Intraday Margin calls

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Date:	20 November 2012
Version:	1.0 Final

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1. References

Document	Author	Version	Issue Date

2. Version Control

Version	Author	Date	Reason for Changes
0.1 Draft	Brett Kotze	31 August 2012	Document creation.
1.0 Final	Brett Kotze	20 November 2012	Update with comments and move to Final version

3. Introduction

Intraday Margin Calls are calls for margin that are initiated by the clearing house (SAFCOM) under extreme market conditions at any time during a trading day. Extreme market conditions imply significant market movements that are likely to completely erode the initial margin deposits of any market participant. SAFCOM may call for intra-day margin calls at their discretion.

The JSE or SAFCOM is entitled under the rules to make ad-hoc intraday margin calls for all exchange-traded futures and options if and when the need arises so as to manage the market risk.

There is no single event that triggers when an intra-day margin call should be initiated. Rather, the movement in market prices or volatilities during the trading morning will indicate that the variation margin due on any contract position by the end of that day, will exceed or is likely to exceed the initial margin held on that contract. Any default by a market participant to meet their margin call the next morning will mean that the initial margin held would otherwise be inadequate to cover the losses incurred.

4. The Rules

The Derivatives Rules currently state the following -

8.50 Mark-to-market

8.50.1 At 17:00 on each business day, or such other time as the JSE may determine on a particular business day, the positions in each exchange contract of all members and their clients shall be marked-to-market on such basis as the JSE may determine.

8.50.2 The JSE or the clearing house, as the case may be, may at any time on any business day mark-to-market the position in any exchange contract of any member or client if, in its sole discretion, the conditions in the market for the exchange contract or its underlying instrument warrant such additional mark-to-market.

5. Intra-day margin procedures

The clearing house performs its margin calculations at the end of each trading day for derivatives. However, it is possible to invoke an interim margin calculation and make intraday margin calls on the Clearing Members based on the open positions at the time of running the intraday margin calculation.

The procedure for Intraday Margin Calls is as follows:

1) A snapshot is taken of all contract positions and prices at the clearing house and initial and variation margins are calculated. The Nuclears system simply computes the initial and variation margins on those positions at those prices <u>as though it were the routine end of day calculation</u>. However, the normal files are <u>not</u> updated;

2) While the prices are updated to those ruling at the time the Intraday Margin Call is invoked, the Margining Parameters remain unaltered since notice of any changes must be given to Clearing Members first – also a one day price movement will not affect the initial margin calculations;

3) The Nuclears system then calculates the variation margin losses and profits and only calls for where there are losses;

4) Clearing Members will be able to call for the variation margin from their Trading Members and the Trading Members from their clients. To allow the processing time for this to happen and to also take into consideration the Central Banks close-off times it has been agreed that –

   a) SAFCOM will notify the Clearing Members of their intention to call for a intra-day margin call by 11h00 on any business day;
   b) Payments instructions, via the SAFCOM PCH, will be generated by 12h00 on any business day; and
   c) Funding and settlement will occur by 14h00

5) Any exceptions to point 4 will be dealt with on a case-by-case basis.

6) Per the JSE's Rules , any non-payment of the variation margin may lead to the default of a Clearing Member.

7) Account Summary Reports (similar to those sent at the end of every day), which includes initial margin, variation margin and booking fees are sent out to the Clearing Members and they are required to deposit <u>only the negative</u> variation margins (losses) into SAFCOM's account, for value the same day. These funds are held by SAFCOM until the EOD processing (including the variation margins called for since they are not being passed onto the Clearing Members with the profitable positions).

8) At EOD, the clearing system runs the EOD batch run and calculates where variation margin was called intraday and calls for the net of margin where the position has increased or price has moved or refunds for the net of margin where the position has increased or price has moved. The clearing system will also correct any booking fees taken where applicable. In essence the clearing system will run the final EOD and use the entire days trades and then adjust the initial margin, variation margin and booking fees for the funds received intra-day.

9) The EOD Account Summary Reports are then sent out to the Clearing Members.