MARKET NOTICE

Johannesburg
Stock Exchange

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Number:	**553/2015**
Relates to:	☐ Equity Market ☐ Equity Derivatives ☐ Commodity Derivatives ☒ Interest Rate and Currency Derivatives
Date:	9 September-2015

SUBJECT: **INITIAL MARGIN REVIEW OF INTEREST RATE DERIVATIVES**

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Designation: Head of Risk

Dear JSE Stakeholder

Starting in mid-October the JSE will change the look-back period used to quantify Initial Margin Requirements (IMRs) for interest rate derivatives to be in line with all other markets. The new look-back period will be in line with what was agreed on by the JSE Executive Committee and the Risk Committee of the JSE Clear Board in December 2013. In particular, the look-back period will change from a rolling 8-year look-back period to a rolling 3-year look-back period, plus a 1-year period of stress. IMRs for interest rate derivatives will then be quantified as follows:

VaR Methodology	Confidence Interval	Liquidation Period	Look-Back Period
HistVaR	99.7%	At least 2-days	Rolling 750-day plus stressed 250-day

The rationale for the abovementioned enhancement is to ensure that a period of risk is always included in the dataset used to quantify initial margin requirements, therefore preventing procyclicality.

The change does not represent a material shift from the way in which JSE Clear currently determines the IMRs for interest derivatives, and as such, there should not be a substantial cash flow impact for most participants as a result of the new look-back period. The changes will be introduced using 3 equal increments, as per the below:

Market Notice	Implementation Date
12-Oct-15	19-Oct-15
26-Oct-15	2-Nov-15
9-Nov-15	16-Nov-15

Below is a summary of the changes for the bond futures with the greatest open interest:

Underlying	Old IMR/PV01	New IMR/PV01
R207	48 Bps	55 Bps
R208	43 Bps	48 Bps
R186	43 Bps	49 Bps
R2037	41 Bps	46 Bps
R2048	40 Bps	44 Bps
R2044	40 Bps	46 Bps
R202	30 Bps	34 Bps

If you have any questions with regards to this notice, please contact *risk@jse.co.za*

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