

MARKET NOTICE

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Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
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SUBJECT: CHANGES TO INITIAL MARGIN REQUIREMENTS FOR DERIVATIVE MARKETS

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Dear JSE Stakeholder

In March 2015 the JSE Clear Board approved a framework for calling a higher level of initial margin from portfolios presenting large and concentrated exposures to cover these additional risks. This framework is specifically designed to mitigate the concentration risk faced by the clearinghouse and its clearing members, and is colloquially referred to as concentration margin.

The concentration margin framework consists of a component to take cognisance of the amount of time needed to liquidate specific positions and a component to ensure that under JSE Clear's stress testing policy, the stressed exposure for a particular portfolio is not too large. The latter is referred to as the large exposure margin.

Currently, JSE Clear calls large exposure margin from accounts where the total calculated stressed exposure is greater than half the size of the JSE Clear Default Fund (currently the size of the JSE Clear Default Fund is ZAR 500 million). However, only the portion in excess of this threshold will be called as large exposure margin.

This notice serves to inform market participants that from 21 September 2018 onwards, JSE Clear will call large exposure margin from accounts where the total calculated stressed exposure on that account is greater than R225 million (instead of R250 million). However, only the portion in excess of this threshold (R225 million) will be called from that account as large exposure margin.

Importantly, the size of the default fund will remain unchanged at ZAR 500 million.

Appendix A provides more details with regards to the calculation methodology for large exposure margin, and an example of the calculation is provided in Appendix B.

APPENDIX A: CALCULATION METHODOLOGY

Under JSE Clear's stress testing framework, the stressed exposure at default (sEAD) for a particular client under a particular stress scenario is calculated by:

1. Calculating the Mark-to-Market (MtM) of each contract cleared by JSE Clear on day T+0;
2. Using the contract level MtM values to calculate the MtM value of the particular client portfolio on day T+0;
3. Calculating the stressed Mark-to-Market (sMtM) value of each contract under the particular scenario, for valuation date T+2 (generic asset-class price changes are applied, and options are revalued under the stressed futures price and volatility scenario), and the associated profit and loss (sPnL) associated with having a long position in each contract;
4. Using the above contract level sPnL values to calculate the stressed variation margin (sVM) associated with the change in the MtM value of the client portfolio (from MtM T+0 to sMtM T+2); and finally
5. Calculating the stressed exposure at default (sEAD) as the difference between total amount of initial margin held against the exposure and sVM.

The large exposure margin is then calculated as the absolute value of the sum of R225m and the smallest (largest negative) sEAD across all of JSE Clear's historic stress testing scenarios, and. However, if the abovementioned sum is greater than zero, no large exposure margin will be applied.

The exact set of stressed contract level sPnL values used to quantify large exposure margin will be published on the JSE website, and will be updated on at least a weekly basis.

APPENDIX B: LAGRE EXPOSURE MARGIN EXAMPLE

Suppose the following set of sPnL values are published for the Dec-18 ALSI futures contract:

Contract	Expiry	C/P/F	Scenario 1	Scenario 2	Scenario 3	Scenario 4
ALSI	Dec-18	F	50,000	5,000	-5,000	-50,00

Furthermore, assume that a particular client is long of 30,000 Dec-18 futures, with normal initial margin of R750m against the exposure. The sEAD for the particular client under the above scenarios will be as follows:

Scnearo	Scenario 1	Scenario 2	Scenario 3	Scenario 4
sEAD	R2.25billion R750m + (50,000x30,00)	R900 million R750m + (5,000x30,00)	R600 million R750m - (5,000x30,00)	-R750 million R750m - (50,000x30,00)

The large exposure margin for the particular client is then the absolute value of:

- $R225m - R750m = -R 525m$.

The total large exposure margin requirement will thus be R525m, and the total initial margin requirement R1,275m.

Should you have any queries regarding this notice, please contact risk@jse.co.za

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