Day in respect of: -

(a) every cash settled contract until the earlier of the date on which that contract: -

(i) is closed out; or

(ii) expires or is exercised; and

(b) every physical delivery contract until the earliest of

(i) the date on which that Contract is closed out; or

(ii) the date on which that Contract is settled;

Trade Funding of Futures Contracts

25. (1) The funding of the Futures Contract transactions shall be facilitated by the Clearing Participant.

(2) The Futures Contract Traders shall deposit acceptable collateral and or margin with the Clearing Participant.

(3) The Clearing Participant shall authorize post and pre-funding to their client based on their internal creditworthiness assessment.

(4) The Futures Contract Trader shall deposit the cash and or physical collateral with their designated Clearing Participant and it shall be used as follows: -

(a) Initial Margin and or acceptable collateral when they open a position.

(b) Addition Margin and or additional collateral during the tenure of the contract. If collateral held or margin value falls below the Maintenance Margin, the relevant party receives a Margin Call- a requirement to provide additional funds to restore the margin account to the initial level.

(5) From these collateral and cash deposits, the Clearing Participants shall set position limits for the Futures Contract Market Participants.

(6) The Clearing House shall set out the aggregate exposure limits in respect to exposures arising from the proprietary positions of dealers and the positions of their clients in a manner determined by the Exchange from time to time.

(7) The Exchange may also stipulate a limit to the number of futures contracts that may constitute a trade by a particular securities dealer at any one time.

Futures Contract Secondary Market

26. (1) Secondary Buy and Sell Orders shall be posted by a securities dealer who has been authorized with access to the ATS.

(2) Secondary buy orders shall be posted onto the ATS by Futures Contract Buyers through their securities dealer, who shall be cleared and authorized by the Clearing Participant to do so on behalf of its client.

(3) Secondary sell orders shall be posted by Futures contracts holders wishing to close out their positions.

(4) For Futures Contract Buyers who are authorized for post-funding, clearing shall be triggered by a buy order posted on the ATS.

(5) Clearing shall also be triggered by a cash deposit from the Futures Contract Buyer into his Clearing Cash Account.

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

(7) On the other hand, the Futures Contract holder shall post sell orders according to the volumes of the contracts they hold.

(8) 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.

PART VII

Settlement of Futures Contracts

Initial Settlement

27. (1) Once the order matches, the Clearing House through its Clearing Participant, shall facilitate funds transfer to the Clearing Account of the Futures contract Seller.

(2) The Clearing House through its Clearing Participant, shall facilitate the transfer of funds from the Clearing Account of the Futures Contract Buyer.

Daily Margin Settlement

28. (1) The settlement of the gains and losses on the contract on a daily basis using Marking to Market.

(2) The Clearing House shall transfer gains to the contract holder in a profitable position and shall facilitate Margin Calls.

(3) The Settlement price determines the amount and the trader who gets the variation margin.

(4) All Futures Contracts shall clearly state its final settlement basis.

(5) Every cleared futures contract may settle through: -

(a) offsetting;

(b) delivery of the underlying asset;

(c) cash; or

(d) any other settlement method the Exchange may accept from time to time.

(6) Where the currency of the futures contract is not the functional currency of the relevant underlying, settlement shall be made by reference to the Settlement Price translated into the currency of the futures contract at the prevailing official exchange rate as determined by the laws related to Exchange Control.

Cash Settlement

29. (1) At the close of trading, the price of the futures contract is known as the settlement price.

(2) The Futures price converges at the spot price as the period of delivery approaches, however, if it does not converge and the futures price is high, the one holding a short position will be in a profitable position and the Clearing House shall transfer the difference (net cash) between the Settlement Price and the Futures Price.

(3) If the price is below the Futures Price, the Clearing House shall receive the difference from the other party of the contract.

(4) If the contract holder fails to meet the contract obligations, they shall be in default.

Physical Delivery

30. (1) Physical Delivery Futures Contracts shall be settled by delivery of the underlying commodity or instrument by their Sellers and the payment of cash by their Buyers.

(2) Clearing Participant shall deliver the Underlying asset through a Delivery Agent which they must have a valid, binding and effective Delivery Agreement in place between itself and its Delivery Agent. No Delivery Agent may deliver Underlying Asset for another Clearing Participant until such Delivery Agreement has been entered into by both parties and they are members of the Exchange.

(3) The Exchange shall allow the submission of a warehouse receipt to represent the delivery of a certain quantity and define the quality of a commodity in a specific location.

(4) Warehouse receipts shall be transferred to the Clearing Participant's account using the Delivery Instruction Note.

(5) The long position holder shall make a full payment for the actual delivery that has to occur. Once the payment is made the buyer has the right to remove the commodity from the warehouse.

(6) The warehouse receipt holder shall be able to claim delivery by submitting a request in the "Physical Delivery Request Form" (PDRF) for the desired quantity. Such a request will be transmitted to the Registrar electronically through the depository system. Registrar will send the details of the account holder to the warehouse to enable the warehouse to release the delivery.

(7) The Buyer can choose to leave the commodity at the storage location or warehouse and hold warehouse receipt as an asset and or trade the receipt in the Warehouse Receipt System.

Secondary Market Settlement of Futures Contracts

31. (1) On T + 1, for all trades requiring the affirmation of a Clearing Participant's: -

(a) Deal notes shall be sent to the respective clearing participant of the buyer and seller;

(b) the clearing participant shall download from the CDS of the Exchange the settlement report to corroborate Contract Writer or Buyer Deal Notes;

(c) the clearing participant shall affirm the buy side and sell side transactions

(d) (the "buy side" affirmation authorizes payments on T + 3 whilst the "sell side" affirmation authorizes release of securities on T + 3);

(e) 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) Regarding 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 Futures Contract Writer's accounts to the Futures Contract buyers' cash accounts;

(c) The FINSEC settlement message to the Settlement Bank will debit the Futures Contract Buyer Trading Account at the Settlement Bank and directly pay Writers who hold bank accounts within the bank from which the settlement is effected;

(d) For all Futures 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 the Exchange and the Clearing Participant shall sort out any possible issues that need to be addressed.

(4) On T + 3: -

(i) the Exchange shall release settlement messages to the Settlement Bank;

(ii) following which, the Settlement Bank will return a settlement response for each matched deal pending settlement;

(iii) 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.

(iv) 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: -

(aa) 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;

(bb) for all sellers who don't hold bank accounts with an admitted settlement bank of the Exchange, on a deal-by-deal basis.

(cc) 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.

(v) Where funds in the Clearing Participant 's Settlement Account are insufficient to fully cover the requisite settlement file, the Exchange system will generate a report for the Clearing Participant from which the Clearing Participant will be able to identify the matched deals that would have failed to settle. The Clearing Participant shall be liable for any penalties arising out of such delayed settlements.

(vi) With respect to deals that the Clearing Participant had omitted for settlement, the Clearing Participant may, after funding the deals, request the Exchange to release another settlement message for settlement of the respective matched deals.

Delivery

32. (1) All futures contracts shall settle based on the Contracts for Difference Approach.

(2) Given the contract is exercised, the Futures Contract Writer shall pay the difference between the strike price and the spot price and the Futures Contract Holder shall receive the same amount.

(3) The Spot Price shall be the Value Weighted Average Price (VWAP) of that particular day.

Delayed Delivery

33. (1) If a Participant pays funds on the settlement date but the funds are received by the Clearing House after the cut-off time notified by the Exchange or the Clearing House on the settlement date, and the securities dealer makes due representations to the Exchange or the Clearing House that the delay was due to reasons beyond its control, it may be considered, at the discretion of the Exchange or the Clearing House, as a delayed payment. However, the applicable penalties as detailed in the Offences and Penalties Schedule in the Rule Book shall be levied as notified by the Clearing House.

(2) If the securities dealer fails to pay the funds on the settlement date, the same shall constitute an Event of Default by that securities dealer and the Exchange, in its absolute discretion, shall be entitled then or at any time thereafter whilst such event is, in the opinion of the Exchange, continuing unremedied, to take any one or more of the actions such as but not limited to suspension or expulsion as may be applicable.

Expiration Futures Contracts

34. (1) On expiration day of a Futures Contract holder delivery obligations shall arise. Such delivery obligations shall be performed in accordance with the rules of the Exchange.

(2) Exchange Futures Trading System shall automatically generate exercise all open positions

Default Procedures and Consequences of Default

35. (1) A Clearing Participant may be declared as being in default by the Exchange if the Clearing Participant: -
    (a) is unable to fulfil its obligations;
    (b) admits or discloses its inability to fulfil or discharge its duties, obligations and liabilities;
    (c) fails or is unable to pay within the specified time the damages and the money differences due on a closing-out affected against it under these rules;
    (d) fails to pay any sum due to the Exchange or to submit or deliver to the Exchange on the due date, delivery and receipt orders, statement of differences and commodities, balance sheet and such other clearing forms and other statements as may be required under these rules;
    (e) fails to pay or deliver to the Exchange all monies within such time as the Exchange may specify;
    (f) fails to abide by the arbitration proceedings as laid down under these rules;
    (g) has failed to pay any margins, deposits, fines and fees or any other applicable dues to the Exchange or any other Clearing House as the case may be;
    (h) has failed to effect delivery as specified under these rules; and/or
    (i) any other instance as the Exchange deems appropriate.

Default by a Participant and Client

36. A Participant or client shall be declared to be in default if the Participant or client: -
    (a) fails to fulfil any of its obligations in terms of a trade or position of a futures contract; or
    (b) where the Exchange on reasonable grounds considers the Participant or client has defaulted, provided the Exchange affords the Participant or client a reasonable opportunity to make representations.

Consequences of default by a Client

37. Without limiting or detracting from any other remedies and rights which a securities dealer and/or the Clearing Participant may have against a client, in the event of default by a client: -
    (a) the client shall, save as provided in this rule, face adjustment of the approved trading limits of the client or may be suspended or expelled from trading on the futures market or any other

market on the Exchange as it deems necessary to protect the integrity of the Exchange and its market(s).

(b) the securities dealer shall close out the positions of the client by either

   (i) trading to transfer those positions to himself and for his own account at a price approved by Exchange; or

   (ii) auctioning the positions of the client in the market in line with any directive(s) issued by the Exchange and/ or the clearing house regarding auctions; or

   (iii) selling off the positions of the client in the market within two business days or such other period as may be determined by the Exchange from the date of default;

(c) any amount payable by the securities dealer to the client as a result of such close out or arising from any guarantee, cession, pledge or other security or from any other cause shall be set off against any amount payable by the client; and

(d) any shortfall remaining after the application of these rules shall be recovered from any other amounts payable to the client, and any balance paid to the client.

Consequences of default by a Participant

38. Without limiting or detracting from any other remedies and rights which an Exchange or the Clearing House may have against a Participant, in the event of default by a Participant: -

(a) the Exchange shall issue a Declaration of Default to the Participant setting out the Event of Default;

(b) the securities shall, save as provided in this rule, be subject to a fine as per the Offences and Penalties Schedule, an adjustment of the limits approved by the Exchange or where necessary may be suspended or expelled from the Exchange;

(c) the Clearing House shall close out the proprietary positions of the Participant by either

   (i) trading to transfer those positions to himself and for his own account at a price approved by the Exchange or

   (ii) auctioning the positions of the client in the market in line with any directive(s) issued by the Exchange and/ or the clearing house regarding auctions; or

   (iii) selling off the positions of the client in the market within two business days or such other period as may be determined by the Exchange from the date of default;

(d) any amount payable to the Participant as a result of such close out or arising from any guarantee, cession, pledge or other security or from any other cause shall be set off against any amount payable by the Participant;

(e) any shortfall remaining after the application of these rules shall be recovered from any other amounts payable to the Participant, and any balance paid to the Participant;

(f) the Clearing House shall assume the obligations of the Participant that accrued on the date of default or on the previous business day;

(g) the Clearing House shall on request provide the Exchange with the registration and contact details of the clients of a defaulting Participant as supplied to the Clearing House; and

(h) on the default of a Participant, the Clearing House shall contact the clients of such defaulting Participant immediately, to inform them of the default and to make arrangements for the transfer of existing client positions to another Participant;

Obligations of Exchange Clearing House *in event of default*

39. Where a Participant or client defaults, the Exchange Clearing House shall remedy the default in the following manner: -

(a) Make use of the defaulting Clearing Participant's or client's monies deposited with the Exchange or Clearing House.

(b) Where the monies referred to in (a) are insufficient, make use of funds realized by using cash equivalent deposited by such Participant or client as collateral to the Exchange.

(c) Where the monies referred to in (a) or (b) are insufficient, make use of proceeds from closing out of open positions of the defaulting Participant or client

(d) Where the monies referred to in (a), (b) or (c) are insufficient, make use of the amount received under any insurance policy obtained, where applicable/available, to satisfy shortfall in meeting the settlement obligation on account of default by a Participant or client, subject to its availability.

(e) Where the monies referred to in (a), (b), (c) or (d) are insufficient, make use of the amount utilized from the Guarantee Fund provided that utilization of the fund shall only be limited to the settlement of futures contract trades.

Fees and Levies – Futures Contracts

40. (1) Participants shall pay the applicable fees in accordance with the Twelfth Schedule of the Rule Book, as may be amended from time to time.

(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.

ANNEXURE 2

Type of Charge	**Buying %**	**Selling %**
Securities and Exchange Levy	0.05	0.05
Investor Protection Levy	0.025	0.025

Platform Levy	0.14	0.14
Guarantee Fund Levy	0.025	0.025
Brokerage Fees (Maximum)	0.14	0.14
VAT @ 15% on Brokerage	0.0145	0.0145
Total transaction costs	**0.3945**	**0.3945**
Total costs for buying and selling	**0.789**	

PART VIII

SELECTION OF UNDERLYING SECURITIES AND THEORETICAL PRICING METHODOLOGIES

Eligibility criteria for underlying stocks in Derivatives Market

1. (1) A stock, on which option and future contracts are proposed to be introduced, shall conform to the following eligibility criteria: -

i. The stock shall be chosen from amongst the top 5 stocks in terms of

a) average daily market capitalization and

b) average daily traded value in the previous six months on a rolling basis',

ii. The stock's median quarter-sigma order size over the last six months, on a rolling basis, shall not be less than a quarter of the standard deviation.

iii. The market wide position limit in the stock shall not be less than 20% of the free float market capitalization of a stock, and

iv. Average daily delivery value in the cash market shall not be less than ZWL10 million in the previous six months on a rolling basis.

Above criteria are to be met for a continuous period of six months.

Notes

1. **Median Quarter Sigma Order Size (MQSO)** means the order size (in value terms) required to cause a change in the stock price equal to one-quarter of a standard deviation.
   - The higher the Quarter Sigma Order Size means the higher the liquidity and the tougher for stock operators to manipulate the stock price movements.
2. **Market wide position limit** means the maximum number of open positions allowed on futures and option contracts of a particular underlying stock.

Eligibility criteria for underlying Indices in Derivatives Market

2. (1) For Indices, the Exchange shall consider top 4 indices from the list of indices as published by Morgan & Co.

   i. Selection shall be based on the most volatile indices. Indices that return a high value indicating a high volatility.

   ii. It is important to keep in mind that the historical volatility figure does not indicate the index direction but rather how unstable an index is, providing an overview of the extent to which the index may have deviated from a central or moving average index.

FINSEC shall use the following method to calculate the Standard Deviation across all indices for selection.

$$SD = \sqrt{\frac{\sum(r_i - r_{avg})^2}{n-1}}$$

Where:

r_i - the return observed in one period (one observation in the data set)

r_{avg} - the arithmetic mean of the returns observed

n - the number of observations in the dataset

Where top 4 indices are from similar sectors, the Exchange shall select 4 indices from the top 8 to promote diversity in our Derivatives Market.

Determining the Risk-Free Rate for the Derivatives Market

3 (1) We determine the benchmark risk free rate through computations of the implied discount rates of listed companies using their readily available market and company-specific data. Our standard approach is to use the maintainable earnings method for this purpose. The benchmark risk free rate is a blended, weighted average rate obtained from combining the individual computational results of each listed company in the reference set.

The following methodology shall be used to calculate the risk-free rate

Maintainable Earnings

EBIT
+ Normalizing Adjustments
= Normalized EBIT
+ Inflation Rate

= Inflation Adjusted Maintainable Earnings*

Implied Discount Rate (Gordon Growth Reversal)

Current Market Capitalization

Earnings Growth Rate (as reported)	
Implied Capitalization (Discount) Rate	

CAPM Reversal	
Stock Beta	
ZWL Market Risk Premium (%) (Damodaran)	
Implied Risk-Free Rate	

Notes

*Maintainable Earnings can be approximated as follows:
= After tax normalized earnings from operations = (EBIT + Normalizing adjustments) x (1 +inflation Rate)

Normalizing adjustments generally include:

non-recurring revenues

non-operational revenues

Normalized EBIT numbers can be quickly obtained from Reuters