Johannesburg Stock Exchange - JSE

Physical delivery allocation process on the Agricultural Products Division

All physical deliveries processed on the exchange are done in one of two ways; either the delivery is classified as an “Exchange for Physical” or the product is randomly allocated.

All short position holders initiate the delivery process by giving notice of delivery anytime during the specific delivery month. The delivery can only be processed on an existing short position.

The Exchange for Physical (EFP) process exists when both the short and long position holders notify the exchange that the stock delivered by the short position holder must be allocated to the specific long position holder. This agreement is reached outside the exchange and reported in writing thereby removing the product from the random allocation pool. The exchange will process the EFP at the same MTM price of the notice day and any premiums arranged between the clients will be settled outside the exchange.

All deliveries not facilitated as an EFP will be randomly allocated. The short position holder will notify the exchange through the broker of the intention to deliver and include all the relevant details required for invoicing, namely silo receipt number, location, grade, origin, storage paid to date. The random allocation algorithm is a system generated function where the exchange simply selects the number of contracts being tendered for delivery. The process in no way aims to allocate based on the actual location of the stock or whether electronic or paper receipts are tendered, or on a per silo receipt basis. The delivery is processed PER DELIVERY NOTICE therefore once the number of contracts per delivery is entered and the short position confirmed the following algorithm will be applied:

- find all long positions equal to or greater than the number of contracts tendered on the individual notice
- if positions exist, divide the number of longs by a constant number and allocate the number of chances each existing long position will have of receiving the product. A random number is then chosen from the number of chances that exist and the product allocated. Using an example to explain, if 52 contracts were tendered on a short position and the following long positions existed

  52 contracts
  100 contracts
  250 contracts
  260 contracts

  The long positions would be divided by the constant to determine the number of chances each position holder would have of receiving the product.

  52/25 = 2 possibilities (number 1+2)
  100/25 = 4 possibilities (numbers 3+4+5+6)
  250/25 = 10 possibilities (numbers 7+8+9+10+11 +12+13+14+15+16)
  260/25 = 10 possibilities (numbers 17 – 26)

TOTAL – 26 possibilities

Any number between 1 and 26 would be randomly selected, if 15 was the random number, the 52 contracts would be allocated to the position holder of 250 contracts.

- if no long positions existed which were equal to or greater than the short position tendered, the short position would be broken down in lots of 10 and if need be individual lots until the entire amount of contracts had been allocated.
- All allocations are done on a contract basis, no consideration is made for location or whether the silo receipts are electronic or paper or on a individual silo receipt basis.

Once the delivery has been allocated the delivery and assignment invoices are generated by the exchange and distributed the same afternoon to the relevant clearing members.