



Integrated Trading & Clearing (ITaC) Working Group

Derivative Clearing Member focus

19 September 2016

- Welcome and recap of objectives
- Recap from previous workshop
 - Firm and user set up and access on the trading and clearing systems
 - On behalf of functionality and give-up trades
 - Daily life cycle flows in a normal business day
- Non-ZAR cash collateral
 - EOD processing
 - Intra-day
- User readiness reminder

Objectives



- A series of dedicated Clearing Member workshops that focus on the key changes as a result of the JSE ITaC project
- Create a 'workshop' type environment that encourages informal discussion
- Address key ITaC related concerns and challenges for Clearing Members



Clearing Member and software provider contribution to the discussions is vital to the success of these sessions

Agenda



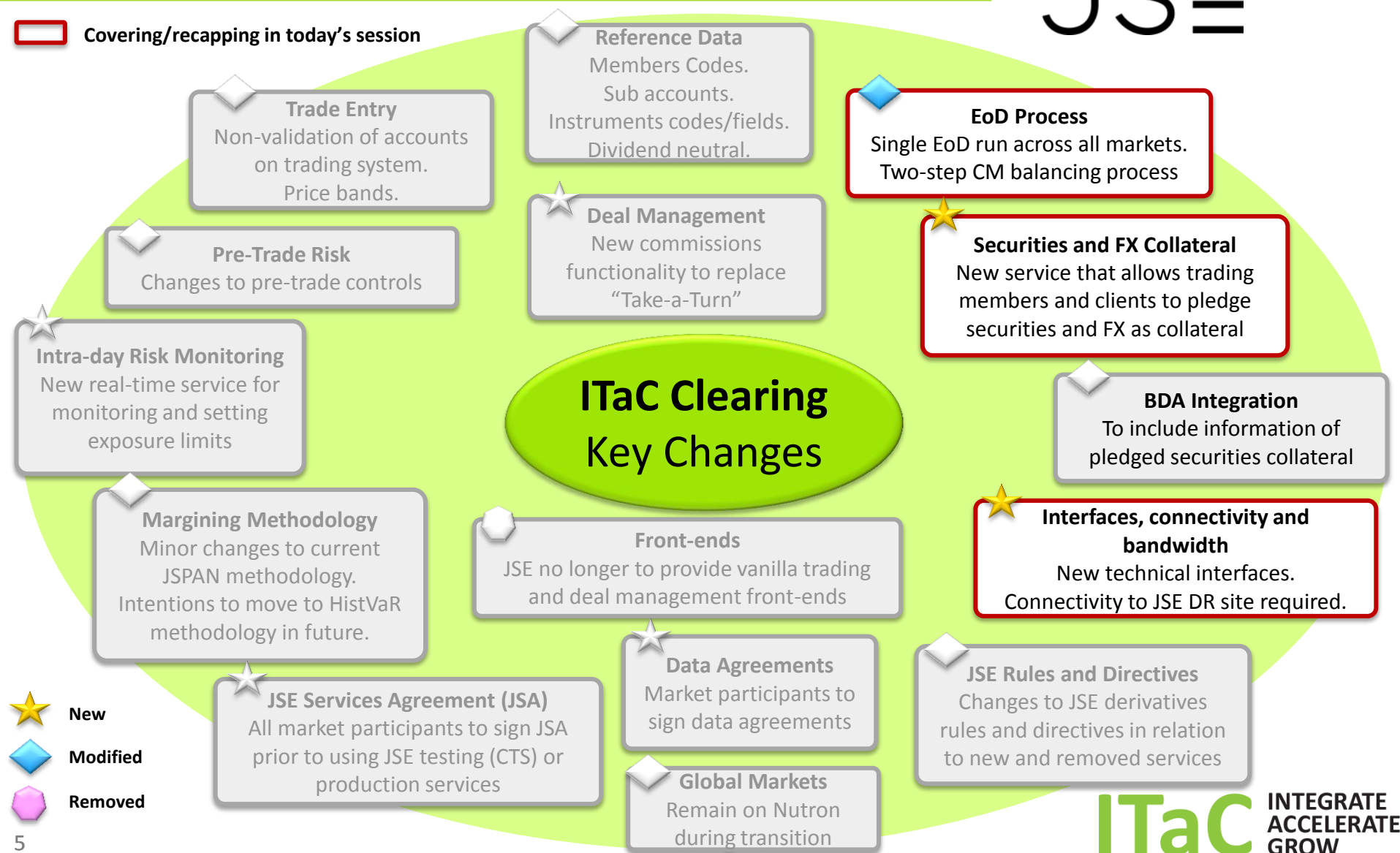
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ITaC Clearing Changes

Summary of key changes and new services



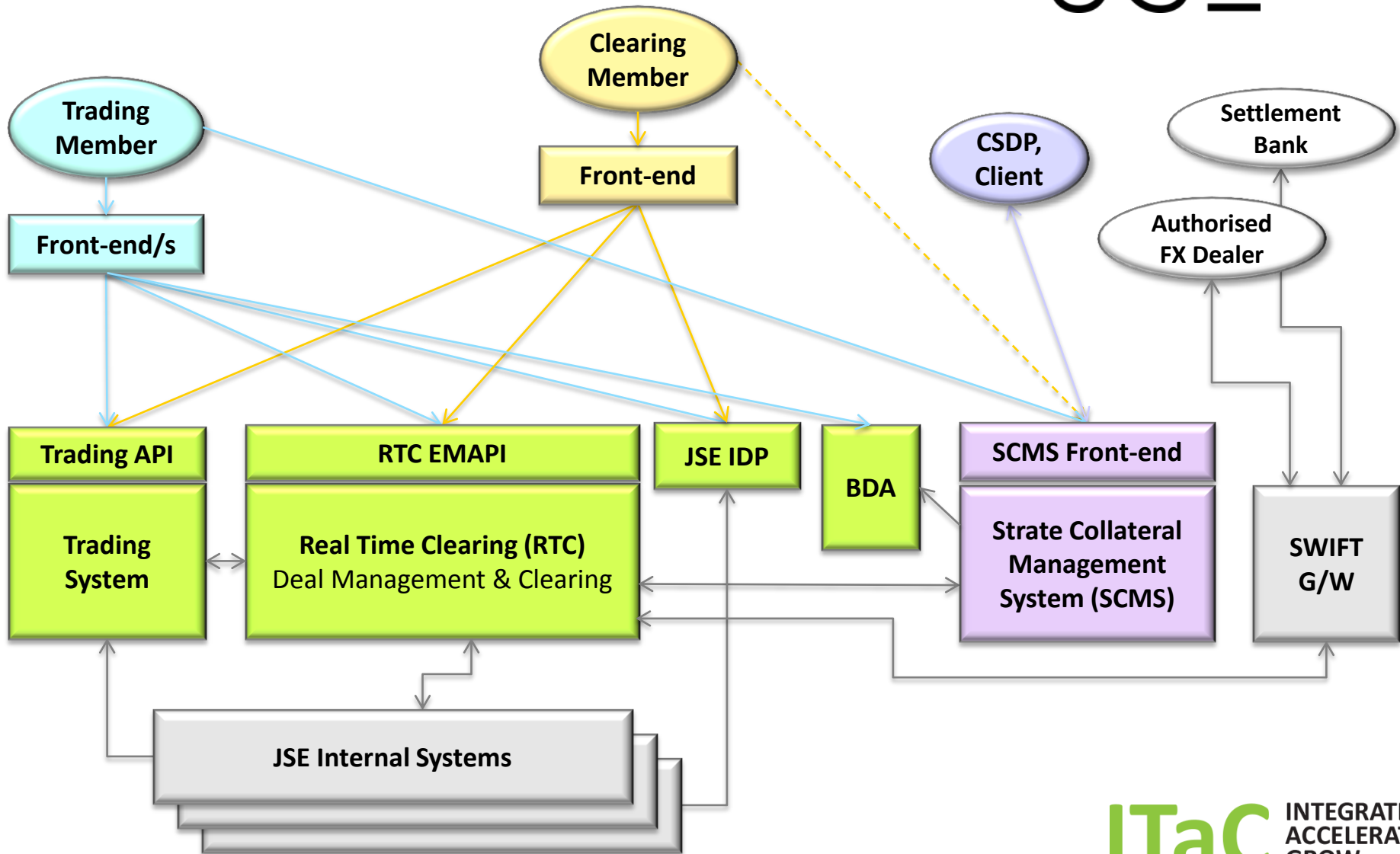
 Covering/recapping in today's session



ITaC Systems

Post-trade perspective

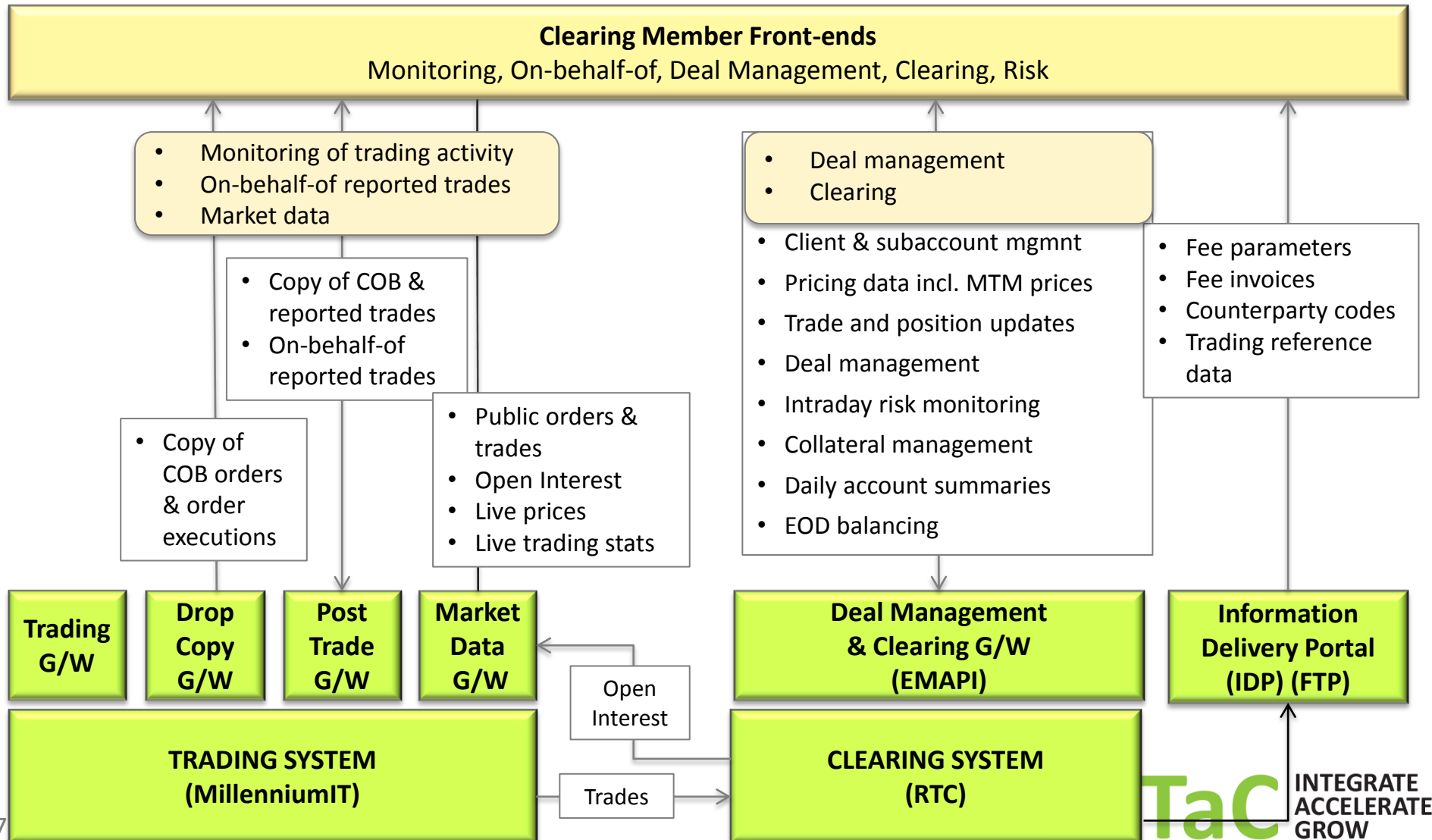
JSE



ITaC Systems Interfaces

Post-trade perspective

JS



System Interfacing for Clearing Members

JSΞ

FUNCTION

SYSTEM

- A) Clearing & settlement (including risk and collateral)
- B) On behalf of deal management (allocations, assigns, tripartites etc.)



Deal Mgmt &
Clearing System
(RTC)

- C) Real-time order & trade monitoring and market data
- D) On behalf of trade reporting (book, accept, reject reported trades)

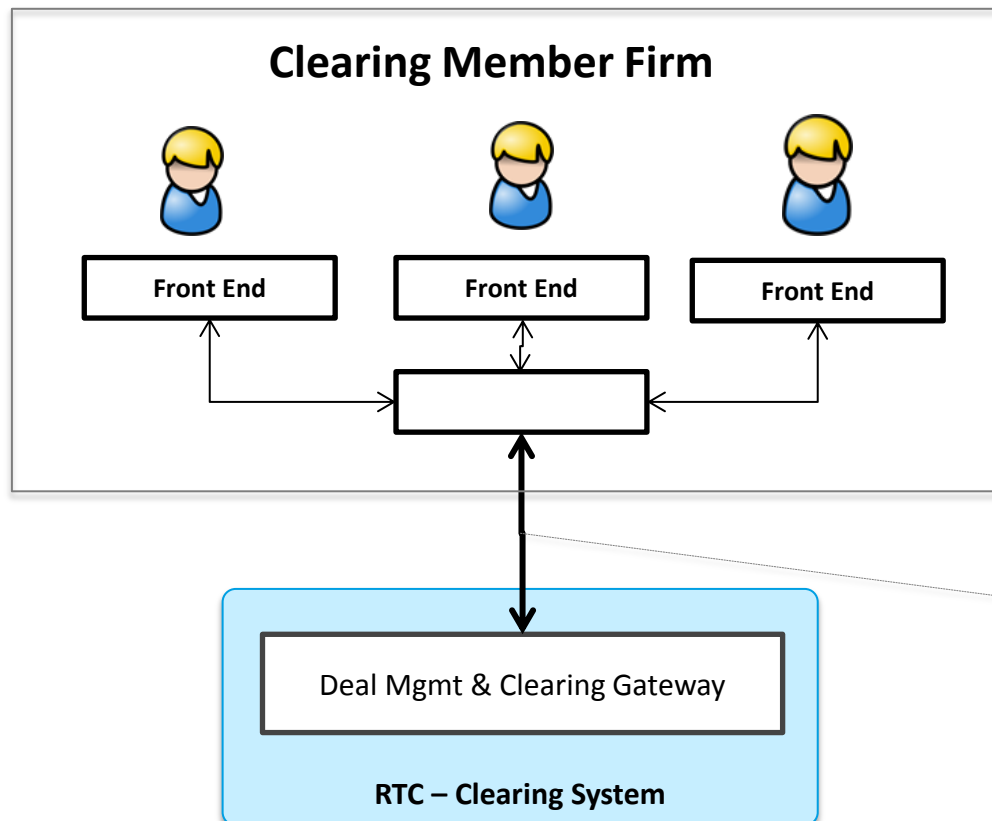


Trading System
(MillenniumIT)

System Interfacing for Clearing Members

JS

- A) Clearing & settlement (including risk and collateral)
- B) On behalf of deal management (allocations, assigns, tripartites etc.)

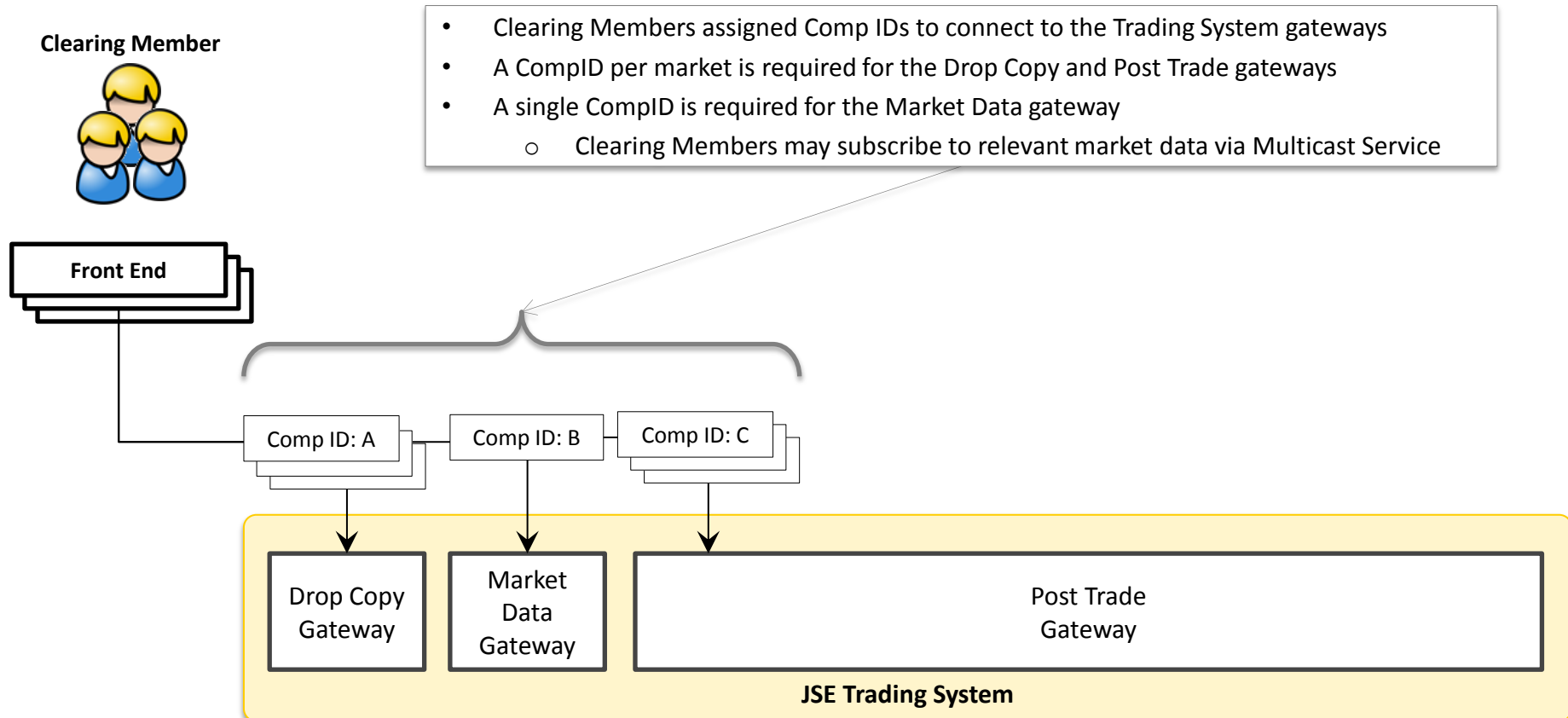


Clearing Member front-ends establish a single technical connection through which all their users interact with the Clearing System

System Interfacing for Clearing Members



C) Real-time order & trade monitoring and market data

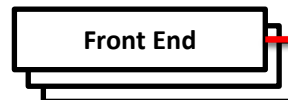


System Interfacing for Clearing Members



D) On behalf of trade reporting
(for trading members)

Clearing Member



Trading Member A



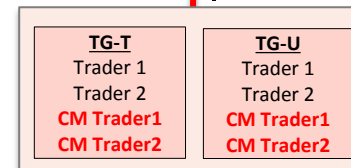
Front End

Trading Member XXX



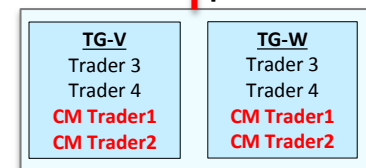
Front End

- Clearing Members assigned a CompID for each Trading Member for whom they are doing on behalf of reported trades for
- Clearing Member users assigned to each of the Trading Members trader groups (branches)



Comp ID: D

Comp ID: E



Comp ID: F

Comp ID: G



— Trading system interfacing for performing on-behalf-of reported trades

System Interfacing for Clearing Members

JSE

D) On behalf of trade reporting
(for direct clients)

Clearing Member



Front End

Trading Member C



Front End

- Clearing Members assigned a CompID under their Trading Member firm
- Clearing Member users assigned to exclusive trader groups (branches) isolated from other Trading Member groups (branches)



Comp ID: H

Comp ID: I

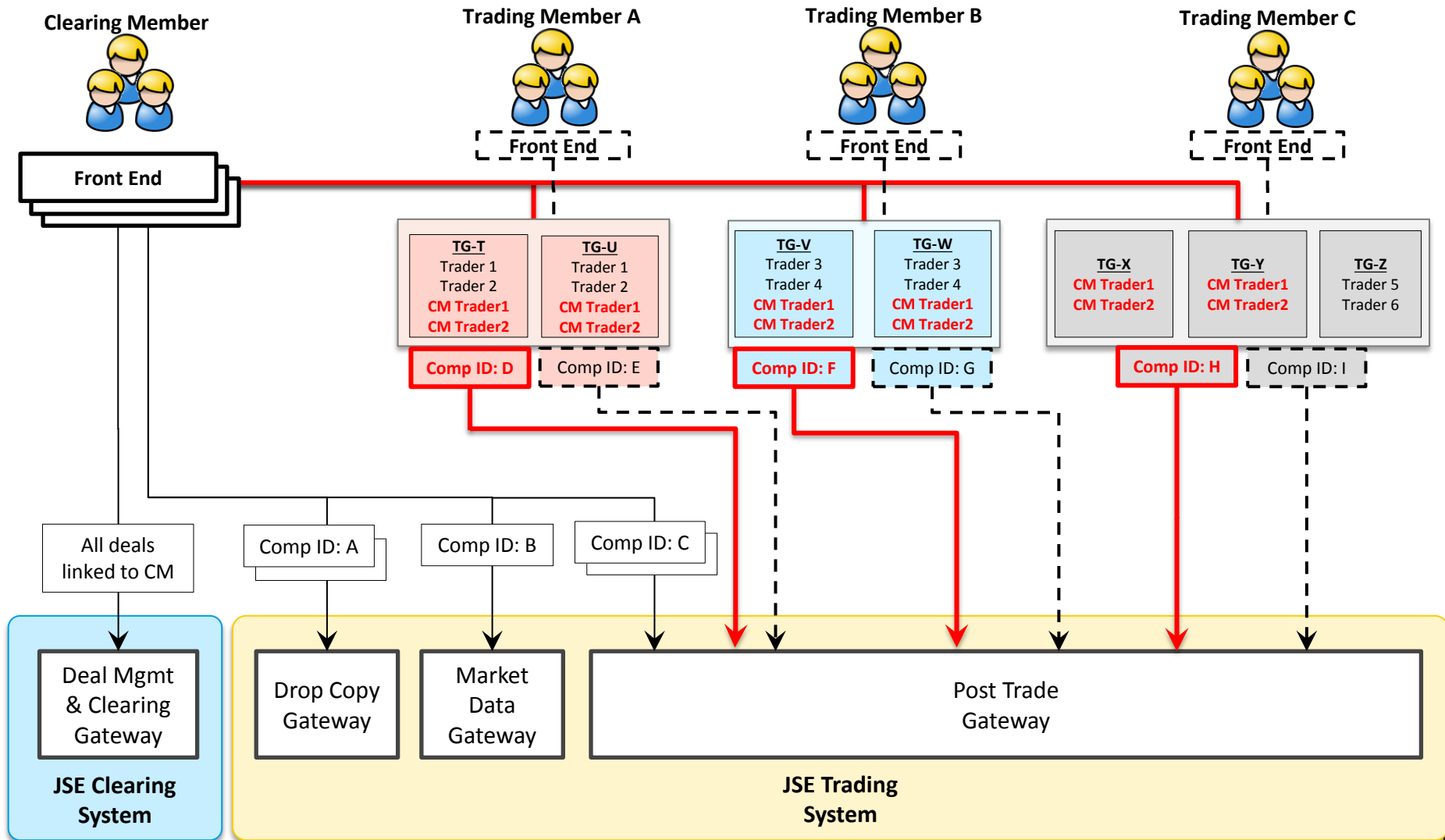


— Trading system interfacing for performing on-behalf-of reported trades

mac ACCCELERATE GROW

System Interfacing for Clearing Members

Trading and Clearing Systems – Overall

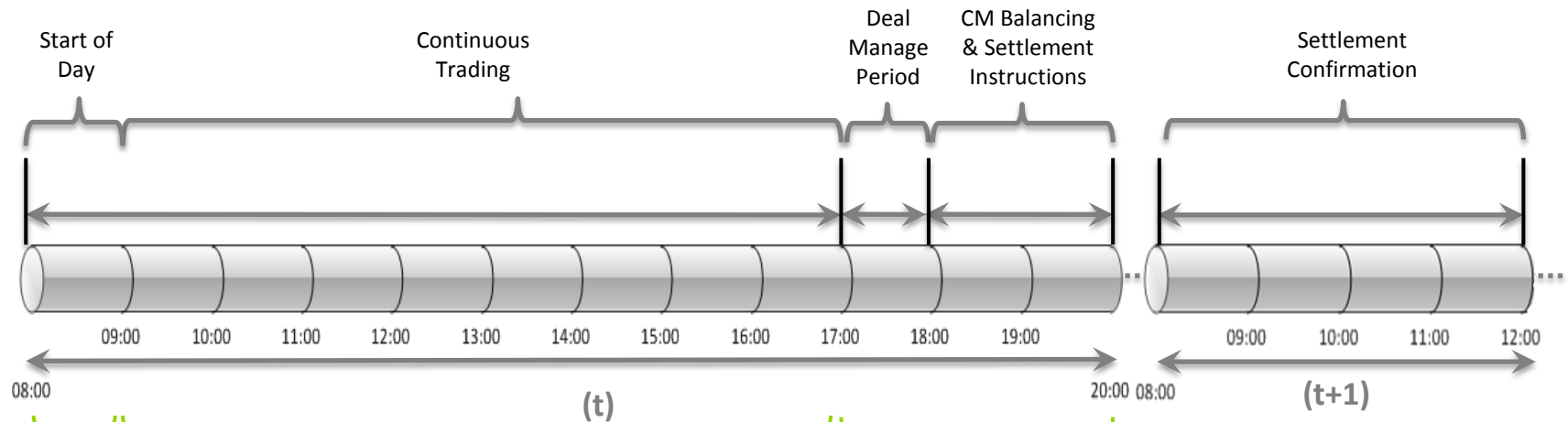


— Trading system interfacing for performing on-behalf-of reported trades

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Daily Clearing Lifecycle

Timeline of a typical day



Start of Day (SoD)

- Data Downloads:
 - Instruments
 - MtM Prices (T-1)
 - Public Member Codes
 - Public Branch Codes
 - Fee Parameters

Intra-Day

- Trade, Deal, Position updates
- Deal Management & Commissions
- Collateral – Intra-day Rebalancing
- Intraday Risk Monitoring
- Reference and Pricing Data
- Next-day Trade Reporting
- Publishing of rates
- Early valuations

End of Day (EoD)

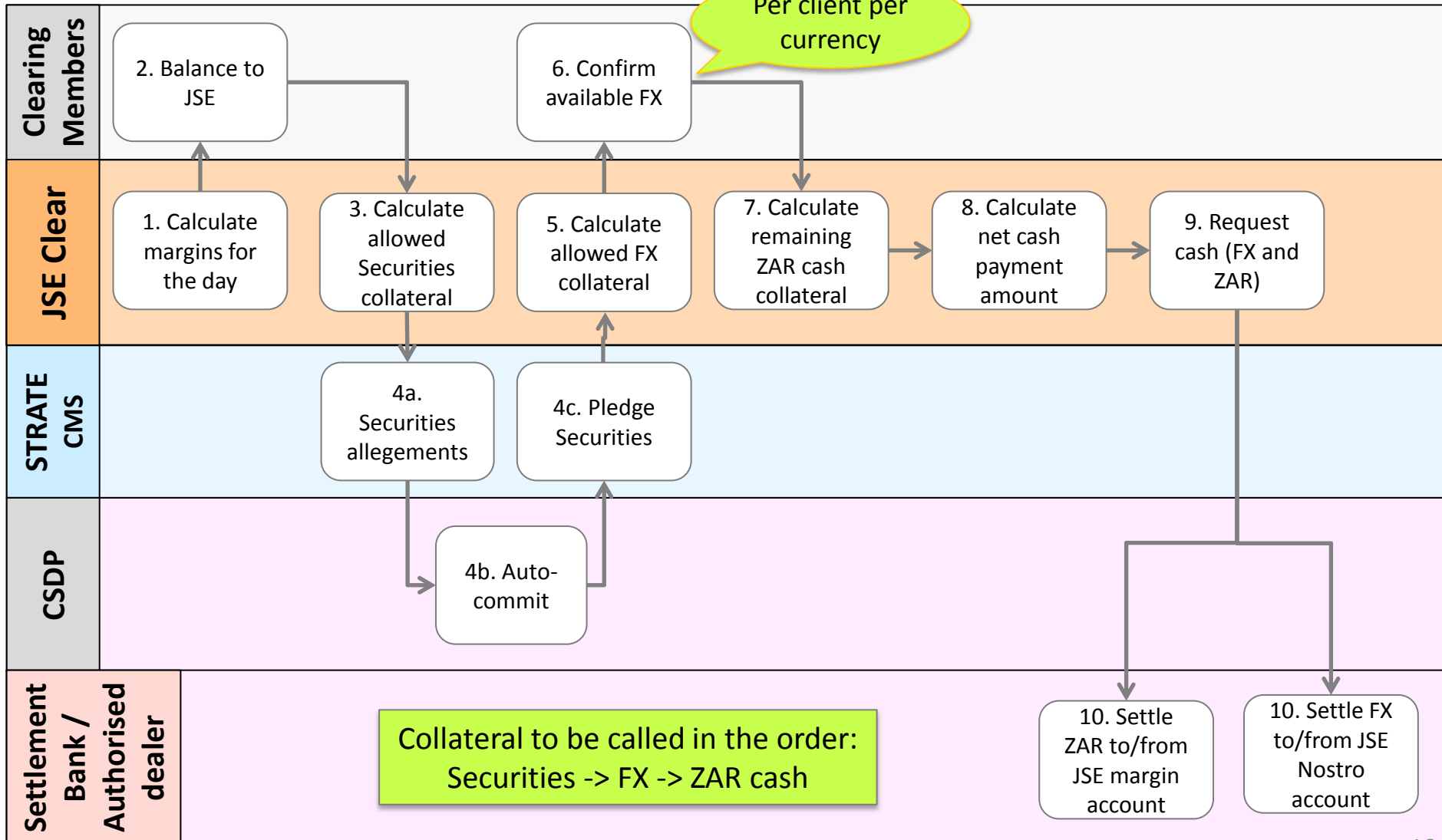
- Final Deal Management & Commission Entry
- Contract Expiries and Allocations (Futures and Options)
- Margin Calculations
- Clearing Member Balancing 1 & 2
- Collateral calls
- Billing
- Payment Instructions
- Default Management
- Position Transfers
- Corporate Actions
- Downloads in prep for next day

Next Day

- SWIFT Payment Confirmations

Daily Clearing Lifecycle

End of Day



Entity and Account Structure

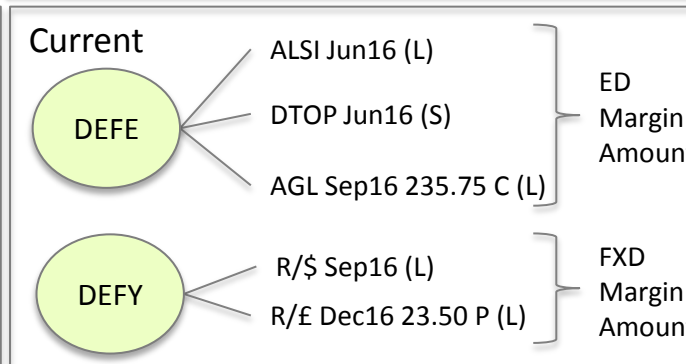
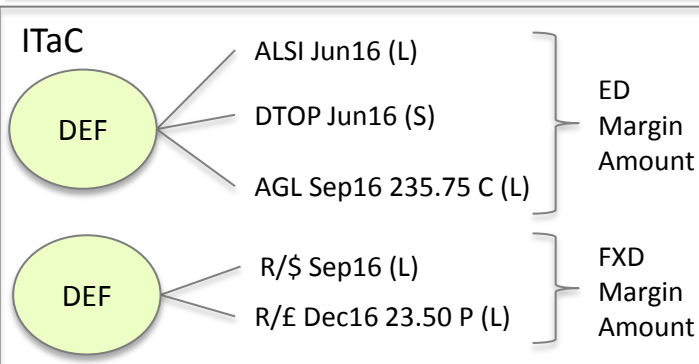
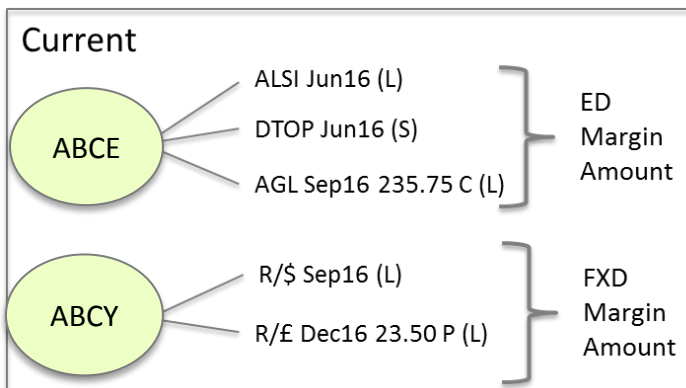
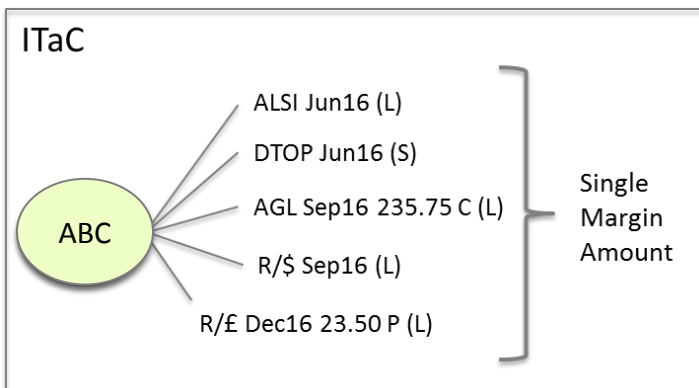
Consolidation of markets & Trading Member codes



Firm	Market	CM	TM Code (ITaC)	Current TM code (Nutron/Nuclears)
ABC Securities	ED	CM1	ABC	ABCE
ABC Securities	FXD	CM1	ABC	ABCY
DEF Securities	ED	CM2	DEF	DEFE
DEF Securities	FXD	CM3	DEF	DEFY

TM 'ABC' clears through one CM

TM 'DEF' clears through two different CMs



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Collateral Management

Principles for acceptance of non-cash collateral



- Securities collateral accepted for the following:
 - Initial margin including add-ons (liquidity and large position)
 - Settlement margin
 - Default fund contributions – to be confirmed
- Securities collateral not accepted for the following:
 - Additional margin – legal constraint
 - Variation margin – this is always ZAR cash
- Minimum percentage of collateral in ZAR cash
 - Set by the Clearing House against all accounts
 - Clearing Member can set a lower % on Trading Member and clients
 - Trading Member can set a lower % than Clearing Member on their clients

Collateral Management

Principles for acceptance of non-cash collateral (cont.)

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- Securities to be accepted
 - Liquid Government Bonds
 - Other securities will be considered in future
- Haircuts on securities collateral
 - Calculated using a stress testing methodology
- Valuation of collateral
 - Valued daily according to current market convention

Collateral Management

Principles for acceptance of non-cash collateral (cont.)



- Pledge mechanism will be used for collateral management
- Trading Members and clients will pledge directly to the Clearing House
- Committing by CSDPs
 - It is envisaged that the CSDPs will need to auto commit to the pledge instructions – details being discussed with the CSDPs

Collateral Management

Principles for acceptance of non-cash collateral (cont.)



- The solution caters for the portability of Trading Member and Client accounts
 - Trading Member
 - Transfer Trading Members and their portfolio positions and collateral from one or several Clearing Members to one or several Clearing Members
 - Client
 - Transfer a Client and all its portfolio positions and collateral to a new Trading Member

The previous Trading Member or Clearing Member will be responsible until the morning of the effective date after which the new Trading Member or Clearing Member will be responsible. That EOD the collateral will reflect under the new Trading Member or Clearing Member

Collateral Management

Principles for acceptance of non-cash collateral (cont.)



- Foreign currency collateral
 - The JSE is engaging regulators to discuss necessary regulatory approvals required for accepting foreign currency cash collateral
 - It is expected that this will only be permitted for non-residents
- Securities Collateral
 - The JSE is in discussions with the regulators to change the Insolvency Act to give protection to JSE Clear
- JSE Rules and Directives
 - Will be updated to cater for the acceptance of non-cash collateral; Clearing members will be consulted

Collateral Management

Segregated Depository Accounts (SDA)

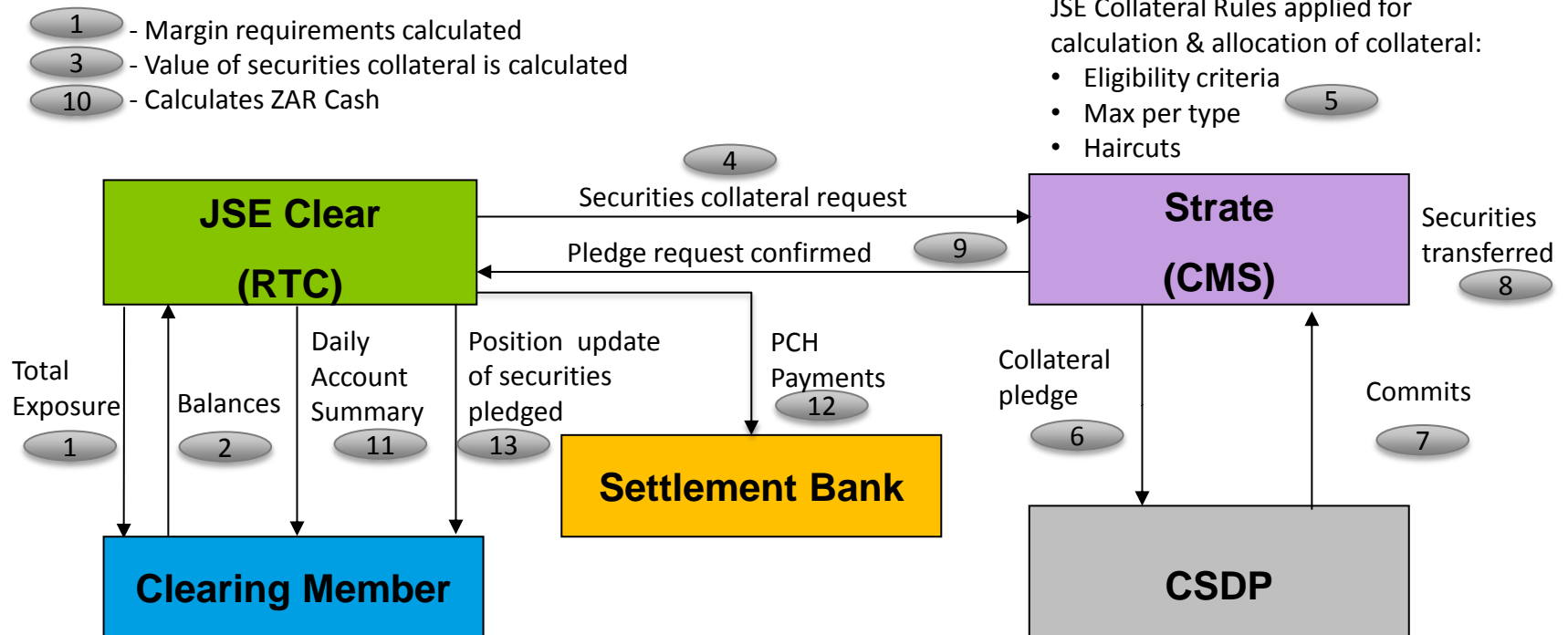


- Client enablement
 - A Segregated Depository Account (SDA), which is an account at the Central Securities Depository (CSD) - Strate, will be loaded against either the Clearing Member, Trading Member or Client account.
 - Collateral Agreements will have to be completed and signed

The loading and verification process for SDAs will be covered in a future session

Collateral Management

Processes - EOD Flow – securities collateral

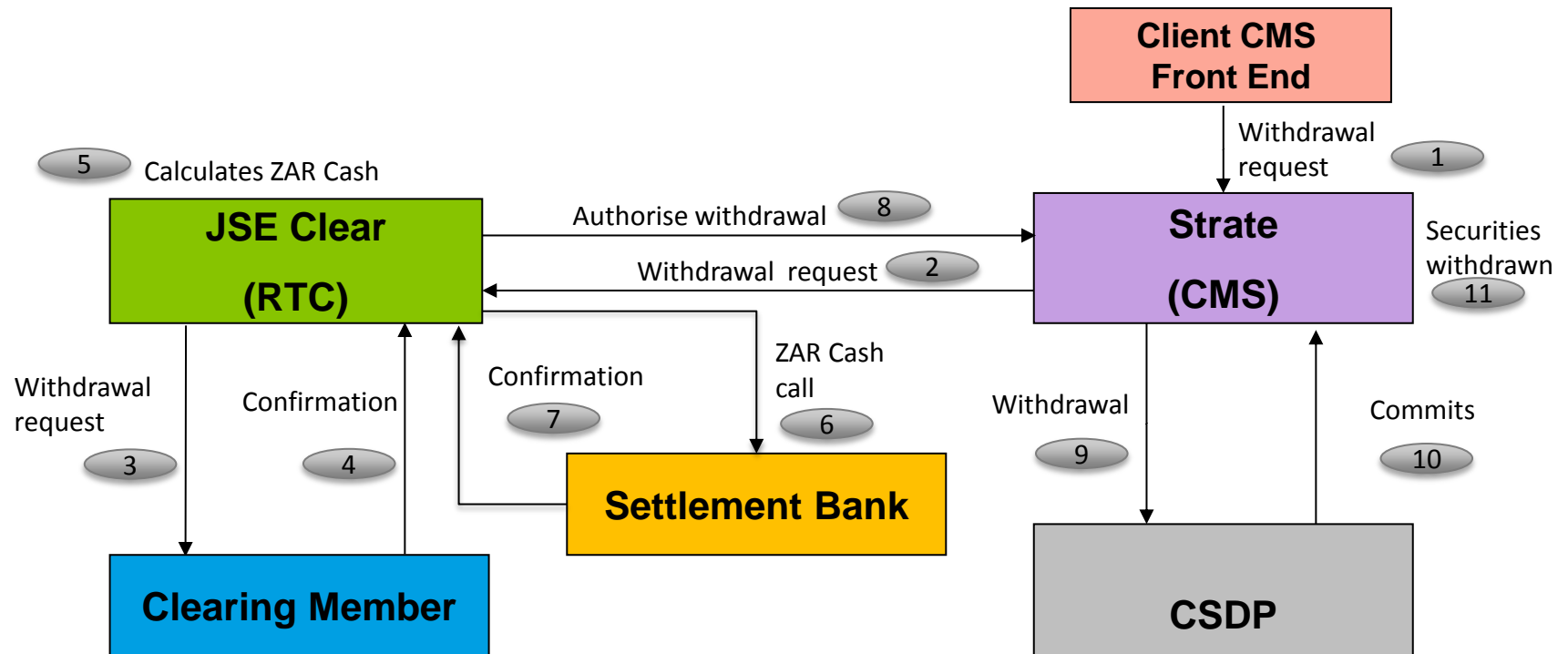


Note:

Exposures recalculated and resent daily

Collateral Management

Processes - Withdrawals – securities collateral

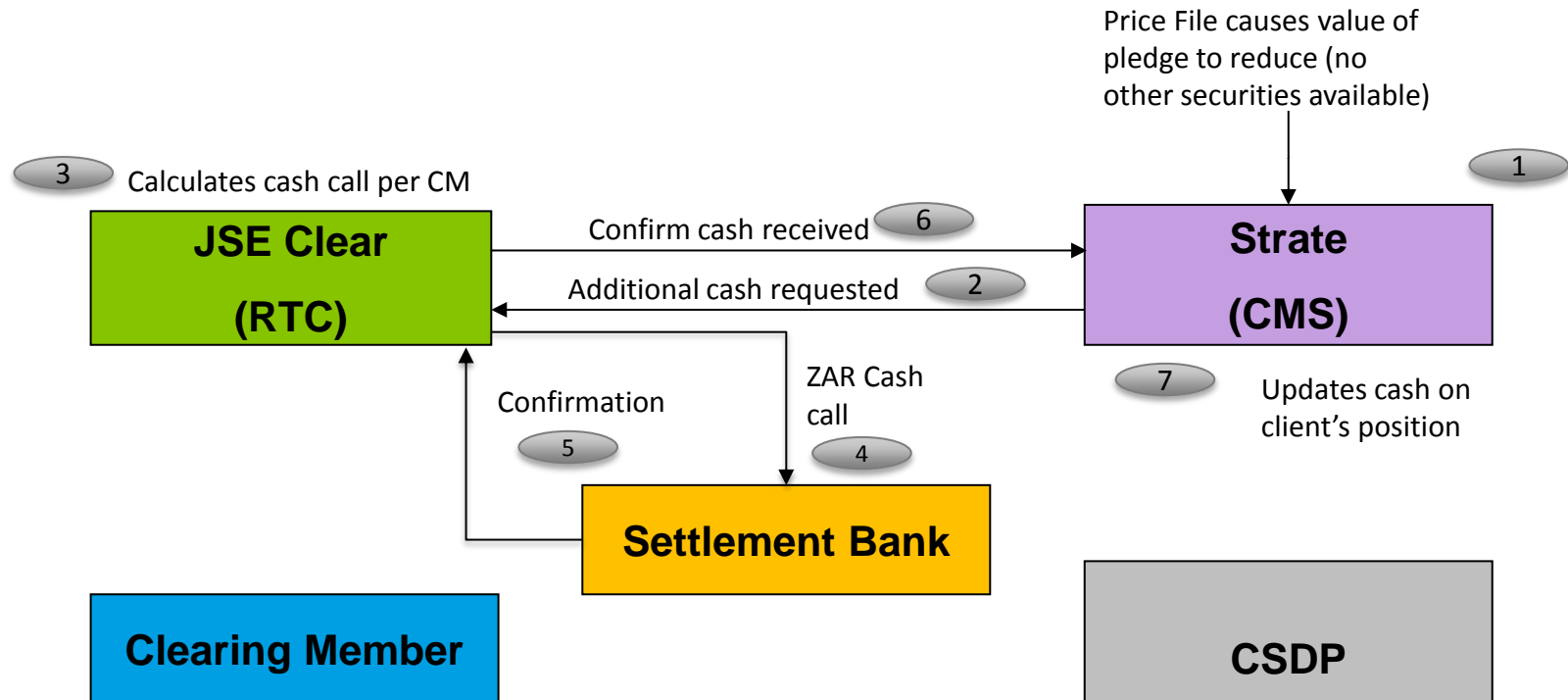


Note:

1. Need to agree timing – cut-off times

Collateral Management

Processes – Request for more cash (value of securities drops & no other securities available)



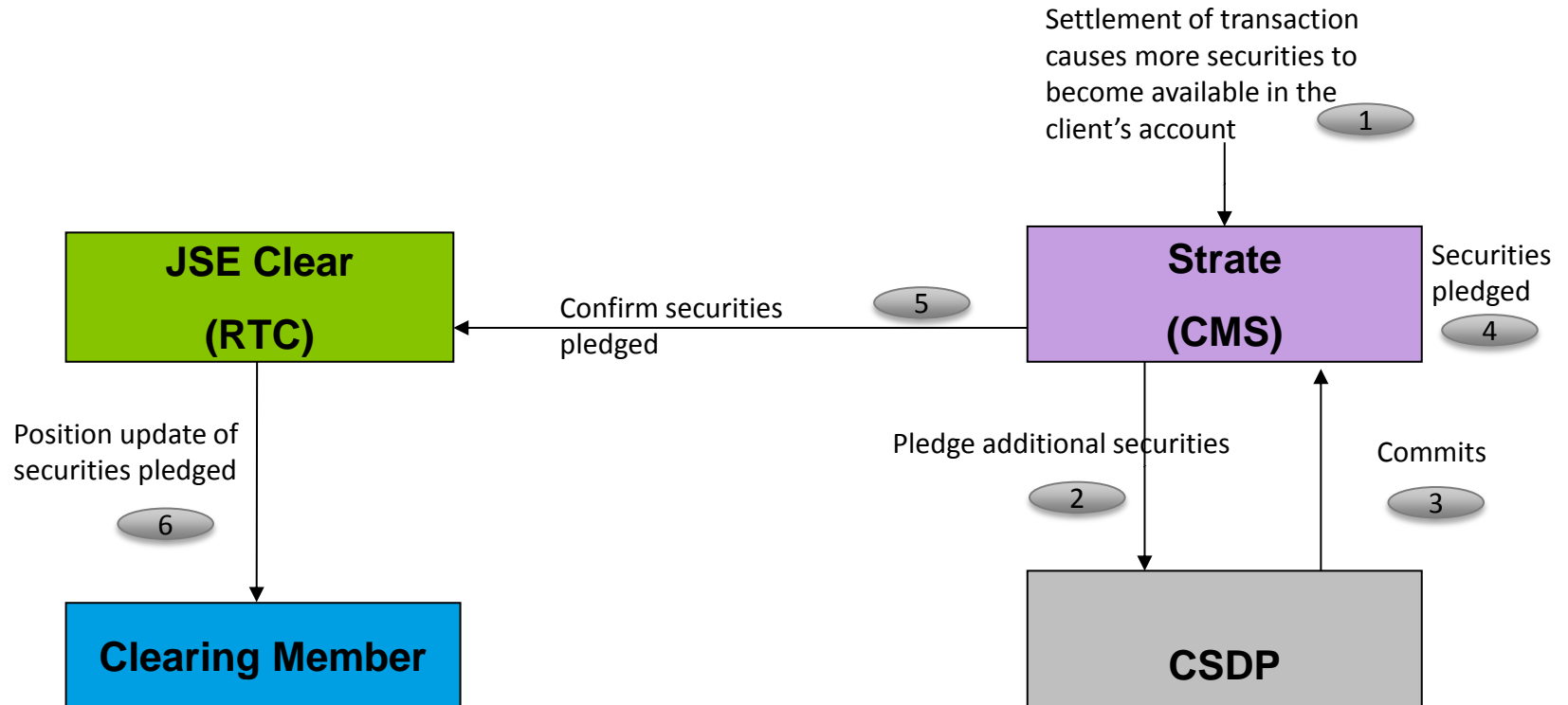
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Collateral Management

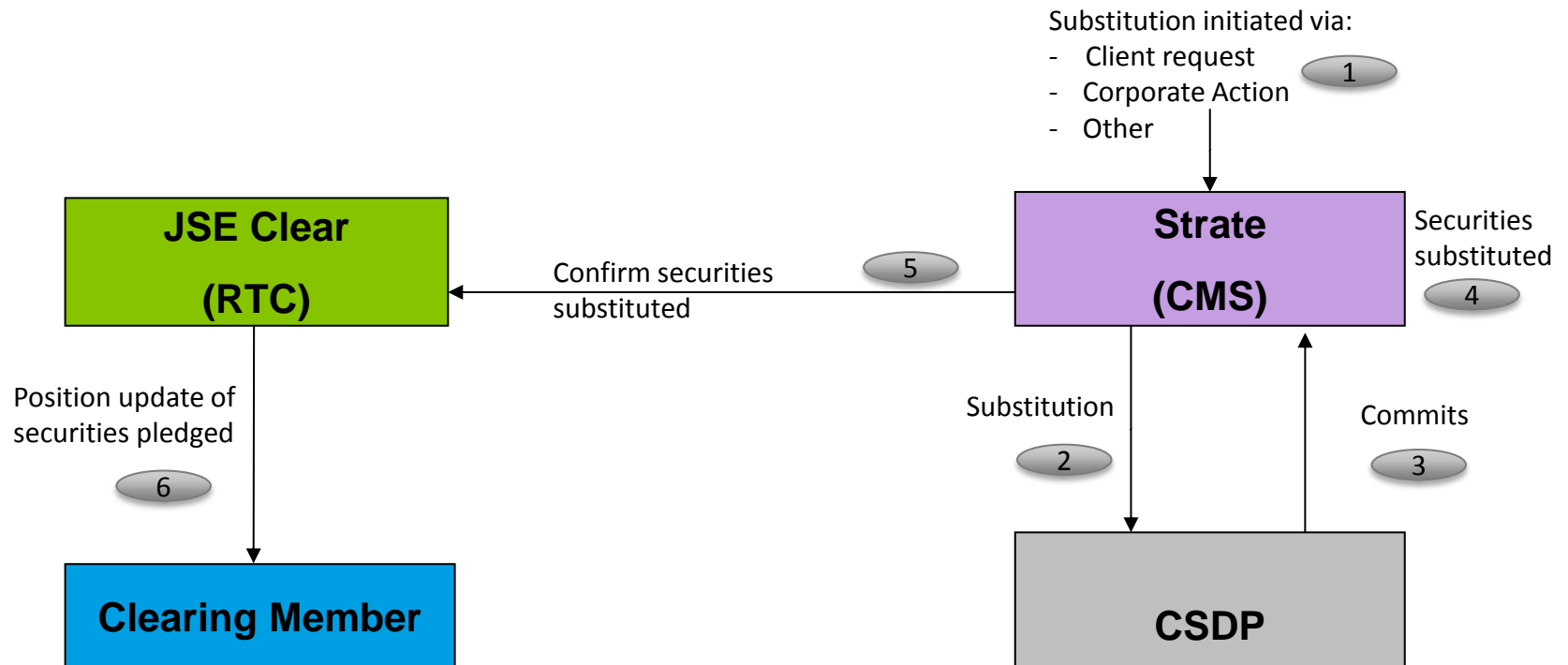
Processes – More securities become available

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Collateral Management

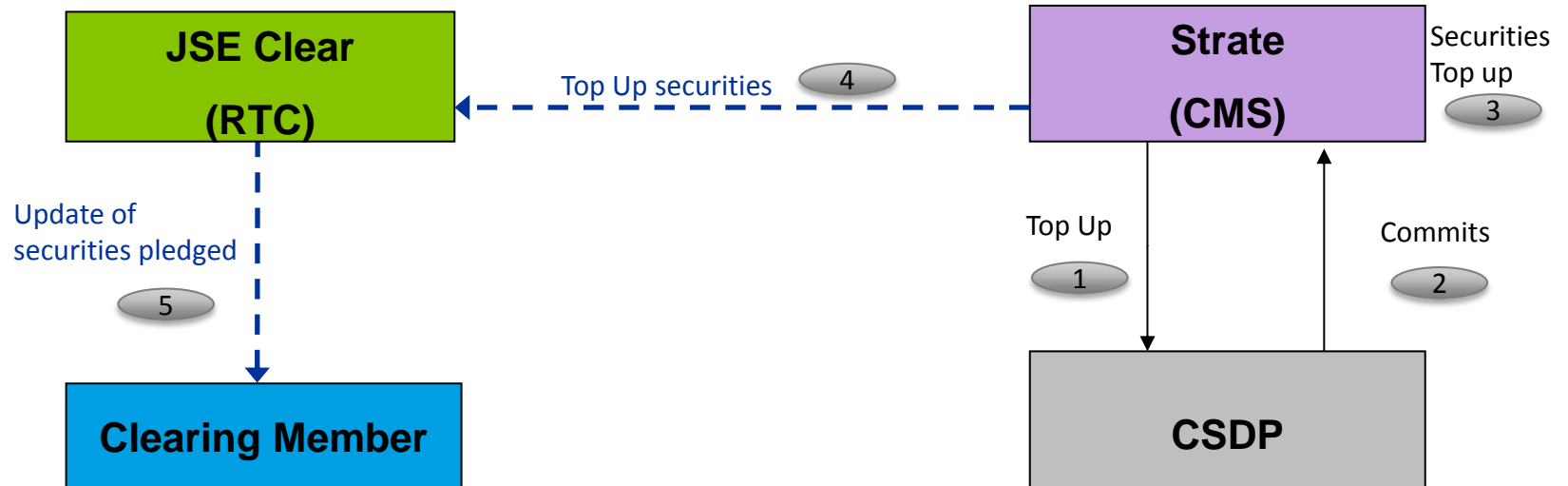
Processes - Substitutions – securities collateral



Collateral Management

Processes - Top Up – securities collateral

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Collateral Management

Currency collateral



- Emap message sent to the Clearing member with total rand exposure and exchange rate
- Clearing Member system calculates currencies to be placed as collateral – must check clients accounts for holdings
- Clearing Member sends message back to RTC with currency amount
- RTC will generate a message to the Clearing Members Authorised Dealer to pay currency to JSE Clear

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User Readiness

Post-Trade Customer Test Service (CTS)



- Post-Trade CTS was launched on 30 August
- This environment facilitates development and testing to the RTC EMAPI for deal management and clearing
- To gain access to the new RTC CTS environment
 - Complete and sign the **JSE Services Agreement (JSA)** including Post-trade services CTS Order Form
 - Complete **enablement order form**
 - Environment **IP address and port** information for the RTC CTS can be requested from the Client Services Centre (CSC)
 - As per JSA Schedule 2G, enablement forms will be processed within a **7 business day Service Level Guideline (SLG)**

For additional details clients can refer to Service Hotline 178/2016 published 30 Aug 2016

User Readiness

Clearing Member UAT



- **Details of the approach:**

- We will not be doing parallel testing
- We will be doing scripted testing
- Business scenarios and test conditions will be created by JSE - workshopped with the members (with sign-off)
- UAT to start Q1 2017
- After each cycle members will have sign-off a test certificate
- Project Manager nominees
- Test Manager nominees

User Readiness

General



- Project manager contact details
- Software provider showcase day – 6 October 2016
 - The purpose of the software provider showcase day is to provide an opportunity for members to engage with software providers to understand the functionality and services they offer to meet your trading, deal management and clearing requirements
 - The JSE will be publishing the list of vendors participating in the showcase day in the next two weeks
- The next Clearing Member working group is planned for 29 September 2016
 - Agree topics for next session

Questions?

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This presentation will be available post this session at the following link:- <https://www.jse.co.za/services/itac>