



Integrated Trading & Clearing (ITaC) Working Group

Derivative Clearing Member focus

23 November 2016

Agenda



- Welcome and recap of objectives
- ITaC User Acceptance Testing (UAT) for Clearing Members
 - High-level test scenarios and test scripts
- ITaC reference data for Clearing
 - Firm codes and client codes
- Default Management
 - Default of a client
 - Default of a trading member
- End-of-day reruns

Objectives



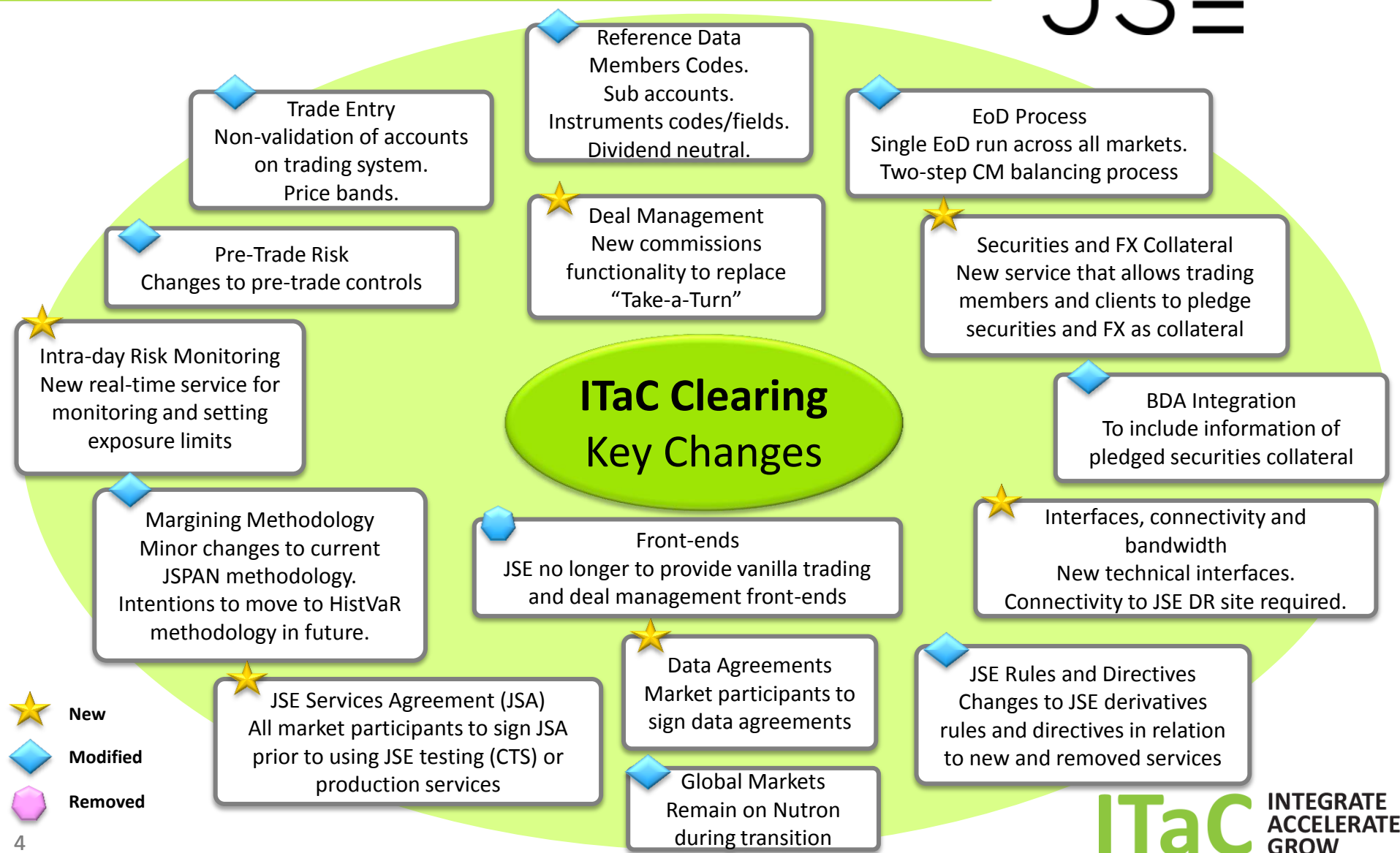
- A series of dedicated Clearing Member workshops that focus on the key changes as a result of the JSE ITaC project
- Create a 'workshop' type environment that encourages informal discussion
- Address key ITaC related concerns and challenges for Clearing Members



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

ITaC Clearing Changes

Summary of key changes and new services



User Acceptance Testing

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 H1 2017
 - After each cycle members will have to sign-off a test certificate
 - Test Manager meetings – daily/weekly/fortnightly

User Acceptance Testing

Conformance testing



- Software must pass Conformance testing on CTS before going into UAT
- Currently finalising the exist criteria that must be achieved

User Acceptance Testing

Clearing Member UAT



- Aligning reference data
 - 2 Trading Members per Clearing Member unless a self clearer
 - 10 clients per Trading Member
 - Branches
 - Sub accounts
 - Instruments – Equity and Currency Futures and Options, eCFDs etc.
 - CSG and SSG
 - Initial Margin
 - Cash accounts
 - Securities Collateral Account code
 - Nostro accounts for currency collateral

User Acceptance Testing

Clearing Member UAT - Scenarios



- Trades – JSE will load trades for testing
- Tripartites
- Deal Management
- EOD balancing
 - Initial Margin
 - Variation Margin
 - Large exposure Add-on Margin
 - Liquidation period Add-on Margin
 - Additional Margin (Clearing Member to update RTC)
 - Settlement Margin (physical deliveries)

User Acceptance Testing

Clearing Member UAT - Scenarios



- EOD balancing (cont.)
 - Funding Interest (CFDs)
 - Dividends
 - Booking fees
 - Commissions
- EOD rerun
- Ad-hoc intra-day margining

User Acceptance Testing

Clearing Member UAT - Scenarios



- Securities Collateral – Intraday and EOD
- Currency Collateral – Intraday and EOD
- Month-end Interest calculations
- Risk and collateral fees –
 - ZAR cash collateral
 - Securities Collateral
 - Currency Collateral
- Any day close out
- Futures close out
- Portability

User Acceptance Testing

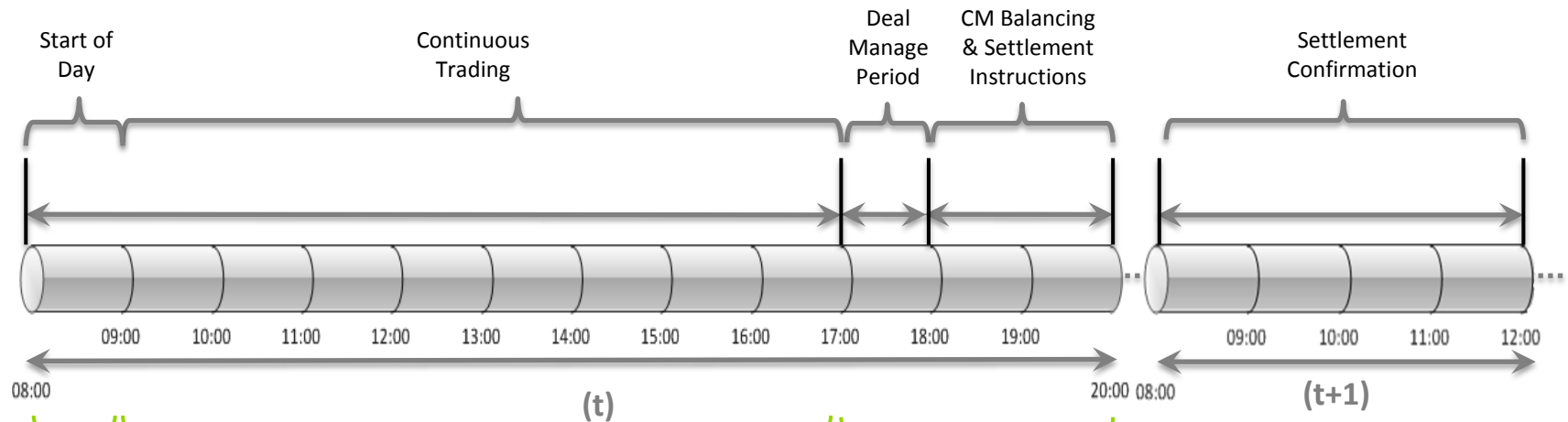
Clearing Member UAT - Scenarios



- Payments through JSE Clear PCH
- Reports
 - Daily Account Summary
 - Daily Margin
 - Physical Deliveries
- Default Management
 - Client
 - Trading Member
 - Clearing Member

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)

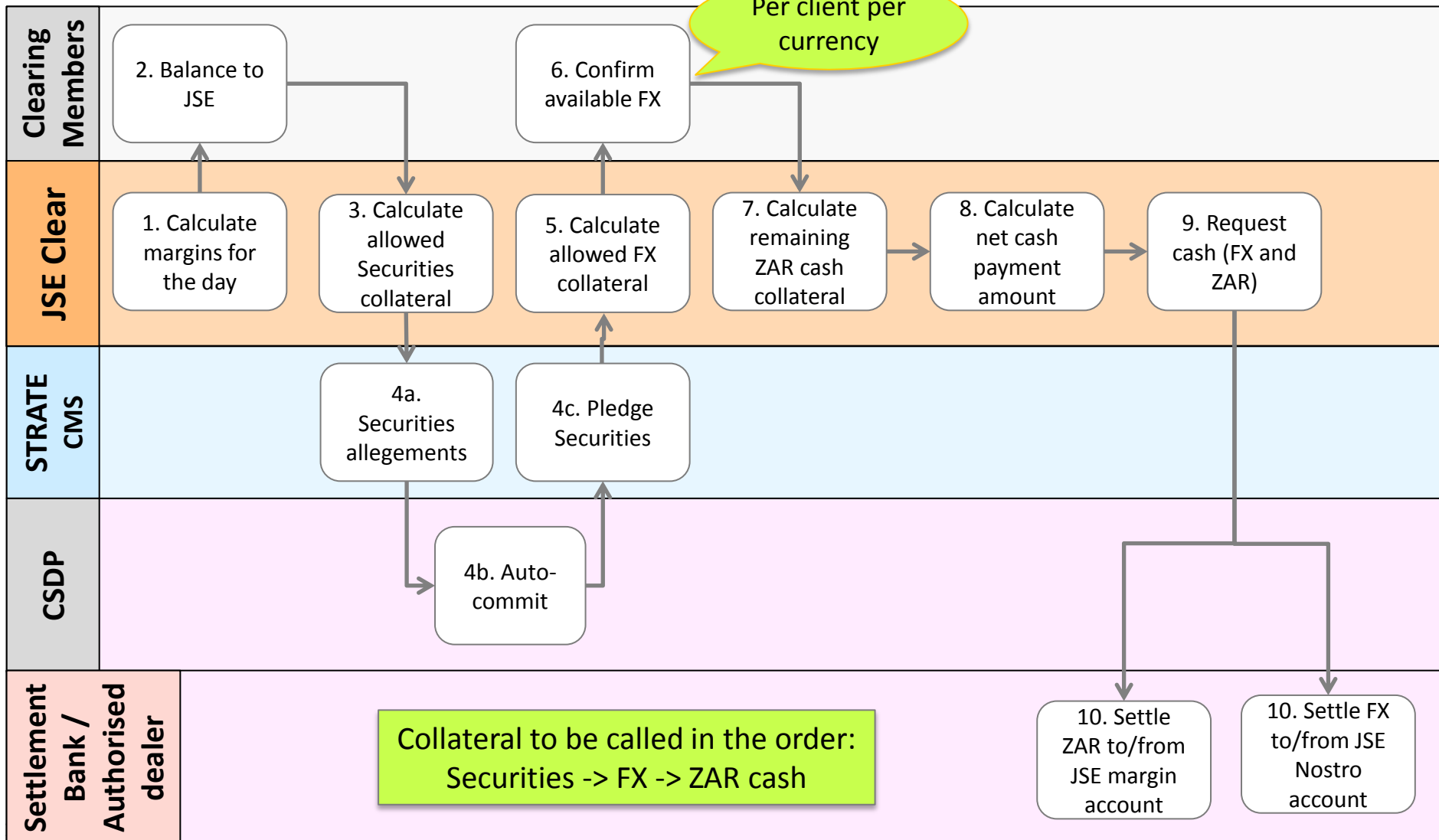
- Final Deal Management & Commission Entry
- Contract Expiries and Allocations (Futures and Options)
- Margin Calculations
- Clearing Member Balancing 1 & 2
- Collateral calls
- Billing
- Payment Instructions
- Default Management
- Position Transfers
- Corporate Actions
- Downloads in prep for next day

Next Day

- SWIFT Payment Confirmations

Daily Clearing Lifecycle

End of Day



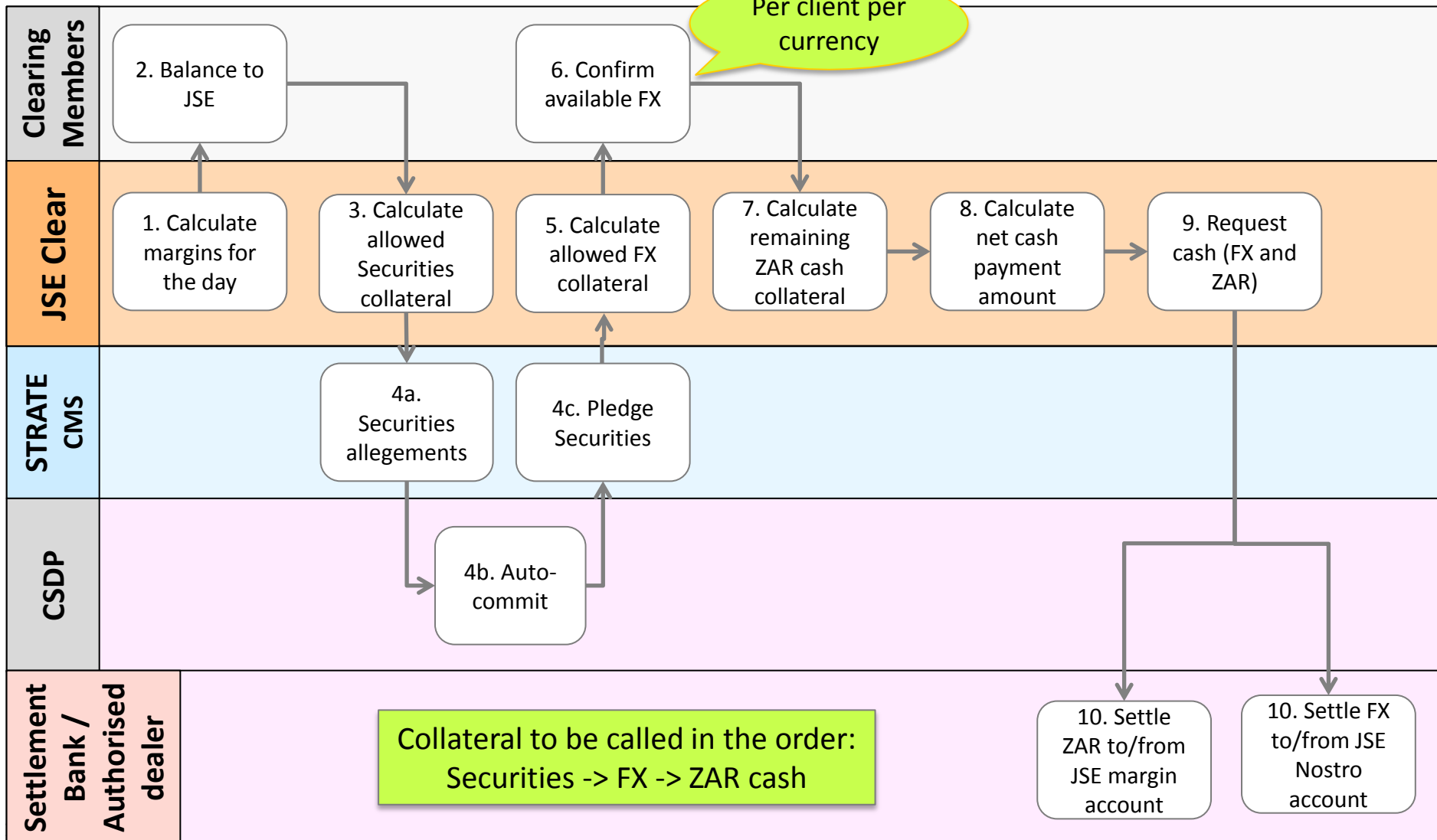
EOD Rerun



- EOD rerun will only be contemplated where there are issues with the “exposure calculation” which covers Initial, Add-on, Additional and Variation Margin
- EOD rerun will not be done where there are booking fee or commission issues. Will be corrected as part of the next EOD run.
- Tolerance levels will apply – if under a certain amount we will not rerun
- Must be done by a certain time – current timeframe is 08h00. Other cases will be considered on a case-by-case basis. EOD has to be rerun before trading starts.
- Further controls will be put in place to ensure that we do not have to do EOD rerun

EOD rerun

Will run an ad-hoc Margin Call run



EOD Rerun



- EOD rerun will not correct changes due to Corporate Actions – these will have to be manually corrected

ITaC Reference data

Trading Member codes



- Member alpha codes currently in production on Nuclears are between 2 and 7 characters long
- In preparation for ITaC
 - Migrate Trading and Clearing Members from Nuclears to central reference data system
 - Members in the different derivatives markets for the same legal entity company will be combined into one trading member going forward
 - This will necessitate the revision of alpha codes to common alpha code and take this opportunity to adopt a standard 3 character alpha code going forward

ITaC Reference data

Clearing Member codes



- At the moment clearing members are defined separately for the Global Markets (CDM and EDM) and the Interest Rate Market
- In preparation for ITaC we will combine clearing members where they are the same legal entity. The new integrated clearing member will take on all the clearing arrangements of its predecessors
- The retiring clearing member will be considered inactive / no longer available in use in ITaC and the surviving clearing member may have to change its alpha code going forward which is currently under discussion
- Preparation will be done Q1 2017 and we will consult with you

ITaC Reference data

Trading Member codes example

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Firm	Market	CM	TM Code (ITaC)	Current TM code (Nutron/Nuclears)	
ABC Securities	ED	CM1	ABC	ABCM	TM 'ABC' clears through one CM
ABC Securities	FXD	CM1	ABC	ABCY	
DEF Securities	ED	CM2	DEF	DEFM	TM 'DEF' clears through two different CMs
DEF Securities	FXD	CM3	DEF	DEFY	

ITaC Reference Data

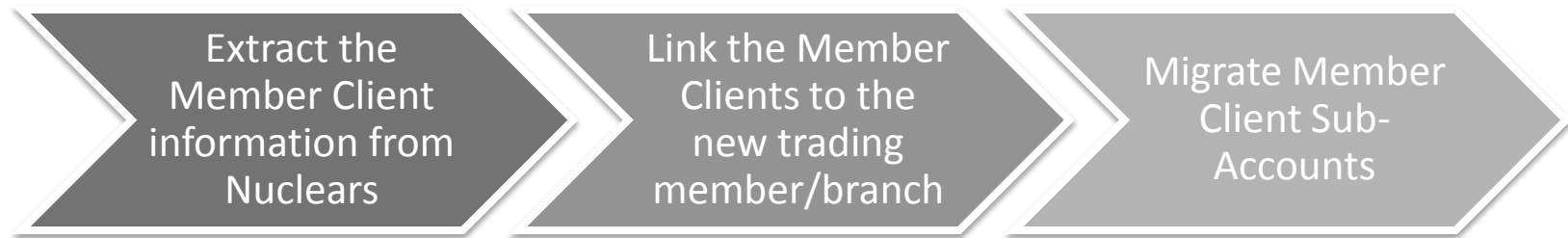
Branches



- Branches will be migrated from Nuclears to the central reference data system in their current state
- The Branches will be associated to the integrated Trading Member
- Branches will be used for deal management in the Clearing system
- The clearing system will use the account code on the trade to determine the allocation of the trade whether to a branch or main member

ITaC Reference data

Member Client



- The Member Client Code will remain unchanged and will be unique'
- Member Client data to be cleaned up as far as possible prior to migrating the data to the new ITaC platform
 - For example duplicates and unused codes removed and incomplete data captured

Default Management

Default of a Client or Trading Member



- We will only be covering the default of a Client or a Trading Member
- Default of a Clearing Member will be covered in the New Year
- We will only cover the operational procedures
- Timing is really good as we are doing a default simulation on 24 and 25 November 2016

Default Management

Client



- 12.10A Default by a client

A client shall default if –

12.10A.1 he fails to fulfil any of his obligations in terms of a trade or a position; or

12.10A.2 the JSE, in its sole discretion, considers that he has defaulted; or

12.10A.3 he is in default with respect to one particular member and the JSE in its discretion decides that he is in default with respect to any other member.

Default Management

Client - Consequences



- 12.20 Consequences of a client's default

Without limiting or detracting from any other remedies and rights which a member may have against a client, in the event of default by a client -

12.20.1 the client shall, save as provided in this rule, be suspended from trading through the member;

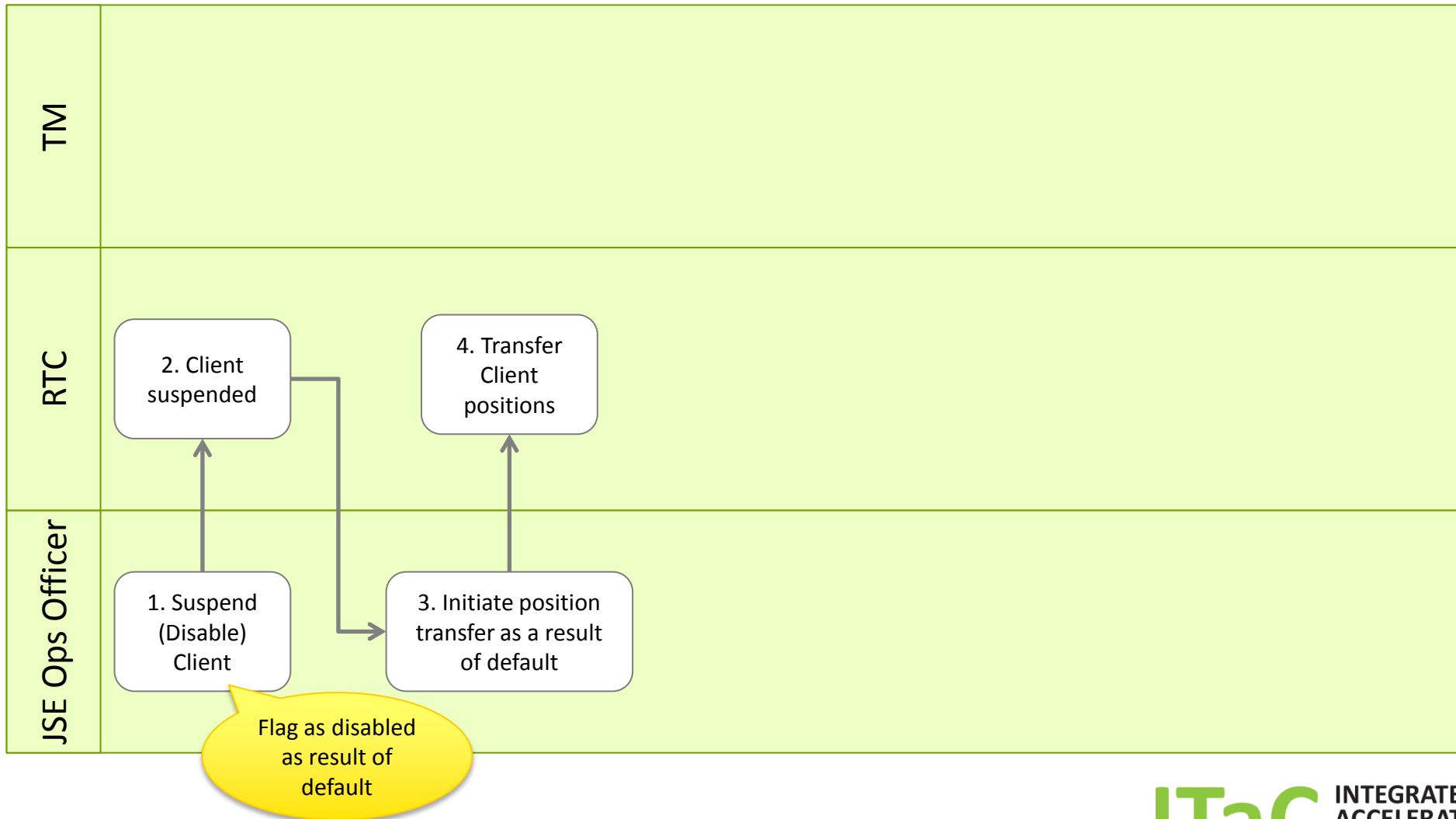
12.20.2 the member shall close out the positions of the client by trading to transfer those positions to himself and for his own account at a price approved by the JSE within two business days or such other period as may be determined by the JSE from the date of default;

12.20.3 any amount payable by the member to the client as a result of such close out or arising from any suretyship, cession, pledge or other security or from any other cause shall be set off against any amount payable by the client in terms of rule 8.90.7;

12.20.4 any shortfall remaining after the application of these derivatives rules shall be recovered from and any balance paid to the client.

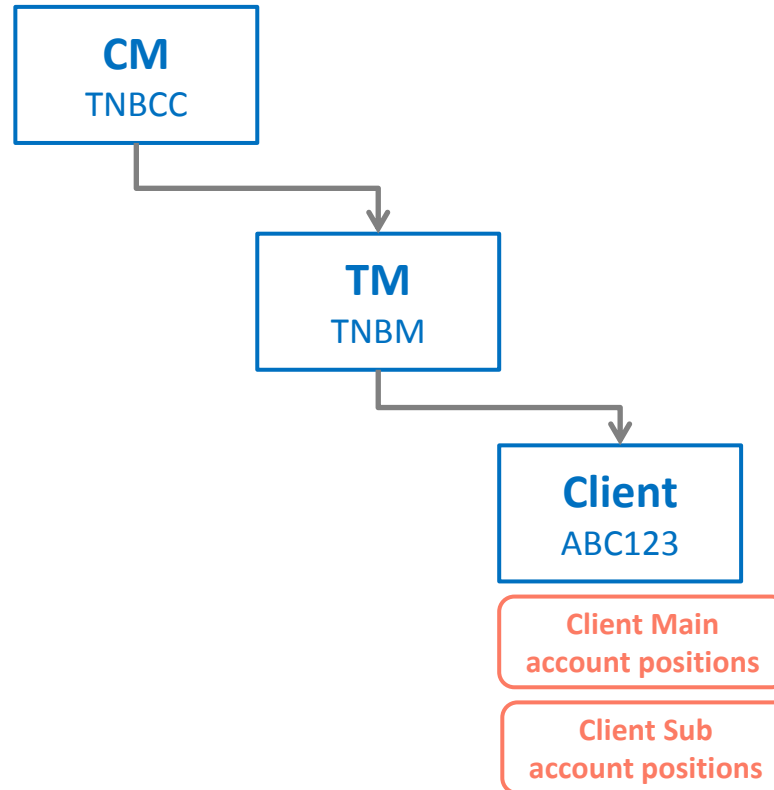
Default of a client

JS



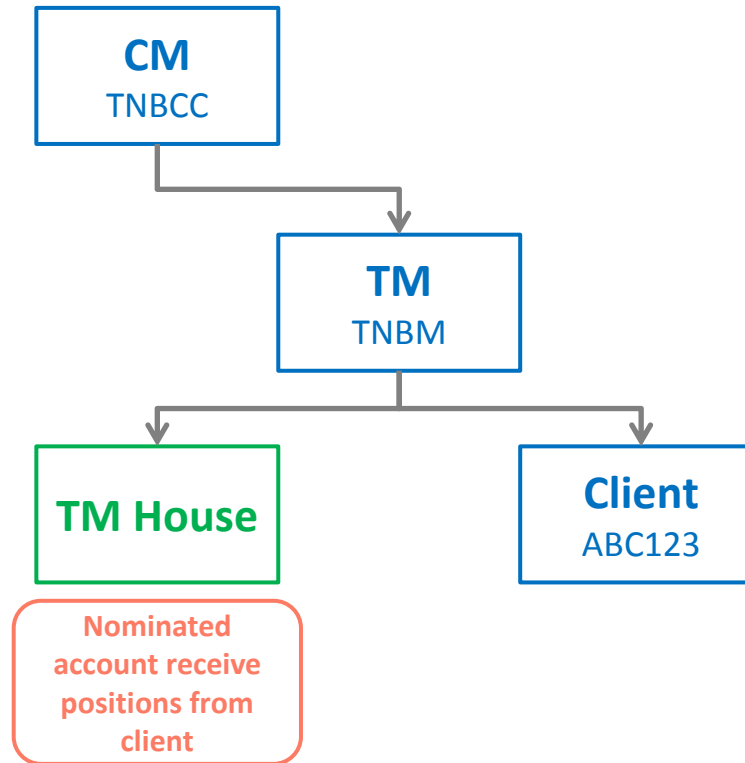
Default of a client (cont.)

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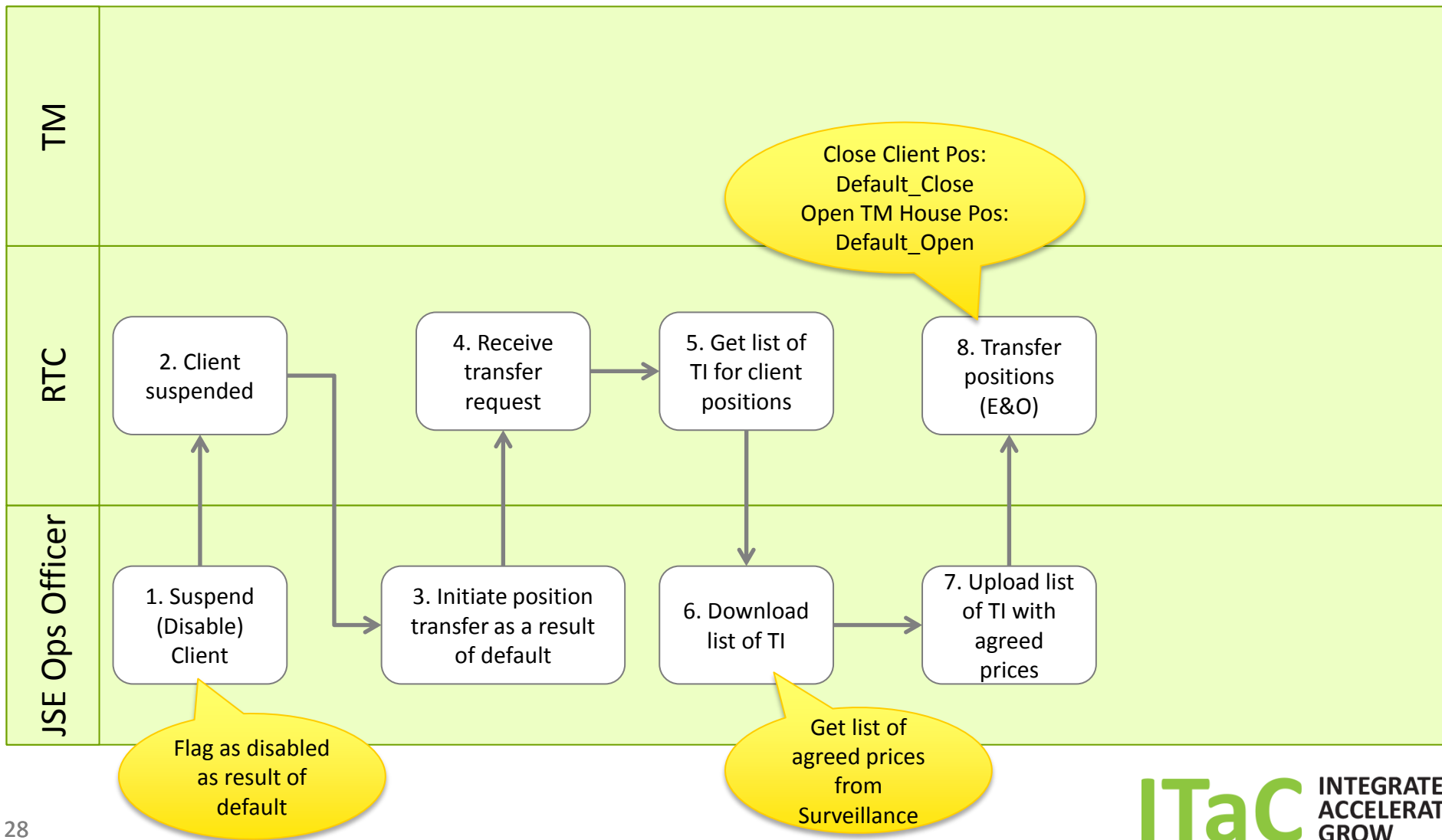


Default of a client (cont.)

JS



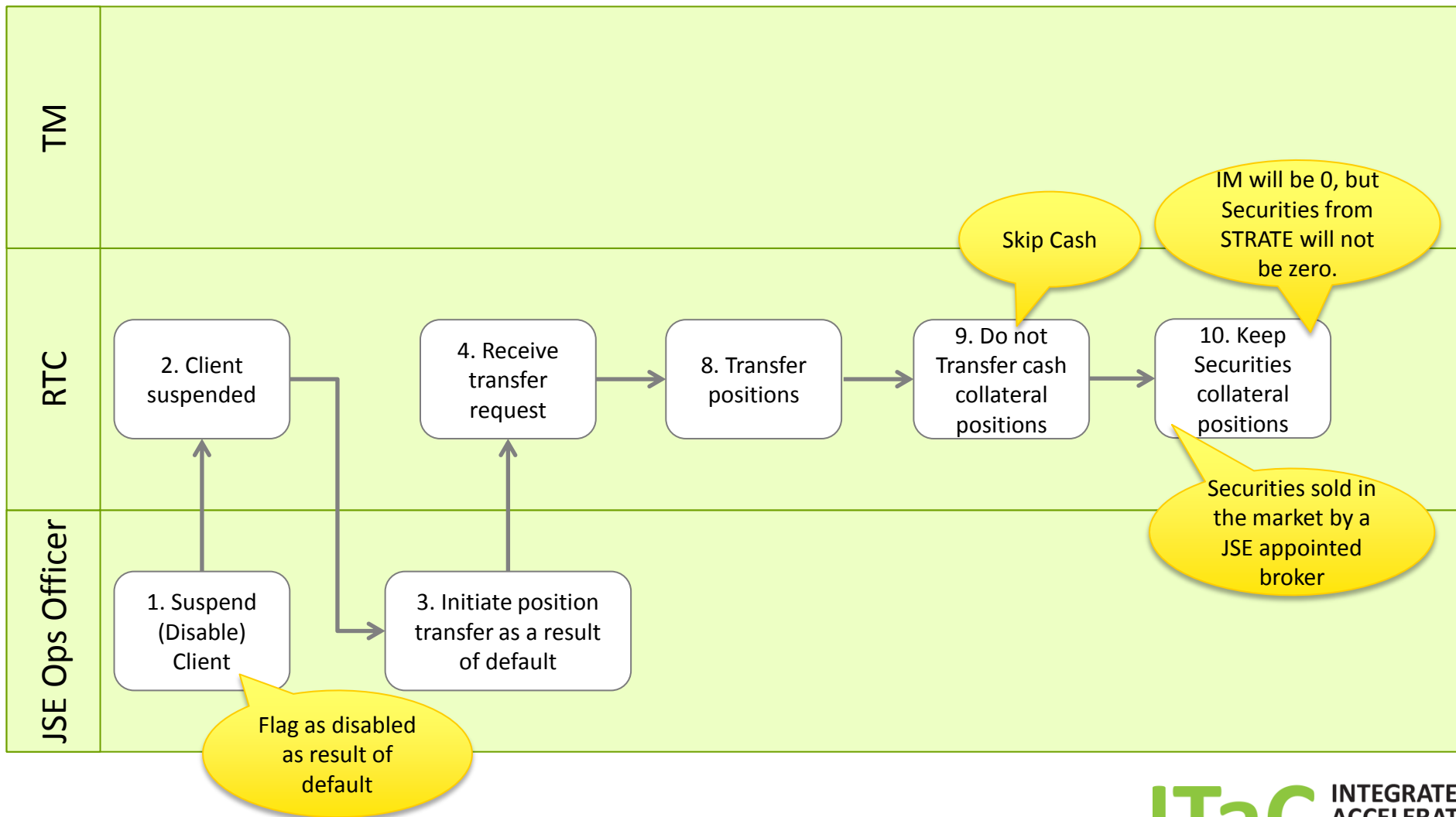
Position Transfer



Default of a client

Collateral Management

JSE



Default Management

Trading Member



- 12.10 Default by a member

A member shall default if -

- 12.10.1 he fails to fulfil any of his obligations in terms of a trade or a position; or
- 12.10.2 his membership is terminated; or
- 12.10.3 the JSE, in its sole discretion, considers that he has defaulted.

Default Management

Trading Member - Consequences



- 12.30 Consequences of default by a trading member

Without limiting or detracting from any other remedies and rights which a member or client or the clearing house may have against a trading member, in the event of default by a trading member –

12.30.1 the trading member shall, save as provided in this rule, be suspended from trading;

12.30.2 the clearing member shall close out the proprietary positions of the trading member by trading to transfer those positions to himself and for his own account at a price approved by the JSE within two business days or such other period as may be determined by the JSE from the date of default;

12.30.3 any amount payable to the trading member as a result of such close out or arising from any suretyship, cession, pledge or other security or from any other cause shall be set off against any amount payable by the trading member in terms of rule 8.90.4;

Default Management

Trading Member - Consequences



12.30.4 if after all the above rules have been exhausted a shortfall remains, any JSE shares held by the trading member may be sold by the JSE and the proceeds utilised towards settlement of any remaining shortfall, and any surplus paid to the trading member;_

12.30.5 any shortfall remaining after the application of these derivatives rules shall be recovered from and any balance paid to the trading member;

Default Management

Trading Member - Consequences



12.30.6 the clients of the trading member shall, without notice to such clients, become the clients of the clearing member , and-

12.30.6.1 the clearing member shall assume the obligations of the trading member in terms of rule 8.90.7 that accrued on the date of default or on the previous business day;

12.30.6.2 all clients who did not previously have client agreements with the clearing member shall conclude client agreements with the clearing member to cover the positions and obligations assumed by the clearing member ; and

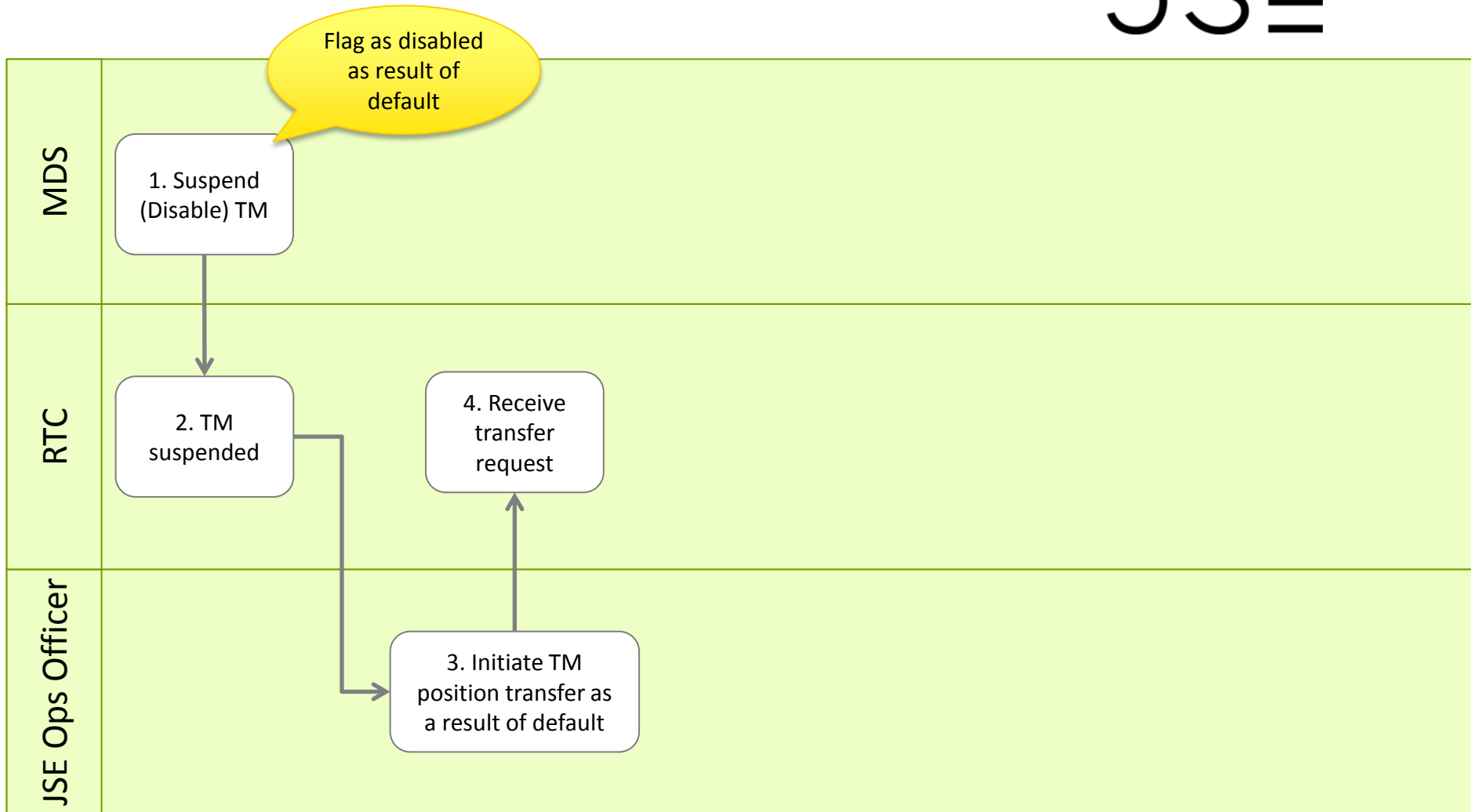
12.30.6.3 where the clearing member previously had a client agreement with the client of the trading member , such positions and obligations and subsequent trades shall be subject to that agreement;

12.30.6.4 the JSE shall on request provide the clearing member with the registration and contact details of the clients of a defaulting member as supplied to the JSE; and

12.30.6.5 on the default of a trading member, the clearing member shall contact the clients of such defaulting member immediately, to inform them of the default and to make arrangements for the transfer of existing client positions to the trading division of the clearing member or to another trading member.

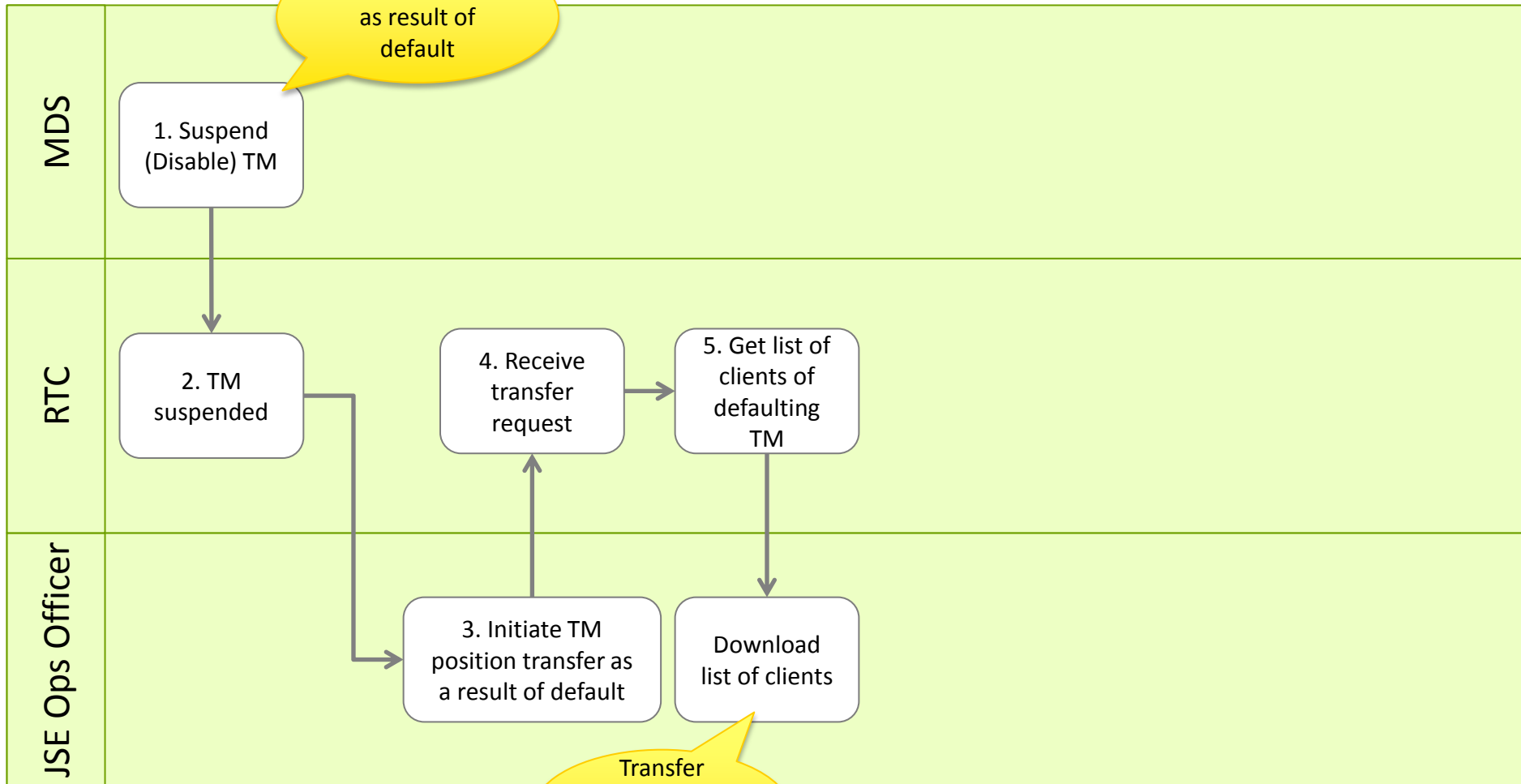
Default of a Trading Member

JS



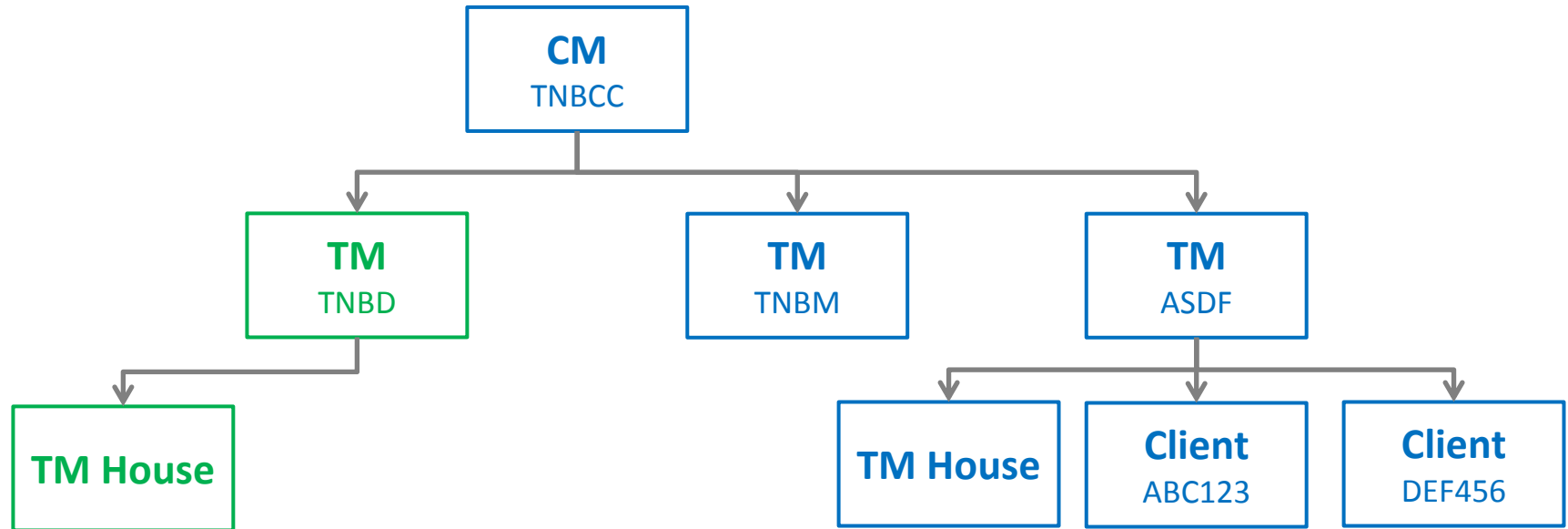
Default of a Trading Member (cont.)

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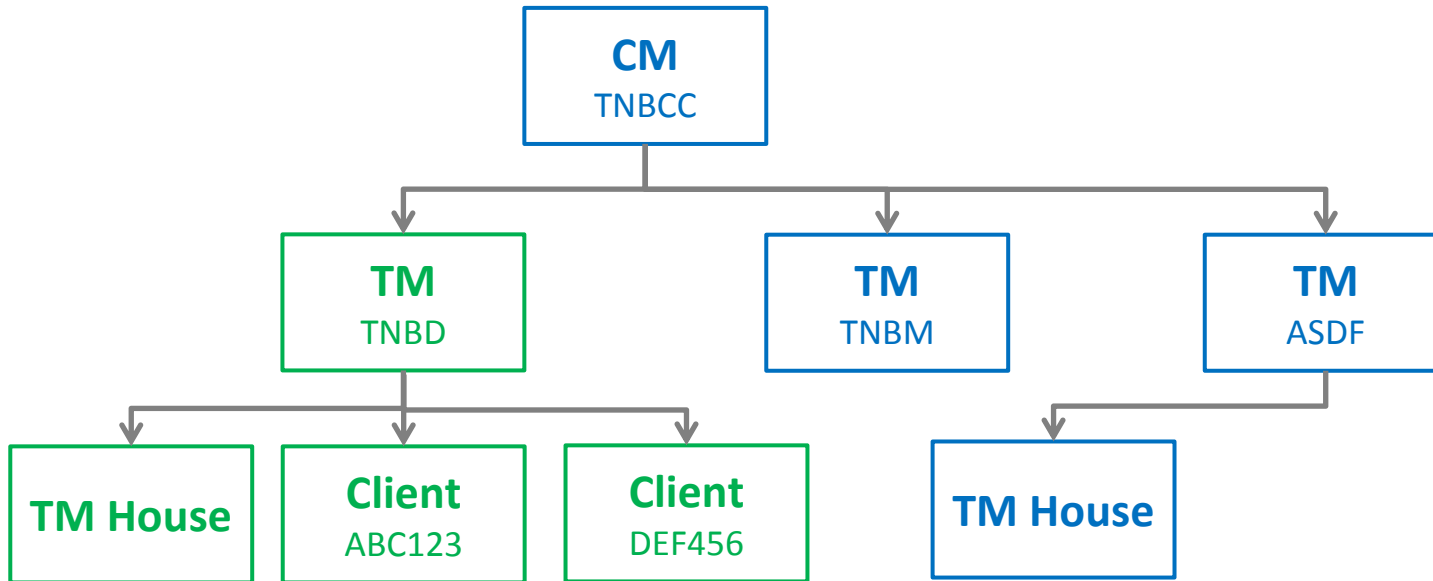
Default of a Trading Member (cont.)

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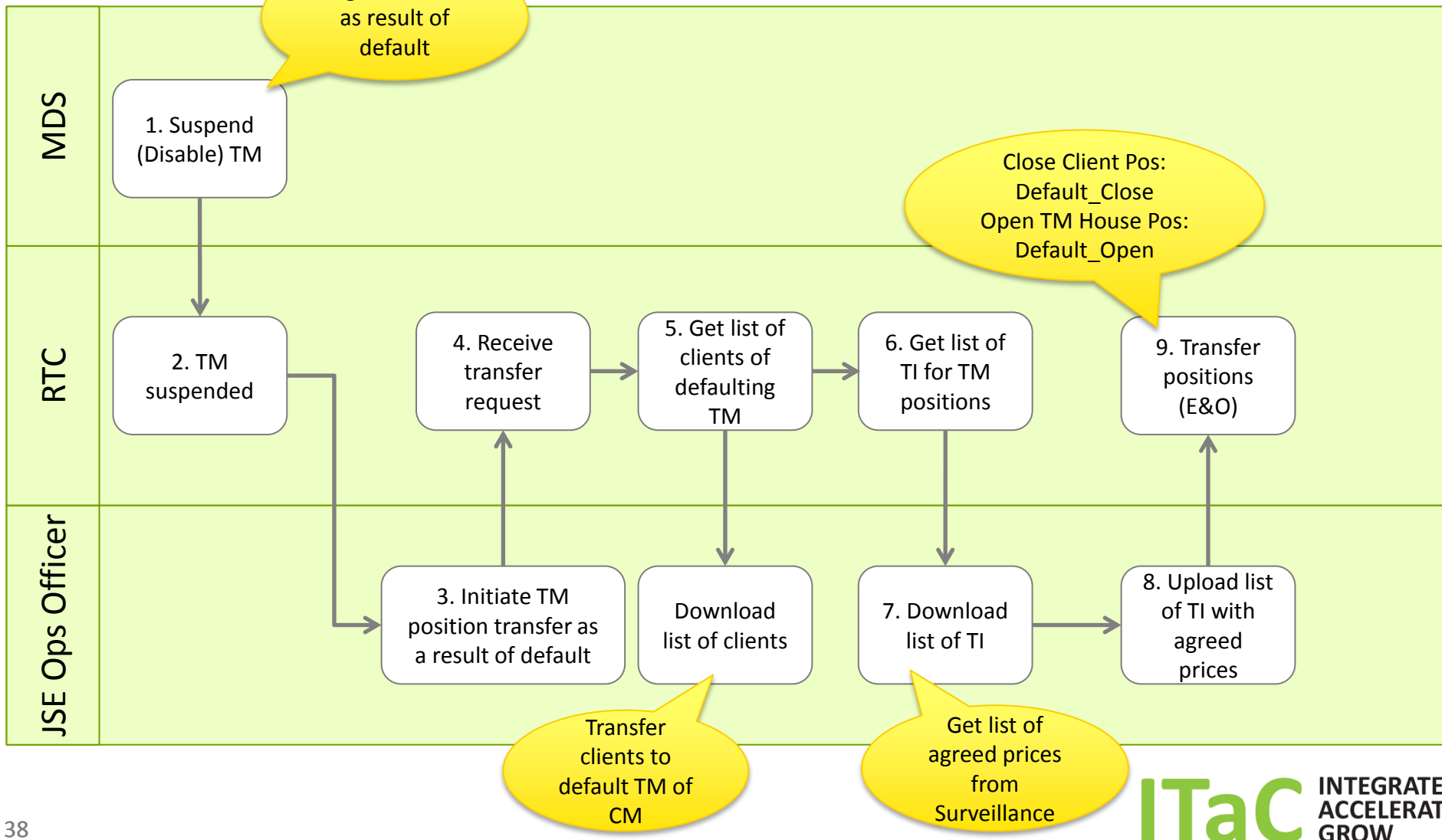
Default of a Trading Member (cont.)

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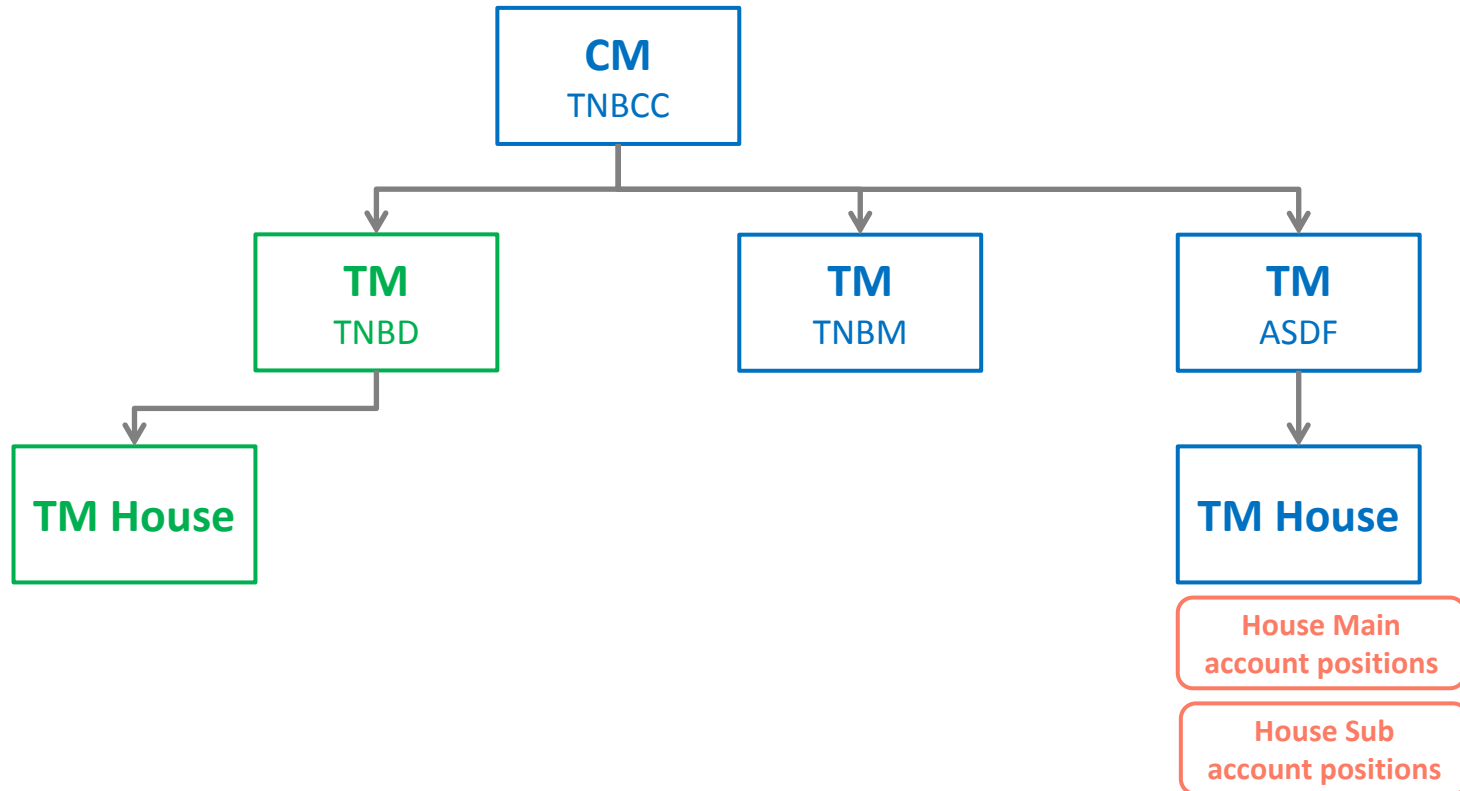
Default of a Trading Member (cont.)

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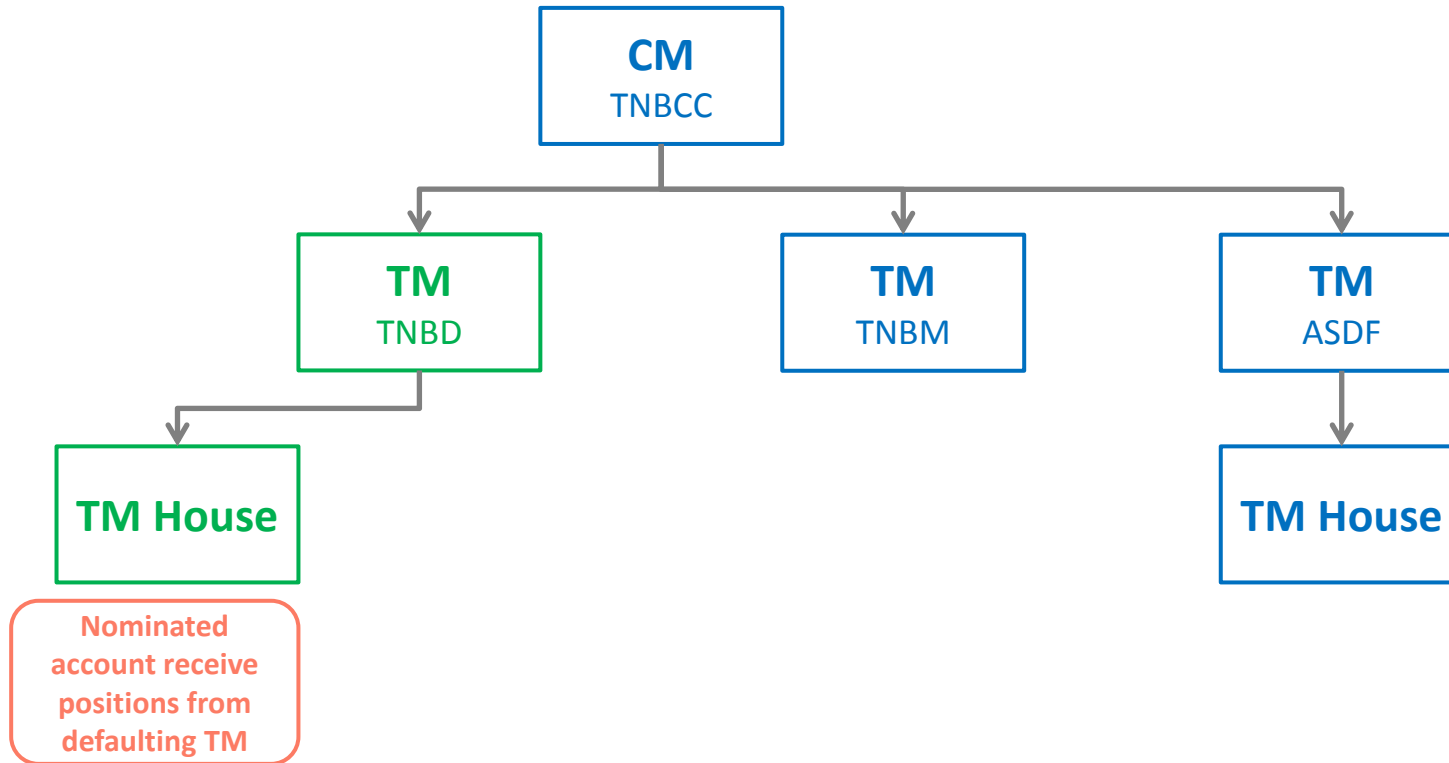
Default of a Trading Member (cont.)

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Default of a Trading Member (cont.)

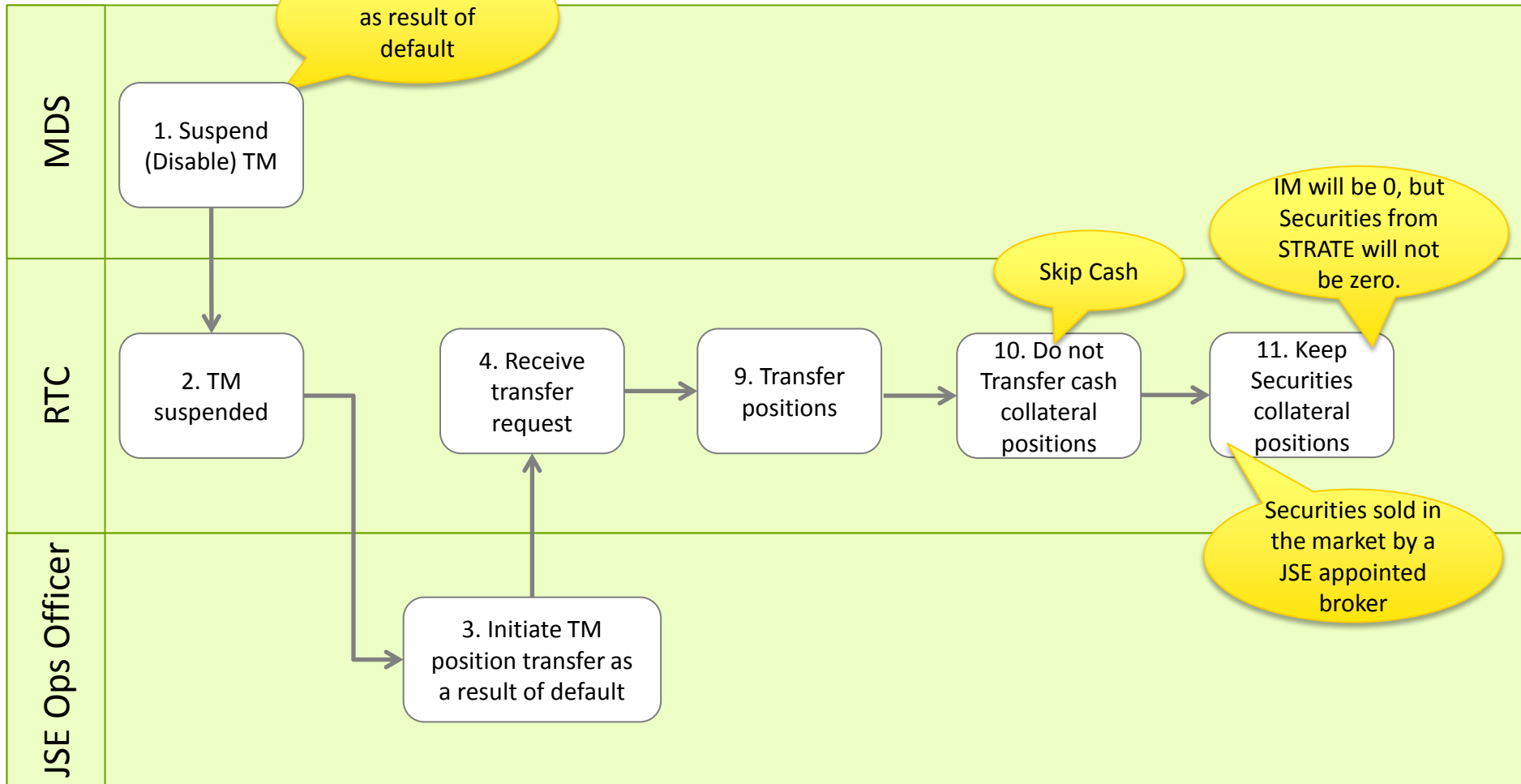
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Default of a client

Collateral Management

JSE



Default Management

Outstanding Issues



- Transferring of clients – FICA/KYC – you can't just transfer a client
- Trading Members appointing 2 Clearing Members

General

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- Open interest frequency
- Market communication to clients

Questions?

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