

# **Integrated Trading & Clearing (ITaC) Clearing Member Consultation Session**

19 May 2014



# Agenda

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- Programme overview
- General clearing approach & vision
- Intraday risk management
- Pre-trade risk management
- Monitoring and cancellation of orders
- Entry of “on-behalf-of” reported trades
- Collateral management
- EOD balancing process
- Clearing architecture & interfaces
- Clearing member survey & future engagement

# Programme Overview



- A multi-year programme to implement a new Integrated Trading and Clearing solution
  - Migrate all Derivatives and Bonds markets to the MillenniumIT Trading platform
  - Migrate all markets to a new Clearing platform
- In a phased approach:



**Equity Derivatives  
Currency Derivatives**

**IR & Commodity  
Derivatives  
Cash Bonds**

**Cash Equities**

# General Clearing Approach & Vision



- The JSE aims to achieve its Integrated Clearing vision through ITaC
- The vision is based on three pillars
  - Centralised risk management
  - Efficient asset utilisation
  - Consolidated clearing operations



- The JSE has selected Cinnober as its partner for the development of a new multi-asset clearing technology platform
  - Proven, high-performance real-time Clearing solution



# General Clearing Approach & Vision

Current vs. New Clearing Solution

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ITaC Phases 1, 2 & 3

## TradExpress Real Time Clearing System

All Derivatives  
&  
Cash Markets

Centralised Risk Management

Efficient Asset Utilisation

Consolidated Clearing Operations

### Nutron/Nuclears

Equity  
Derivatives

Commodity  
Derivatives

Interest Rate &  
Currency  
Derivatives

Cash Bonds

### ECS

Equities

## General Clearing Approach & Vision



- Identification and management of risks centrally and holistically across markets
  - Management of concentration risk of participants across multiple markets
- Intraday risk management
- Ability to clear transactions in real time
- Compliance with international standards
  - (G20), CPSS IOSCO, EMIR, B3
- Stress testing and back testing
- Default fund harmonisation where appropriate



# General Clearing Approach & Vision

## Efficient Asset Utilization



- Cross-market and cross-product margin offset where opportunities exist
- Cross-collateralization and non-cash collateral (Securities and Foreign Currency)
- Multilateral netting of settlements where applicable
- Reduced capital requirements for clients
- Improved liquidity



# General Clearing Approach & Vision

## Consolidated Clearing Operations



- Central cross market operations and risk management
- Simplified and integrated operational processing
- Improved and consistent valuation processes
- Aggregation of data across markets and ability to perform analytics and exception reporting in support of improved operations



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# Intraday Risk Management

## Intraday Risk Monitoring



- In order to protect the stability of the markets and comply with regulatory pressures, the JSE is moving towards more proactive and real time management of risk
- Implementation of intraday risk management
  - A risk engine calculates the impact of each additional trade on the riskiness (exposure) an entity's portfolio
  - Provides exposure data and alerts via the API to assist the JSE, Clearing Members and Members in proactively monitoring and managing risk



# Intraday Risk Management

## Intraday Risk Monitoring - Process



- As Trading and Deal Management activity proceeds, exposures are calculated
  - At the Clearing Member, Member and Client levels
- Exposures are compared to predefined limits and posted collateral
  - Limits are set by the Clearing Member for Members and by the Member for Clients
  - Limits include portfolio exposure, position and concentration limits
- If uncovered exposure (exposure less posted collateral) is within a percentage of or breaches the limit
  - Members and Clearing Members will be alerted
  - A business process follows in which the Clearing, Member, Member, Client, and JSE as appropriate, liaise, requesting the participant to reduce positions / post collateral / allocate deals



# Intraday Risk Management

## Scheduled Intraday Margin Calls

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- Consideration is being given to scheduled intraday margin calls
  - Would involve calling of variation margin (ZAR cash) only

*Ad-hoc intraday margin calls – in cases of extreme market volatility – will still apply*

- Initial Margin per Order / Reported Trade limit
  - Due to latency considerations different solutions for managing this risk are being considered
    - Including the possibility of shifting the application of the limit from the trading engine to front ends
- Clearing price bands
  - On-book orders that breach price bands will be rejected (as currently)
  - Clearing Member acceptance / rejection of reported trades that breach price bands is being reviewed

# Monitoring and Cancellation of Orders

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- Monitoring of member orders
  - If required by Clearing Members will be possible via the MIT Drop Copy gateway
  
- Cancellation of orders on behalf of members
  - Ability for Clearing Members to cancel Member orders is no longer supported
  - 'Cancel on disconnect' functionality (at the interface user level) is available to manage operational risk

# Entry of “on-behalf-of” Reported Trades

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- Entry of “on behalf of” reported trades
  - Members report trades (including trade cancellations) via the MIT Post Trade Gateway

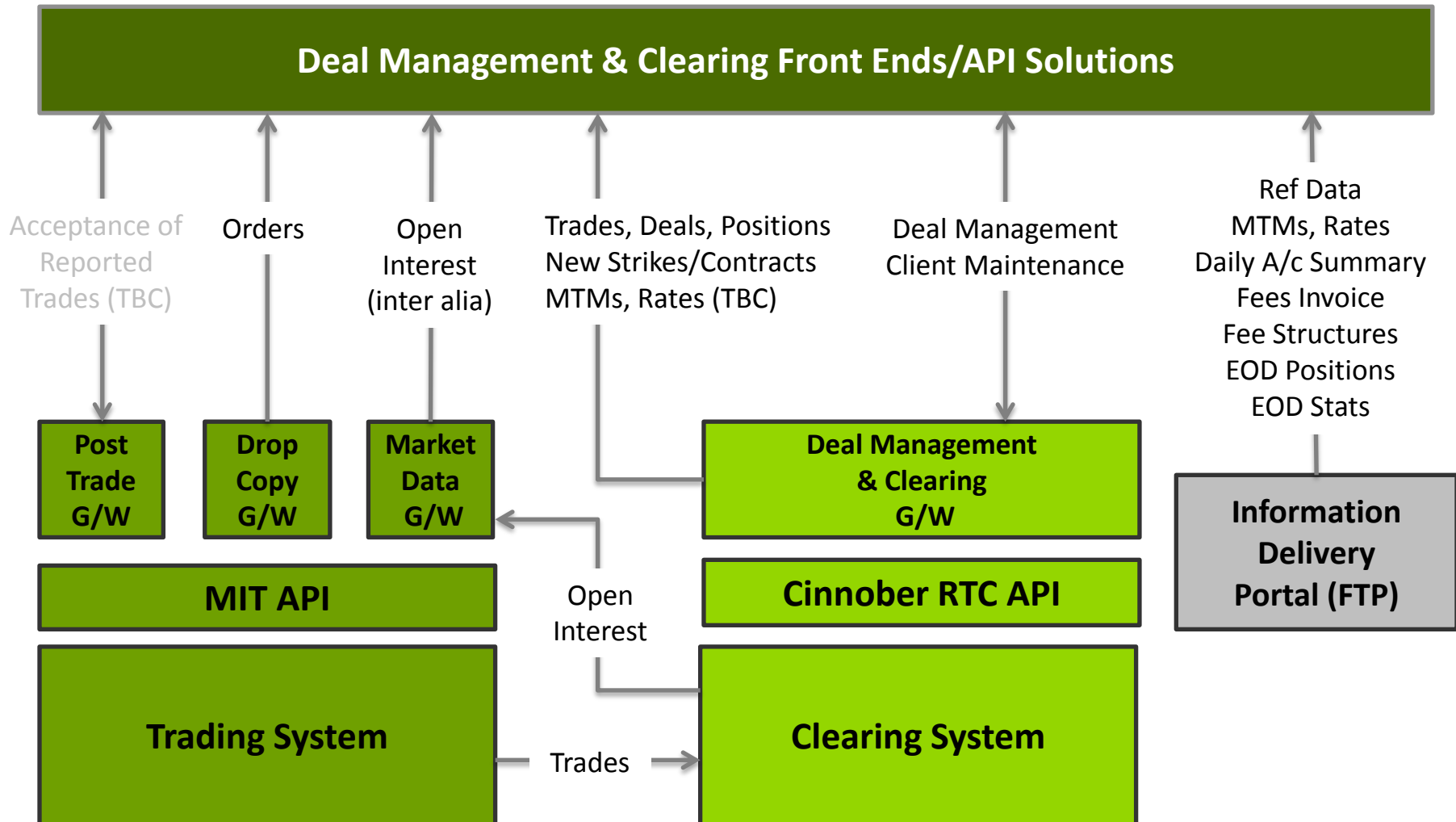
- Acceptance of non-cash collateral based on percentage acceptable to the Clearing House
  - Securities
  - Foreign currency
  
- Collateral management process
  - State Collateral Management System (CMS), collateral accounts etc
  - Collateral management in relation to intraday risk monitoring
  - Collateral management in relation to EOD margin, balancing and payment processes
  - Collateral management in relation to ad-hoc intra-day margin calls



- Balancing on initial and variation margin, booking fees and physical delivery fees between JSE and Clearing Members
  - Basic process unchanged
  - Different interfaces for downloading input data
  - Process changes related to the acceptance of non-cash collateral
  - Consideration is being given to scheduled intraday margin calls
    - If introduced, variation margin called intraday would be taking into account the EOD margin run



# New Clearing Architecture & Interfaces



# Clearing Member Survey & Future Engagement

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- A survey will be sent to Clearing Members shortly following this session requesting input on specific aspects of the Clearing solution
- Please submit completed surveys to [ITaC@jse.co.za](mailto:ITaC@jse.co.za) by **27 May 2014**
- The JSE is developing an engagement model in support of communication and consultation with participants throughout the programme

# Questions?

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