

Integrated Trading & Clearing (ITaC) Clearing Member Working Group

17 March 2015



Agenda



- Context
- Purpose of session
- Overview of ITaC Clearing consultation topics
- This session's consultation topics
 - Collateral management
 - Single, integrated EOD process
 - Clearing Member systems
 - Alternative Clearing Member concept
- Next steps

Context - 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

Context - Project status



- 2014
 - JSE Board commitment to ITaC programme (Mar)
 - Vendor contract signed (Apr)
 - High level design and planning completed

- 2015
 - JSE Board approval for Project 1 budget (5 Mar)
 - Market communications session scheduled (23 Mar)
 - Solution design and build in progress

Purpose of today's session



- Communicate key principles and business model concepts for selected modules of the proposed ITaC Clearing solution
- Provide Clearing Members an opportunity to give input on the proposed business models and solution
- Identify any considerations and issues that may influence the solution design

ITaC Clearing consultation topics



Topics in bold are the focus of this session

Topic	Description
Pre-trade risk management	<ul style="list-style-type: none">• Permissions, limits, controls, monitoring etc
Intraday (post-trade) risk monitoring	<ul style="list-style-type: none">• Exposure updates and alerts
Margin calls	<ul style="list-style-type: none">• EOD and intraday
EOD process for balancing on margins and fees	<ul style="list-style-type: none">• Single, integrated EOD process• Details of balancing process
Acceptance of non-cash collateral	<ul style="list-style-type: none">• Collateral management principles• Detailed process and workings
Interfacing to the new trading and clearing solutions	<ul style="list-style-type: none">• JSE Front End decision – implications for Clearing Members• Technical interfaces for reference data, trading, deal management, clearing and market data
Default management	<ul style="list-style-type: none">• Default management process• Alternative Clearing Member concept

ITaC Clearing consultation topics (cont.)



Topic	Description
Other Clearing operational activities	<ul style="list-style-type: none">• User access• On-behalf of activities• Client loading and maintenance
Data take on	<ul style="list-style-type: none">• Client codes
Margin methodologies	<ul style="list-style-type: none">• J-Span with add-ons• Historical Value at Risk
Billing structures, parameters and transactional data	<ul style="list-style-type: none">• Billing structures, parameters and deals data required for balancing
JSE Derivatives Rules and Directives	<ul style="list-style-type: none">• Changes required to Rules and Directives e.g. for collateral management

Collateral management



- Use of the Strate Collateral Management System (Clearstream)
- Acceptance of non-cash collateral for
 - Initial and settlement margin
 - Default fund contributions
- Admissible collateral
 - Securities i.e. Equities and Bonds in Phase 1
 - Foreign currency and silo certificates in a later phase
- Minimum percentage of collateral that must be in ZAR cash set by JSE Clear
 - Clearing Members can set more stringent percentage for Trading Members
 - Trading Members can set more stringent percentage for clients

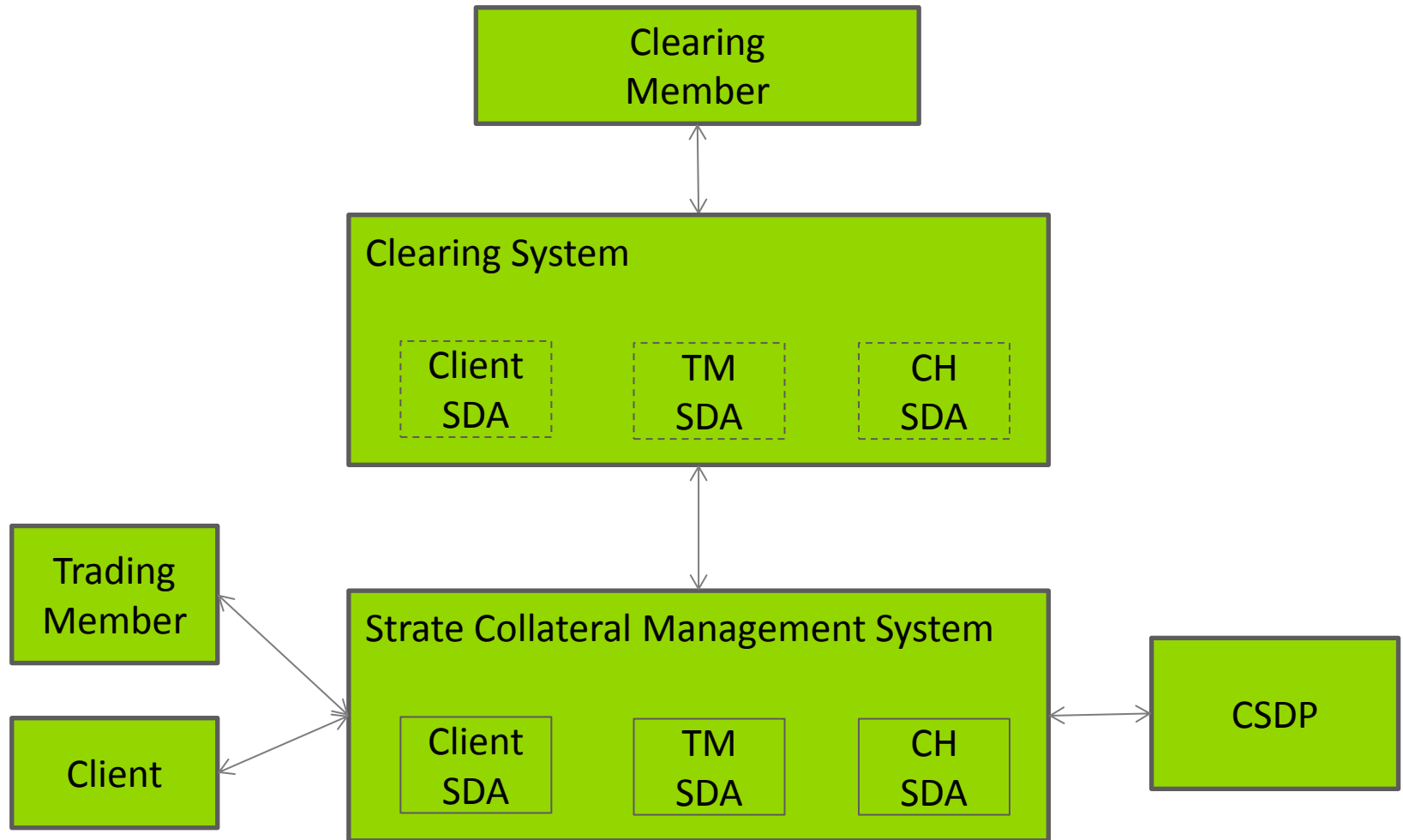
Collateral management (cont.)



- List of eligible securities to be set by JSE Clear
- Concentration limits set by JSE Clear
- Valuation of collateral by JSE Clear
- Haircuts set by JSE Clear
- Pledge mechanism
 - Trading Member/Client to Clearing House
- CSDP processing of pledges and concept of auto-committing
- What happens in the event of a default
- Implications for legal agreements and JSE Rules & Directives

Collateral management (cont.)

JS



SDA – Segregated Depository Account, TM/CM – Trading/Clearing Member, CH – Clearing House

Collateral management process



- JSE Clear - Clearing System
 - Calculates initial margin requirement
 - Applies admissible percentage to determine the ZAR value of securities collateral to call
 - Sends securities collateral request to Strate CMS

- Strate - Collateral Management System
 - Applies eligibility criteria, haircuts and optimisation intelligence in allocating securities against the request from JSE Clear
 - Sends instruction to CSDP to commit
 - Transfers securities between the Trading Member/Client SDA account and the Clearing House SDA account
 - Sends pledge to Clearing House

Collateral management process (cont.)



- JSE Clear - Clearing System
 - Verifies pledged securities
 - Determines balance of margin to be settled in ZAR cash
 - Provides update to Clearing Members

Single, integrated EOD process



- Moving to a single, integrated EOD process across markets
- Allows for cross-market margin offset opportunities where appropriate
- Consolidation of processes drives operational efficiency
 - Including more efficient processing of assets for collateral management
- Margin breakdown report will facilitate reconciliations
- Timings

Single, integrated EOD process (cont.)



- Transition phase
 - Post Phase 1 go-live there will be one EOD run for Equity Derivatives (ED) and Currency Derivatives (FXD)
 - Margin and fee amounts from the other markets still on the Nuclears platform will be netted with ED & FXD amounts to ensure a single payment instruction per Clearing Member as current

Clearing Member front ends/systems



- As previously communicated the JSE has taken the decision to no longer provide a Trading and Deal Management front end to the market
 - Note the 3rd party solution currently used by many of the Clearing Members to replicate margin and fee methodologies in balancing back to the JSE is not a JSE-provided solution
- Clearing Members are urged to begin engagements with potential software providers to ensure their front end and clearing system needs are met

Interfacing to the new Trading and Clearing solutions



Clearing Member Front Ends

- Monitoring orders & trades
- Market data
- On-behalf-of actions
- Trading specific reference data

- Trade and position updates
- On-behalf of deal mgmt actions
- Client maintenance
- Collateral mgmt
- Intraday risk monitoring
- Reference data
- All other info for EOD balancing

MIT API

FTP

Cinnober API

**MIT
Trading System**

**Information
Delivery
Portal
(FTP site)**

**Cinnober
Clearing System**

Alternative Clearing Member concept



- Consideration of an alternative Clearing Member concept
 - Trading Member appoints and enters into an agreement with an alternative Clearing Member in advance
 - If the primary CM defaults, the Trading Member's portfolio is transferred to the alternative Clearing Member

Alternative Trading Member concept



- Consideration of an alternative Trading Member concept
 - Client appoints and enters into an agreement with an alternative Trading Member in advance
 - If the primary TM defaults, the Clients portfolio is transferred to the alternative Trading Member

Next Steps



- Clearing Members are encouraged to provide feedback on today's discussion topics or any other ITaC related feedback using the following channels
 - User Readiness contact is Sandra Borrageiro (011 520 7384)
 - Key Clearing Member contact is Alex Comninos (011 520 7324)
 - Email: ITAC@jse.co.za
- 23 March 2015 - JHB market communication session
- 31 March 2015 - Cape Town market communication session
- It is important that clients ensure they have the right level of representation at the session
- 2015 schedule for working group sessions is being finalised and will be communicated once finalised

Questions?

JSE



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