



JSE Clear Proprietary Limited
(Registration Number 1987/002294/07)

JSE Clear Proprietary Limited

(Registration number 1987/002294/07)

Annual Financial Statements for the year ended 31 December 2016

General Information

Country of incorporation and domicile	South Africa
Directors	GC Buchner PL Campher* L Currie LG Ford A Greenwood HB Khumalo-Dankelmann NF Newton-King FJ Oosthuizen* LV Parsons
Registered office	One Exchange Square Gwen Lane Sandown 2196
Business address	One Exchange Square Gwen Lane Sandown 2196
Postal address	Private Bag X991174 Sandton 2146
Holding company	JSE Limited
Auditor	KPMG Inc
Secretary	K Govender

* Independent board members

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The reports and statements set out below comprise the annual financial statements presented to the shareholder:

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In terms of S 29(1)(e)(ii) the Companies Act 71 of 2008 as amended, we confirm that the preparation of the following annual financial statements is the responsibility of Aarti Takoordeen, CA(SA), chief financial officer of JSE Limited.

In terms of S 29(1)(e)(i) of the Companies Act 71 of 2008, the following annual financial statements have been audited.

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Directors' responsibilities and approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The external auditor is responsible for independently auditing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditor and their report is presented on pages 6 to 8.

The annual financial statements set out on pages 9 to 21, which have been prepared on the going concern basis, were approved by the board of directors on 8 February 2017 and were signed on its behalf by:

NF Newton-King

A Greenwood

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Directors' report

The directors have pleasure in submitting their report on the annual financial statements of JSE Clear Proprietary Limited for the year ended 31 December 2016.

1. Nature of business

The main objective of JSE Clear Proprietary Limited is to manage and act as a clearing house for futures and option contracts listed on the JSE equity, commodity, interest rate and currency derivatives markets. The principal activities of the company during the year were the continued development and provision of clearing facilities for these markets and the enhancement of the risk management practices of the clearing house.

There have been no material changes to the nature of the company's business from the prior year.

2. Review of operations

JSE Clear Proprietary Limited is the appointed clearing house for the JSE as defined in the Financial Markets Act No.19 of 2012. In order to keep the clearing house structure streamlined, the company delegates much of the risk management and operating functions.

The risk management functions are governed in terms of the rules of the market for which JSE Clear Proprietary Limited clears and clearing house agreements entered into separately with each clearing member, wherein clearing members guarantee all obligations arising from JSE listed derivatives reported to the company for clearing.

JSE Clear Proprietary Limited has outsourced its operating functions to the JSE in terms of a clearing and settlement services agreement. All staff utilised by JSE Clear Proprietary Limited are employed by the JSE and all equipment is owned by the JSE. The company's funds are managed on its behalf by the JSE and a fee is paid to the JSE for this function.

3. Licensing under the Financial Markets Act

JSE Clear Proprietary Limited is a licensed associated clearing house in terms of the provisions of the Financial Markets Act No.19 of 2012, subject to an annual review conducted by the Financial Services Board.

4. Clearing members

The clearing members at 31 December 2016, and the markets that they clear, are:

	Equity derivatives market	Agricultural derivatives market	Interest rate and currencies market
ABSA Bank Limited	✓	✓	✓
BNP Paribas South Africa Limited	✓		✓
Investec Bank Limited	✓		✓
JP Morgan Securities	✓	✓	
Merril Lynch South Africa Proprietary Limited	✓		
Nedbank Limited	✓	✓	✓
Rand Merchant Bank (Division of FirstRand Bank Limited)	✓	✓	✓
Sanlam Capital Markets Limited	✓		
Societe Generale Johannesburg Branch	✓		✓
Standard Bank of South Africa Limited	✓	✓	✓

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Directors' report

5. Dividends

In terms of the company's Memorandum of Incorporation, no profit earned by the company shall be distributed to its shareholders by way of dividends.

6. Global Regulatory Changes

As a result of the recent global financial crisis, global financial regulators have issued directives for the capitalisation of bank exposures to central counterparties ("CCPs"), known as Basel III, along with revised standards for CCPs (in the form of principles for financial market infrastructures). At the end of 2012 the Financial Services Board, deemed JSE Clear Proprietary Limited a "Qualifying CCP" (QCCP) in terms of the principles for financial market infrastructures as set out by the Bank for International Settlements and the International Organization of Securities Commissions (IOSCO). Our status as a QCCP is reviewed by the regulator every two years via a self-assessment process - these processes were completed in both 2014 and 2016, and in both iterations the FSB confirmed JSE Clear Proprietary Limited's QCCP status to be in good standing.

Prompted by a recommendation from the JSE Clear Proprietary Limited Advisory Committee to the Board, JSE Clear Proprietary Limited submitted an application to the European Securities Markets Authority (ESMA) in 2013, to be recognised as a Third Country CCP. In February 2016, JSE Clear Proprietary Limited obtained global recognition from ESMA and was granted the status of a "Third - Country CCP" (TCCP), meaning that it has been authorised to provide clearing services to market participants established in the European Union.

7. Directors

The directors in office at the date of this report are as follows:

Directors

GC Buchner
PL Campher
L Currie
LG Ford
A Greenwood
HB Khumalo-Dankelmann
NF Newton-King
FJ Oosthuizen
LV Parsons

8. Events after the reporting period

The directors are not aware of any material events which occurred after the reporting date and up to the date of this report.

9. Going concern

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material instances of non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

10. Auditor

KPMG Inc continued in office as the auditor for the company for 2016.

Independent Auditor's Report

To the Shareholders of JSE Clear Proprietary Limited

Opinion

We have audited the financial statements of JSE Clear Proprietary Limited set out on pages 7 to 19, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSE Clear Proprietary Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' report as required by the Companies Act of South Africa and the Directors' responsibility statement and approval. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be

materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are

required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Inc.

Registered Auditor

JN Pierce

Chartered Accountant (SA)

Director

Registered Auditor

28 February 2017

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Statement of financial position as at 31 December 2016

	Note(s)	2016 R '000	2015 R '000
Assets			
Current assets			
Income tax receivable		280	294
Trade and other receivables	4	275,974	181,888
Margin deposits	3	41,399,545	34,271,450
Cash and cash equivalents	5	46,547	51,159
Total assets		41,722,346	34,504,791
Equity and liabilities			
Equity			
Share capital and share premium	6	3,201	3,201
Retained earnings		5,625	4,364
		8,826	7,565
Liabilities			
Current liabilities			
Loan from group company	8	38,973	43,910
Trade and other payables	7	275,002	181,866
Margin deposits	3	41,399,545	34,271,450
		41,713,520	34,497,226
Total equity and liabilities		41,722,346	34,504,791

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Statement of comprehensive income

	Note(s)	2016 R '000	2015 R '000
Revenue	9	659	538
Net margin interest income	10	73,889	58,580
Operating expenditure	11	(74,553)	(59,206)
Operating profit/(loss)		(5)	(88)
Finance income		1,757	1,174
Profit before taxation		1,752	1,086
Income tax expense	12	(491)	(304)
Profit for the year		1,261	782
Other comprehensive income		-	-
Total comprehensive income for the year		1,261	782

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Statement of changes in equity

	Share capital	Share premium	Total share capital & share premium	Retained earnings	Total equity
	R '000	R '000	R '000	R '000	R '000
Balance at 01 January 2015	1	3,200	3,201	3,582	6,783
Profit for the year	-	-	-	782	782
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	782	782
Balance at 01 January 2016	1	3,200	3,201	4,364	7,565
Profit for the year	-	-	-	1,261	1,261
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,261	1,261
Balance at 31 December 2016	1	3,200	3,201	5,625	8,826

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Statement of cash flows

	Note(s)	2016 R '000	2015 R '000
Cash flows from operating activities			
Cash utilised by operations	13	(72,830)	(49,849)
Interest income		1,757	1,174
Tax paid	14	(477)	(247)
Margin interest paid	16	(2,873,304)	(1,858,562)
Margin interest received	15	2,940,242	1,914,805
Net cash (outflow)/ inflow from operating activities		(4,612)	7,321
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		51,159	43,838
Cash and cash equivalents at 31 December	5	46,547	51,159

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Accounting policies

1. Basis of preparation

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The financial statements were authorised for issue by the Board of Directors on 8 February 2017.

1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

1.3 Functional and presentation currency

The financial statements are prepared in South African Rands which is the company's functional currency.

1.4 Use of estimates and judgements

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

1.5 Financial instruments

Classification

Financial instruments comprise of trade and other receivables, margin deposits, cash and cash equivalents, trade and other payables, and the loan from JSE Limited. The trade and other receivables, margin deposits, and cash and cash equivalents are categorised as "loans and receivables" in accordance with IAS 39 Financial Instruments - Recognition and Measurement and are measured at amortised cost using the effective interest method less any impairment losses where applicable.

Initial recognition and measurement

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Loans and receivables and financial liabilities measured at amortised cost

These financial instruments are measured at amortised cost using the effective interest method, less any impairment losses, where relevant.

Amortised cost measurement

The carrying value (less impairment provision where relevant) of short-term financial instruments are assumed to approximate their fair values.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

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Accounting policies

1.5 Financial instruments (continued)

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

Identification and measurement of impairments

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The carrying amount of the impaired financial asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts written off are credited to profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.6 Margin interest income and expense

Margin interest income and expense comprises interest income and expense on margin deposits. Margin interest income and expense is recognised as it accrues, using the effective interest method.

1.7 Finance income and expense

Finance income and expense comprises interest income and expense on cash and cash equivalents. Finance income and expense is recognised as it accrues, using the effective interest method.

1.8 Taxation

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for previous years.

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Notes to the annual financial statements

	2016	2015
	R '000	R '000

2. New Standards and Interpretations

There are a number of forthcoming new standards and interpretations, which have been issued by the IASB prior to the publication of these financial statements. These are only effective in the future accounting periods, unless early adoption is chosen. The company does not plan to adopt these standards early. The following will be applicable to the entity:

Amendment to IFRS 9 - Financial instruments - effective date: 1 January 2018

The amendments affect the classification, measurement and derecognition of financial assets and liabilities. The amendment will be adopted by the company for its financial reporting period ending the date the statement comes into effect. The company does not expect significant impact as a result of the adoption of this statement.

IFRS 15 Revenue from Contracts with Customers - effective date: 1 January 2018

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The company does not expect a significant impact from the adoption of this statement.

3. Margin deposits

The initial margin received from clearing members of the Equity, Commodity, Interest Rate and Currencies Derivatives markets of JSE Limited were invested as follows:

Call deposits	15,149,545	15,211,450
Fixed deposits	26,250,000	19,060,000
	41,399,545	34,271,450

Initial margin received from clearing members are managed and invested in terms of Section 11 of the Derivatives Rules of the JSE Limited.

A corresponding liability has been raised (which is due to market participants) against these margin deposits, as the JSE Clear Proprietary Limited only manages these assets to facilitate clearing of the equity and derivative markets.

4. Trade and other receivables

Interest receivable	274,780	178,903
Trade receivables	1,194	2,985
	275,974	181,888

The carrying amount of trade and other receivables approximates its fair value due to its short term nature.

Interest and trade receivables are fully performing and are due within 30 days.

The company believes that no impairment allowance is necessary in respect of trade and other receivables as no objective evidence existed at year end to indicate that one or more events may have a negative effect on the estimated future cash flows expected from any individual balance.

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Call accounts	11,751	16,874
Current account	34,796	34,285
	46,547	51,159

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	2016 R '000	2015 R '000
6. Share capital and share premium		
Authorised		
32 000 Ordinary shares of 12,5 cents each	4,000	4,000
1 000 zero-coupon redeemable convertible preference shares of 12,5 cents each	125	125
	4,125	4,125
Issued		
8 300 ordinary shares of 12,5 cents each	1	1
Share premium	3,200	3,200
	3,201	3,201
7. Trade and other payables		
Accrued expenses	4,793	583
Interest payable	270,209	181,283
	275,002	181,866
Trade and other payables approximates its fair value due to its short term nature .		
8. Loan from group company		
JSE Limited	38,973	43,910
The above loan is payable within 30 days, is interest free and unsecured .		
9. Revenue		
Fees for services rendered	659	538
10. Net margin interest income		
Margin interest expense	(2,962,230)	(1,905,912)
Margin interest income	3,036,119	1,964,492
	73,889	58,580
11. Operating expenditure		
Operating profit/(loss) for the year is stated after accounting for the following:		
Audit fees	273	257
Bank charges	61	70
Management fees paid to JSE Limited	73,881	58,879
Non-executive directors	338	-
	74,553	59,206

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	2016 R '000	2015 R '000
12. Income tax expense		
Current		
Local income tax - current period	491	304
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate:		
Applicable tax rate	28.00 %	28.00 %
13. Cash flows from operating activities		
Profit before taxation	1,752	1,086
Adjustments for:		
Finance income received	(1,757)	(1,174)
Margin interest income	(3,036,119)	(1,964,492)
Margin interest expense	2,962,230	1,905,912
Changes in working capital:		
Trade and other receivables	1,791	(2,785)
(Decrease)/increase of loan from group company	(4,937)	11,455
Trade and other payables	4,210	149
	(72,830)	(49,849)
14. Tax paid		
Balance at beginning of the year	294	351
Current tax for the year recognised in profit or loss	(491)	(304)
Balance at end of the year	(280)	(294)
	(477)	(247)
15. Margin interest received		
Interest receivable at the beginning of the year	178,903	129,216
Margin interest income	3,036,119	1,964,492
Interest receivable at end of year	(274,780)	(178,903)
	2,940,242	1,914,805
16. Margin interest paid		
Interest payable at beginning of year	(181,283)	(133,933)
Margin interest expense	(2,962,230)	(1,905,912)
Interest payable at end of year	270,209	181,283
	(2,873,304)	(1,858,562)

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17. Related parties

Relationship

Holding company - JSE Limited

Related party transactions

Amounts due to JSE Limited (Refer to note 8).

Fees from JSE Limited for services rendered (Refer to note 9).

Management fees paid to the JSE Limited for the management of funds (Refer to note 11).

The company provides clearing facilities for the equity derivatives, commodity derivatives, currency derivatives and interest rate products markets of the JSE Limited. Although the company contracts with the JSE's clearing members, these transactions are on an arm's length, market-related basis.

18. Directors' emoluments

The amounts detailed below represent payments made by JSE Limited to the directors during the year. No amounts were paid by the Company to the directors.

Executive

2016

	Total guaranteed pay R'000	Total annual incentives R'000	Total long term and other benefits R'000	Directors' fees R'000	Total R'000
L Fourie	1,318	-	2,479	-	3,797
A Greenwood	2,279	2,858	-	-	5,137
NF Newton-King	4,113	8,852	6,129	-	19,094
FJ Oosthuizen	-	-	-	200	200
LV Parsons	2,453	3,172	2,988	-	8,613
GH Smale	1,771	348	2,479	-	4,598
	11,934	15,230	14,075	200	41,439

2015

	Total guaranteed pay R'000	Total annual incentives R'000	Total long term and other benefits R'000	Directors' fees R'000	Total R'000
L Fourie	2,374	3,022	843	-	6,239
NF Newton-King	3,823	8,517	3,178	-	15,518
LV Parsons	2,561	3,130	2,118	-	7,809
GH Smale	2,170	1,043	1,766	-	4,979
	10,928	15,712	7,905	-	34,545

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19. Risk management

The focus of risk management is to identify, measure, monitor and report on major risks to which the company is exposed. The risk management function also ensures that controls are in place for these risks. Although risk cannot be eliminated, the company endeavours to mitigate its risk by identifying such risks and ensuring that the appropriate controls, systems, practices and ethics are implemented.

The management team continued to make improvements to the clearing house's risk management capabilities and as was mentioned in the Director's report JSE Clear Proprietary Limited was recognised as a Third Country CCP by the European Union's Securities and Markets Authority (EMSA).

The specific risk types to which the company is exposed are discussed in more detail below.

Capital risk management

The company takes an extremely conservative approach to maintaining an optimal capital structure by retaining minimum capital. The company is not yet subject to externally imposed capital requirements. Total capital is calculated as equity as shown in the statement of financial position.

JSE Clear Proprietary Limited expects regulations to be released in mid-2017 which will detail the minimum prescribed regulatory capital for the CCP. After the implementation date of these regulations the capital requirements will be reviewed.

Liquidity risk

Liquidity risk is the risk that obligations cannot be met as and when they are due.

To mitigate liquidity risk, a limit has been placed on the average duration and maximum tenure on initial margin funds and the JSE Clear Derivatives Default Fund. The authorised duration limits have been tailored to the liquidity requirements of the company and the weighted average duration of funds invested may not exceed 50 days. All financial assets and liabilities, with the exception of provisions, are due within 30 days. The contractual maturity of all financial assets and financial liabilities is less than 180 days.

Furthermore dedicated, short term lending facilities are in place with four commercial banks in the event of a clearing member default or an operational event preventing payments.

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19. Risk management (continued)

Interest rate risk

Interest rate risk is the risk of the company being exposed to fluctuations in future cash flows of financial instruments because of changes in market interest rates. The company is exposed to cash flow interest rate risk in respect of its floating rate financial instruments as set out below. Cash flow interest rate risk is managed by the company by ensuring that the floating rate financial assets are at least equal to or greater than the floating rate financial liabilities.

The interest rate risk profile of the company's own financial assets and liabilities at 31 December 2016 and 31 December 2015 was as follows:

2016	Fixed rate R'000	Floating rate R'000	Non-interest sensitive R'000	Total R'000
Cash and cash equivalents	-	46,547	-	46,547
Trade and other receivables	-	-	276,254	276,254
Margin deposits	26,250,000	15,149,545	-	41,399,545
Trade and other payables	-	-	(275,002)	(275,002)
Loan from group company	-	-	(38,973)	(38,973)
Margin deposits	(26,250,000)	(15,149,545)	-	(41,399,545)
	-	46,547	(37,721)	8,826

2015	Fixed rate R'000	Floating rate R'000	Non-interest sensitive R'000	Total R'000
Cash and cash equivalents	-	51,159	-	51,159
Trade and other receivables	-	-	182,182	182,182
Margin deposits	19,060,000	15,211,450	-	34,271,450
Trade and other payables	-	-	(181,866)	(181,866)
Loan from group company	-	-	(43,910)	(43,910)
Margin deposits	(19,060,000)	(15,211,450)	-	(34,271,450)
	-	51,159	(43,594)	7,565

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased profit/(loss) by R465 479 (2015: R511 592). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as 2015.

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19. Risk management (continued)

Credit risk

Counterparty credit risk, or default contingent market risk, is the risk that a counterparty to a transaction defaults and the transaction is replaced at a loss.

The company mitigates this risk by way of a hierarchical risk management guarantee, whereby members guarantee client obligations and clearing members guarantee member obligations. The company is the guarantor of last resort and only to the extent that the client, member and clearing member are unable to perform.

The first level of prefunded resources to mitigate against a participant failure is that of initial margin. Initial margin is calculated on each account cleared by JSE Clear at a 99.7% confidence interval and at least a 2 day holding period. 4 years' of data is used to calibrate the model which includes a period of stress testing program. During 2016 the clearing house introduced initial margin specifically to mitigate the risk of accounts with concentrated portfolios.

JSE Clear has a clearly defined a transparent risk waterfall that specifies how risk mitigants will be used for default purposes. In the case of a clearing member default, positions will be closed out by the clearing house and any losses incurred will be appointed in terms of the risk waterfall.

The clearing members are major financial institutions of substance and the company anticipates that clearing members will be able to fully satisfy their obligations. The company has collateral in the form of initial margin to mitigate this credit risk. It relies on the JSE to monitor the credit standing of clearing members in terms of the JSE's Rules.

In line with the Investment Mandate, consideration is given to the credit risk of each recipient institution which invests margin and default fund contributions on behalf of JSE Clear and its members. Limits are in place to ensure funds are only placed with reputable, regulated banks with a national short term rating equal to, or better than, A-1(Standard and Poor's) equivalent rating. There are additional limits, based on the total amount of funds under management, on the funds deposited with any one banking institution.

Currency risk

All the company's activities are conducted in South African Rands. The company is not exposed to fluctuations and foreign exchange rates.

Operational risk

Operational risk is the risk that deficiencies in information systems or internal controls, human errors or management failures will result in unexpected losses.

Risk management controls are in place to reduce the extent of operational risk occurring and the magnitude thereof. The Board accepts overall accountability for operational risk with the responsibility for the day-to-day management of operational risk delegated to management of the JSE's specialised departments.

Reputational risk

Reputational risk is the risk of damage to the company's reputation. Given the importance of the integrity of South Africa's capital markets, this is a very serious risk which is the natural consequence of all other risks set out above.

The Board is generally responsible for managing this risk and under its guidance all aspects of the company's business are focused on ensuring a safe, secure and efficient clearing environment for the financial markets it serves.