MARKET NOTICE

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NOTICE NO. **149/2015**

RELATES TO

	Equity Market
	Equity Derivatives Market
X	Commodity Derivatives Market
	Interest Rate & Currency Derivatives Market

DATE: **4 March 2015**

SUBJECT: **INITIAL MARGIN REQUIREMENTS FOLLOWING EXTENDED PRICE LIMITS IN PLACE FOR DELIVERABLE COMMODITY CONTRACTS**

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Dear JSE Stakeholder

The intention of this market notice is to provide the market with more certainty regarding initial margin changes during periods of price volatility in deliverable commodity contracts. As of 09-March-2015, the process described below will be followed to update initial margins on deliverable grain futures contracts once the extended price limit is triggered. Unless otherwise communicated by the JSE the extended price limit will be triggered once the deliverable grain futures contract price moves in the same direction by its daily price limit over two consecutive trading days:

- Based on the current price limit criteria, should two or more hedging month contracts be marked-to market (MTM) at the price limit for two consecutive days, an extended price limit of 150% of the daily price limit will be implemented for the next trading session. The extended price limit move will be indicated in the daily MTM summary report only.
- New Initial Margin Requirements (IMRs) will be calculated and communicated to the market on the business day that the extended price limit is triggered.

- The new IMRs will be implemented on the day that extended price limits are implemented and will be included in the following business day's settlement process. The new IMRs will be applicable until JSE Clear indicates otherwise. IMR's will not automatically be adjusted when the deliverable grain futures contract reverts to its daily price limits.
- It should be noted that the normal bi-weekly margin calculations will continue to be implemented as scheduled. Should the new IMR calculations due to an extended price limit trigger be implemented after the market is notified of normal bi-weekly margin change, the latest IMR calculation will take preference.
- IMRs will be calculated using the most recently available data referencing the current historical Value-at-Risk (HistVaR) methodology. The HistVaR methodology is outlined in the document available on the JSE website (JSE Margin Methodology).

Clients participating in the Commodities Market are less likely to be penalized when changing margins subsequent to reaching extended price limits using this new approach, relative to an approach which increases initial margin by a fixed pre-determined amount or percentage.

While JSE Clear is not able to provide a pre-defined amount or percentage by which initial margins will change when extended price limits are triggered, to assist market participants manage margin calls with clients they can use the most recently published IMR percentage to calculate the lower bound for the IMR when extended price limits are implemented:

$$Lower\ Bound\ IMR = IMR\% \times Current\ Price \times Contract\ Size$$

The IMR % is communicated in the applicable margin update notices every two weeks.

Notwithstanding the above the JSE may update margins as it sees fit where market conditions require.

Should you have any queries regarding the above, please contact risk@jse.co.za or commodities@jse.co.za

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