

Integrated Trading and Clearing (ITaC) Working Group Session

15 July 2015



Agenda

JSΞ

- Entity and account structure
- User access and enablement
- Deal management
- Margin methodologies

2015 Working Group (WG) Schedule



- Proposed 2015 WG Schedule

Date	Time	Status
Tues, 12 May 2015	11h00 – 13h00 SAST	Complete
Mon, 18 May 2015	10h00 – 12h00 SAST	Complete
Thurs, 28 May 2015	10h00 – 12h00 SAST	Combined into 3 June
Wed, 3 June 2015	10h00 – 12h00 SAST	Complete
Wed, 1 July 2015	10h00 – 12h00 SAST	Combine with/into 8 July
Wed, 8 July 2015	10h00 – 12h00 SAST	Complete
Wed, 15 July 2015	10h00 – 12h00 SAST	In progress
Wed, 5 Aug 2015	10h00 – 12h00 SAST	*New date added
Mon, 24 Aug 2015	11h00 – 13h00 SAST	
Mon, 21 Sept 2015	10h00 – 12h00 SAST	
Mon, 19 Oct 2015	10h00 – 12h00 SAST	
Wed, 18 Nov 2015	10h00 – 12h00 SAST	Likely to add more dates

Proposed ITaC phases



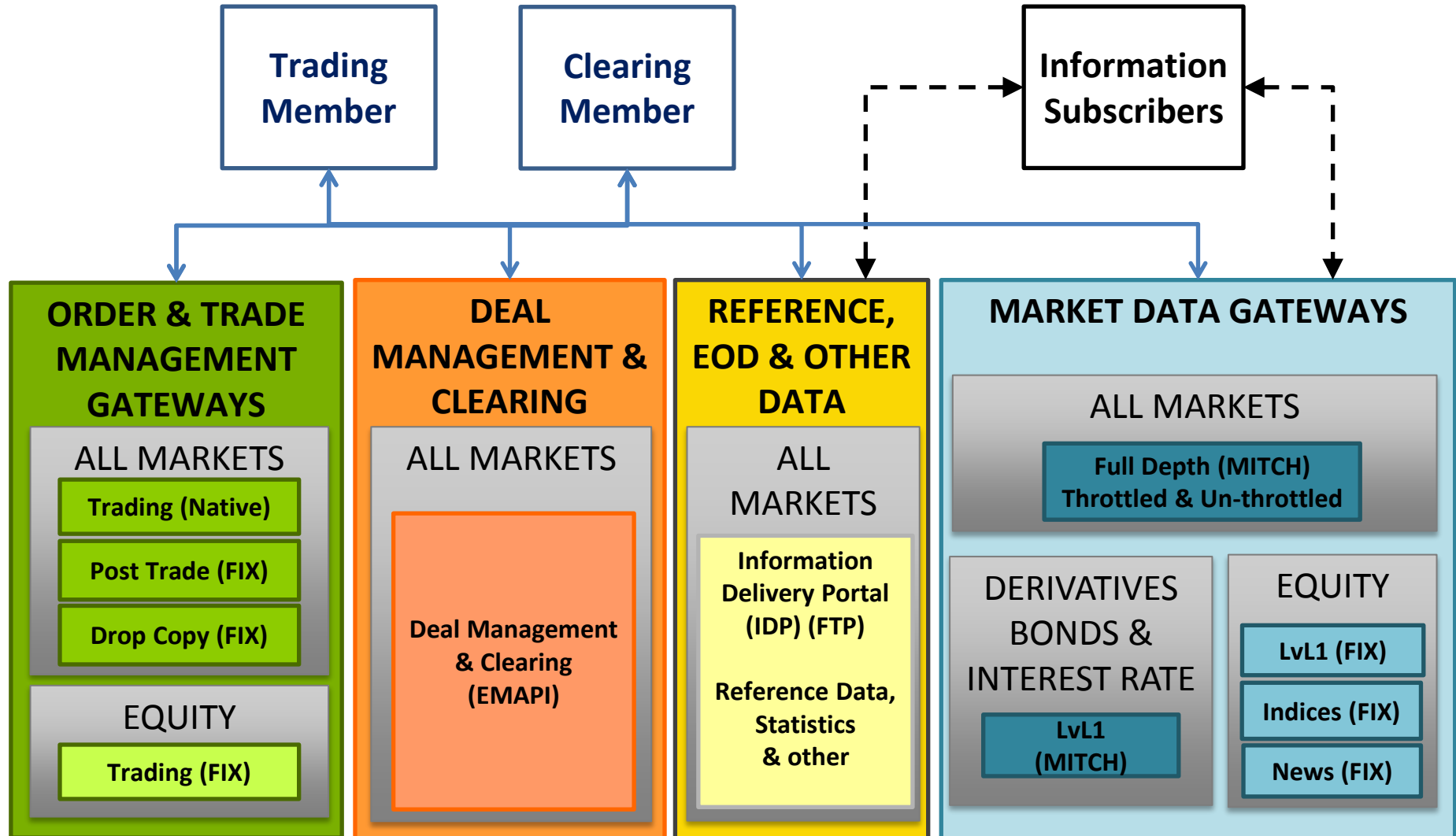
- The programme consists of 2 Projects
 - Project 1:
 - Phase 1a: Equity Market upgrade for trading only
 - Targeting Q3 2016 (dependent on T+3 implementation)
 - Phase 1b: Equity Derivatives Market
 - Targeting Q2/3 2017
 - Phase 1c: Currency Derivatives Market
 - Targeting 2 months after Phase 1b implementation
 - Project 2: Commodity Derivatives Market, Interest Rate Derivatives and Bonds Markets



Trading, Clearing and Information Systems

All Markets – High-level

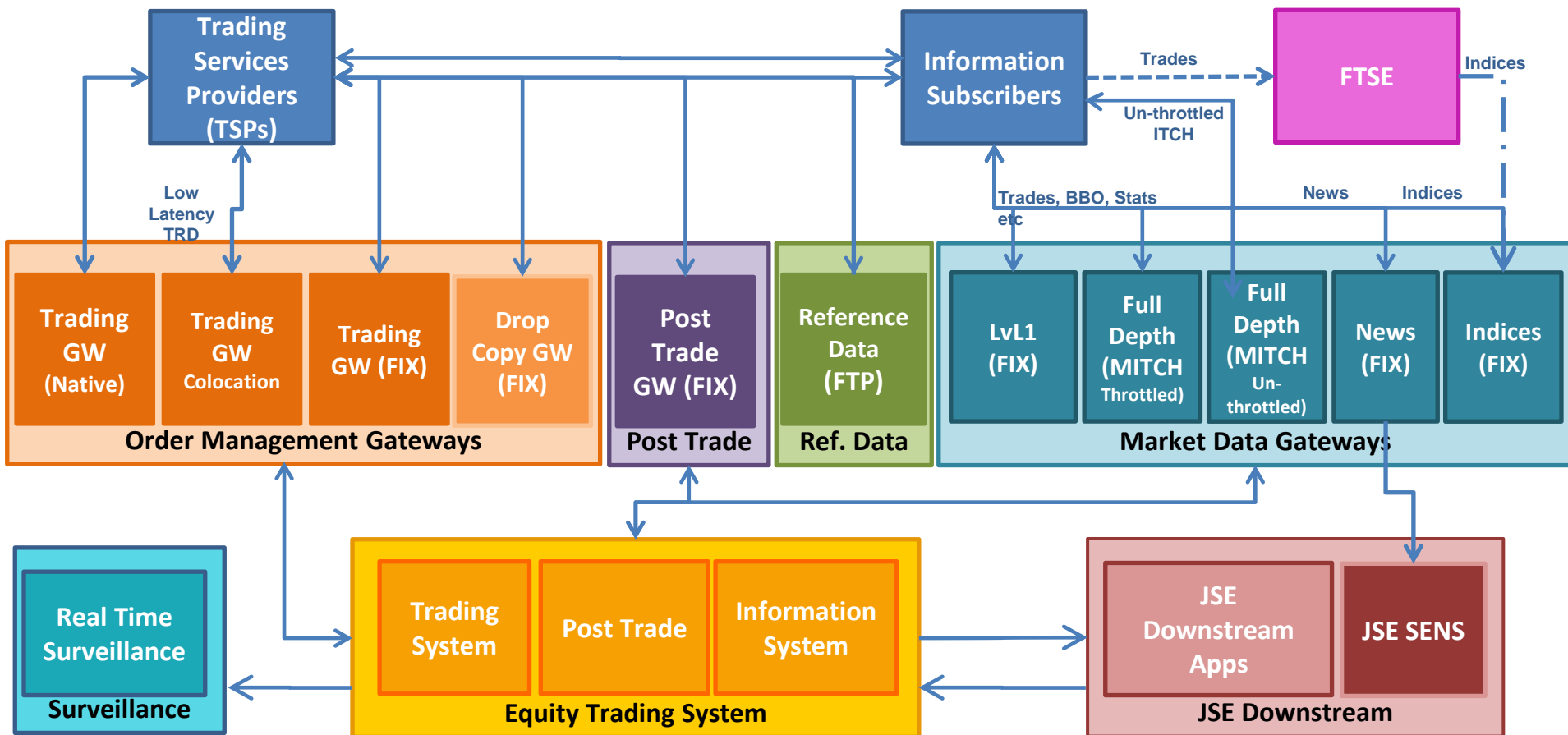
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NOTE: Interest Rate and Commodity Derivatives form part of the future roadmap and will follow post Project 1

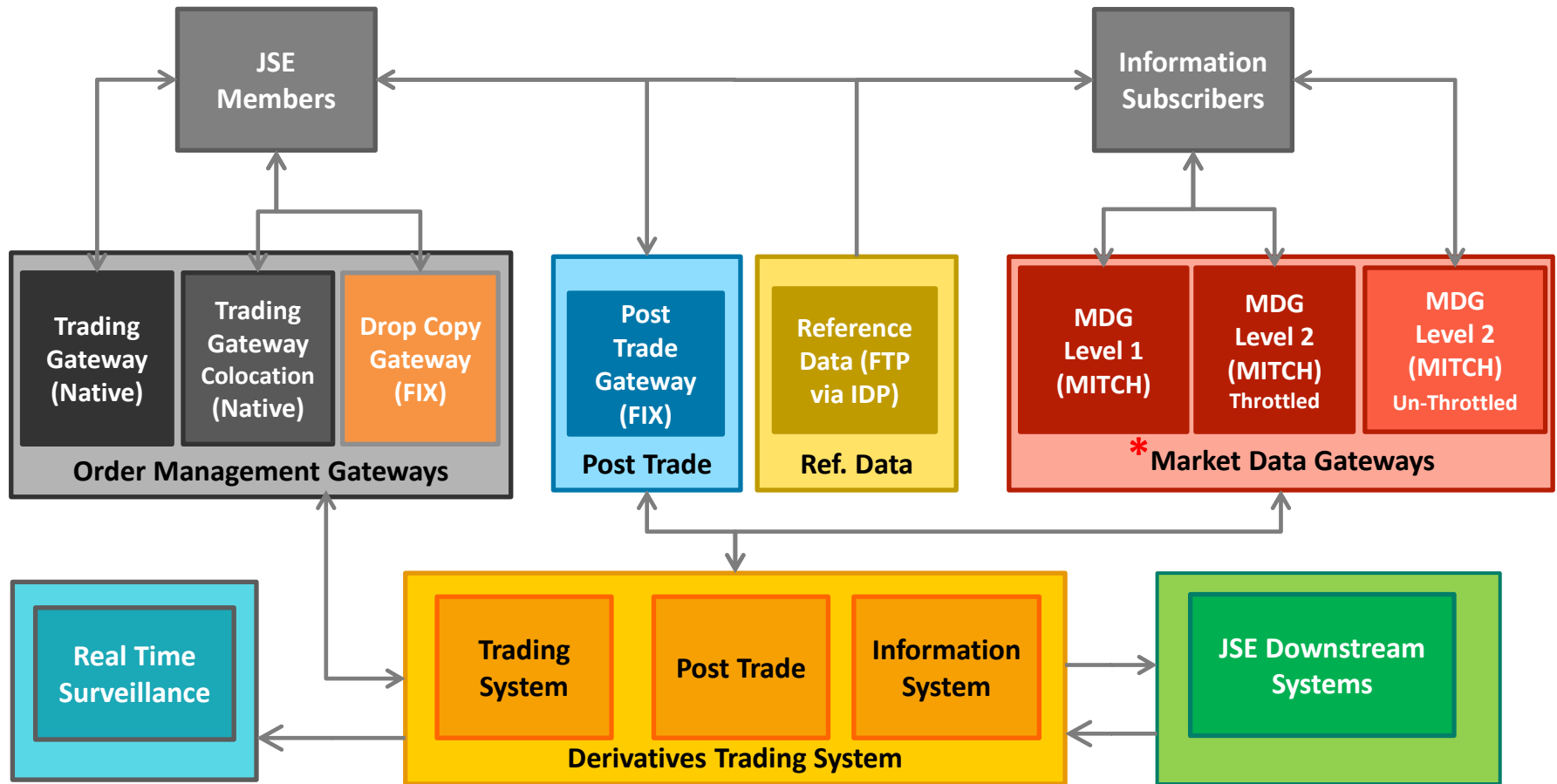
Trading and Information System

Current Equity Market



Trading and Information Systems

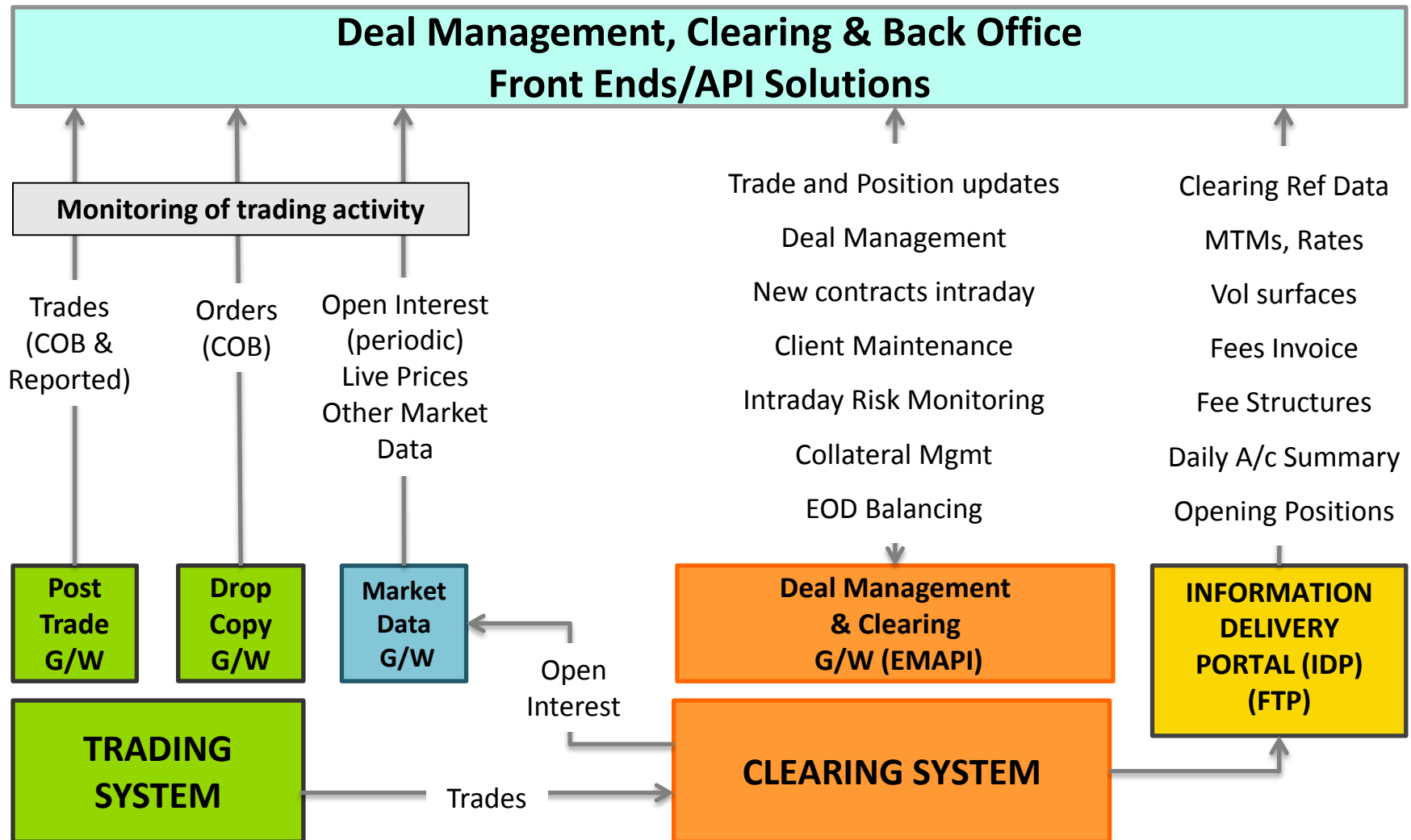
High Level Proposed Derivatives Solution



- There will be a set of Market Data Gateways for Equity Derivatives and a set of Gateways for Currency Derivatives
- * • Additional market data gateways will be introduced at a later stage for Commodity Derivatives.
- Interest Rate market data will be disseminated via the same gateways as Currency Derivatives

Interfaces for Post Trade Functions

High Level Proposed Solution



Integrated Trading and Clearing (ITaC)

Deal Management and Clearing



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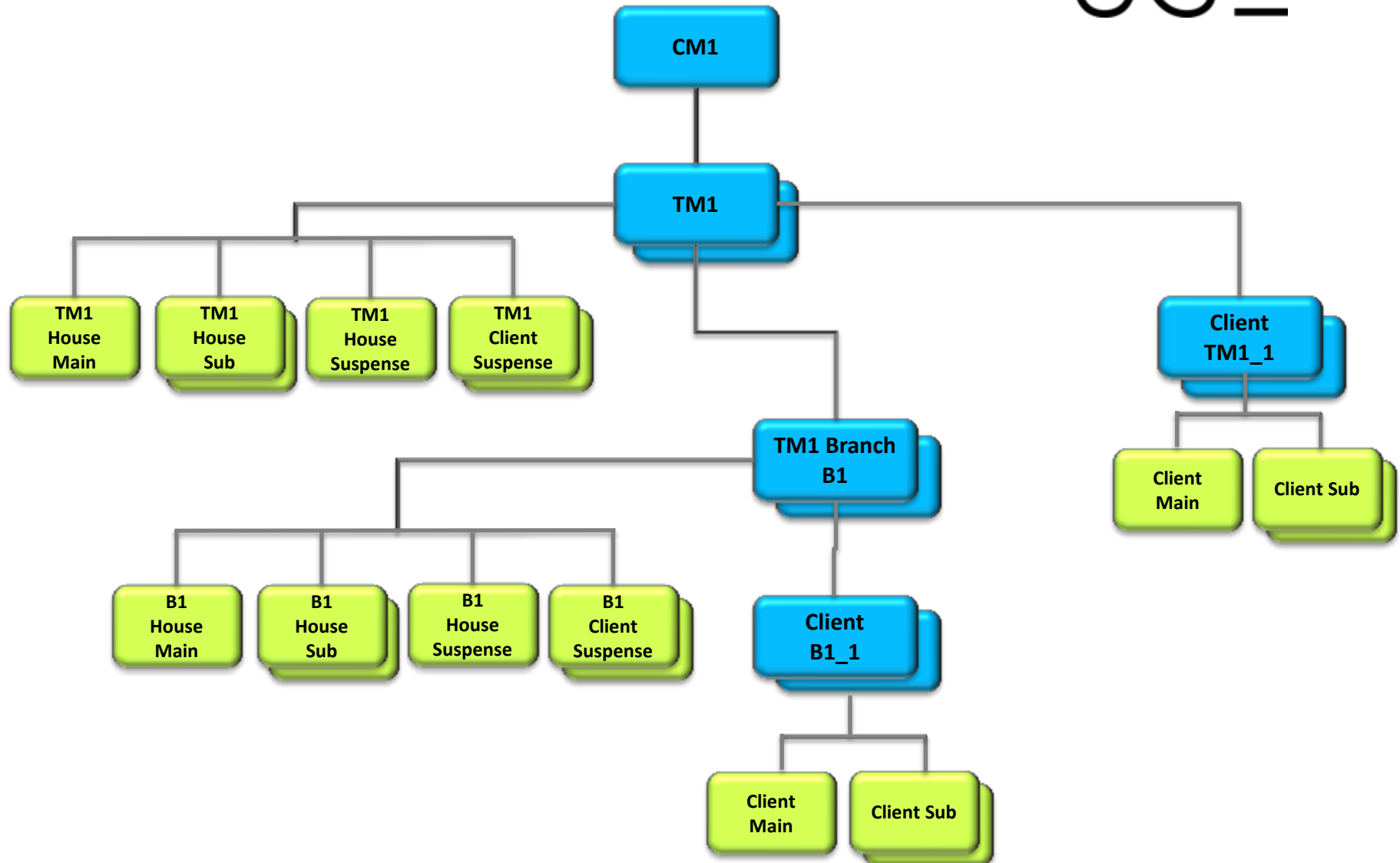
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Entity and Account Structure

Position Account View

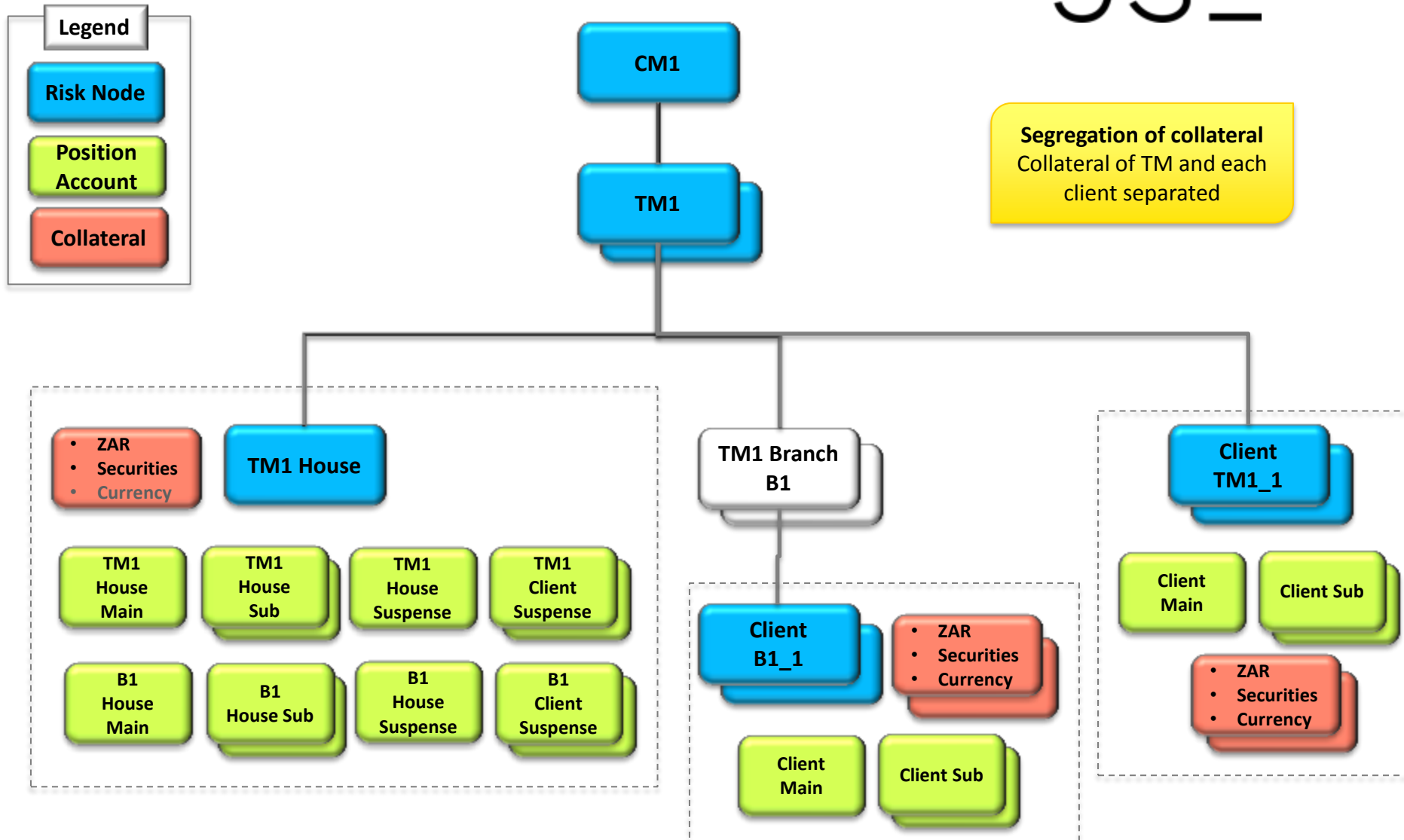
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Entity and Account Structure

Risk & Collateral View

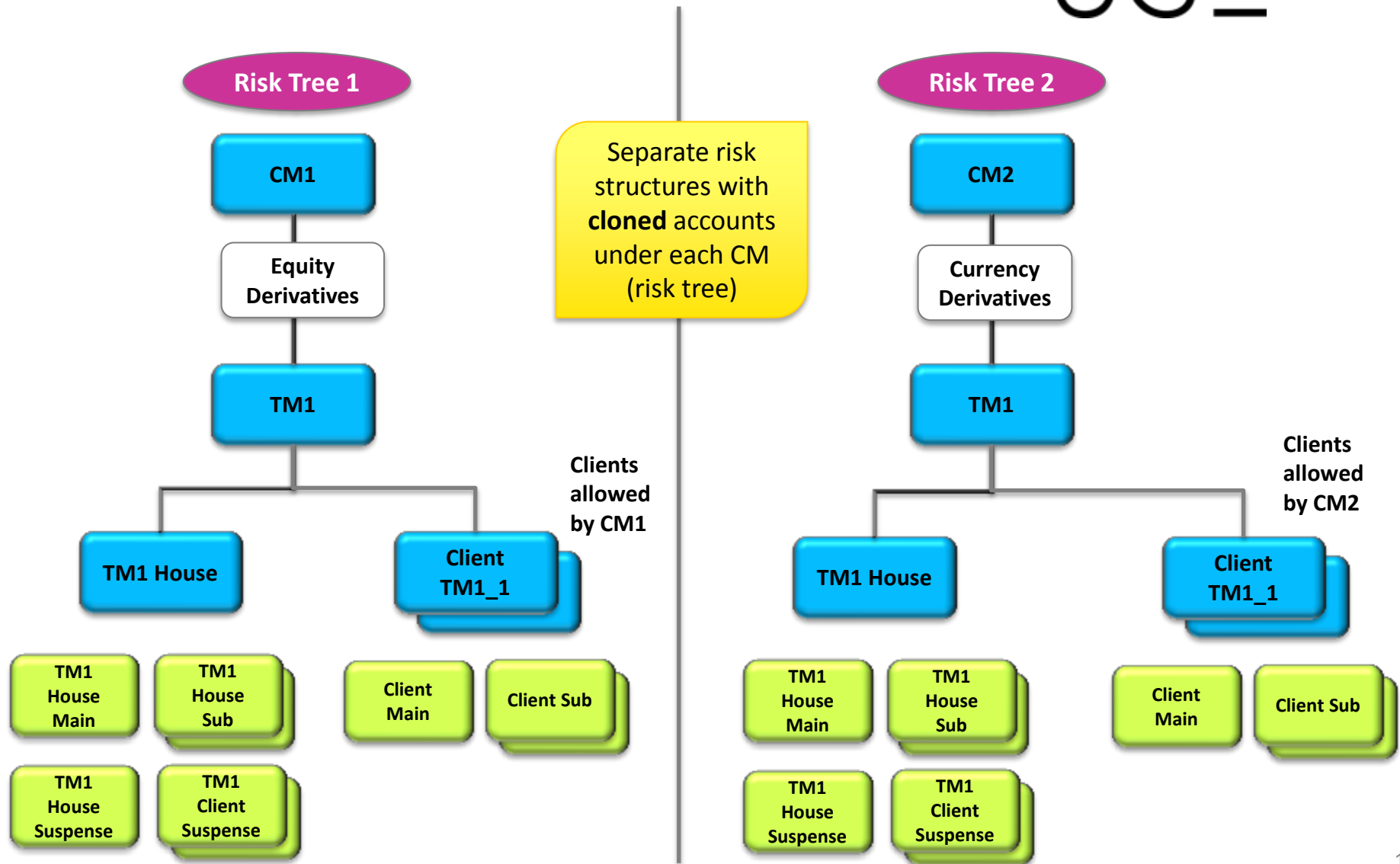
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Entity and Account Structure

Clearing different markets through different CMs

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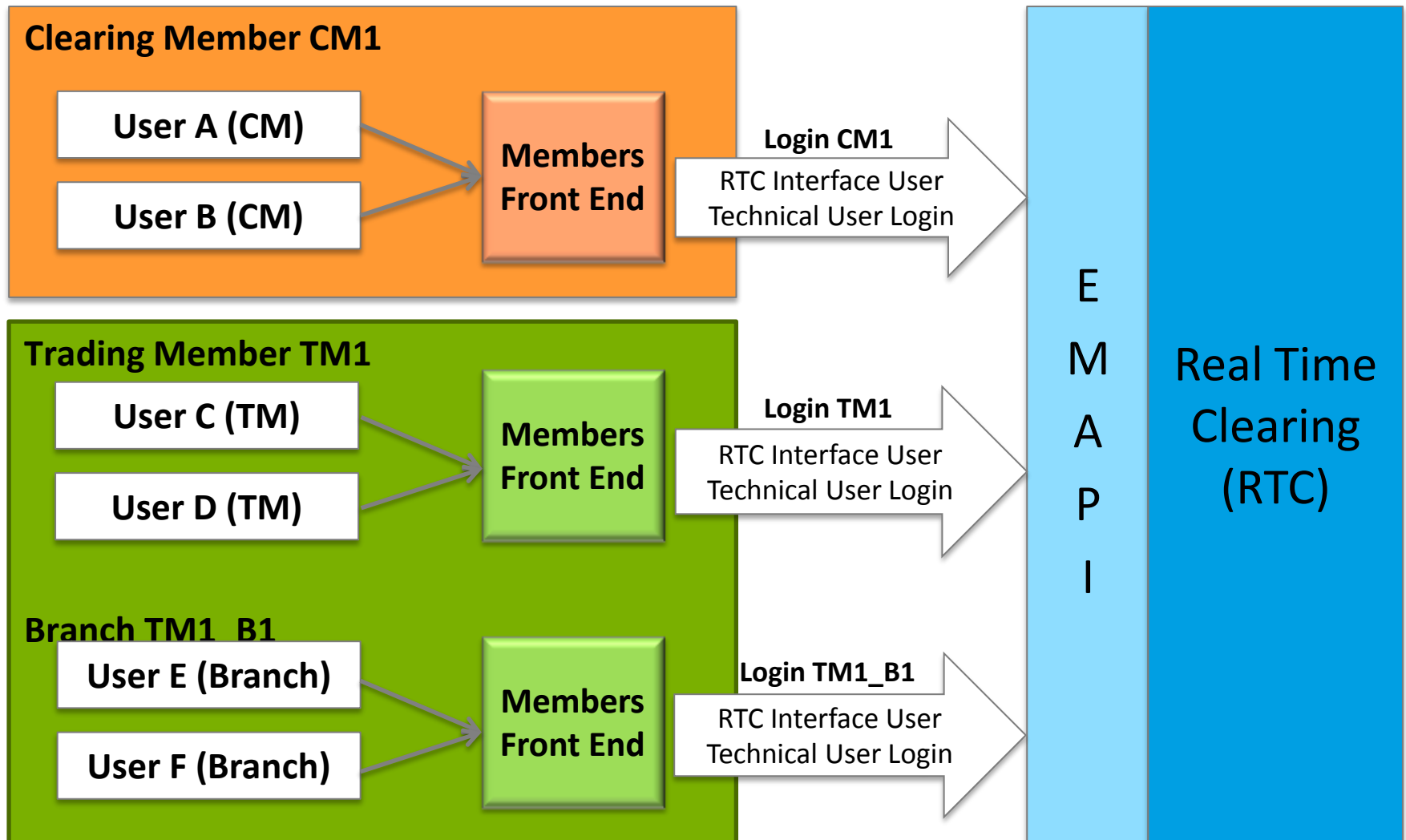
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User Access & Enablement

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User Access & Enablement



- JSE loads Interface Users in RTC against a Clearing Member (CM), Trading Member (TM) or Branch
- JSE assigns either the CM or TM role
- RTC determines private data access based on the position of the Interface User's entity in the 'risk tree'
 - Data access of the RTC Interface User can be further restricted within the RTC framework by the member on the member's own Front End
- RTC determines functional permissions based on the RTC Interface User's role
 - Functional permissions of the RTC Interface User can be further restricted within the RTC framework on the member's own Front End

Note: CMs to subscribe to receive the private data (e.g. deals, positions, exposure updates) for each of their TMs

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- Entity and account structure
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- The JSE has conducted extensive research into international best practices with regards to trade reporting, deal management and statistics treatment of agency and principal trades
- As discussed at the 3 July Financial Derivatives Advisory Committee (FDAC) meeting and communicated in market notice 430/15 on 14 July 2015
 - The JSE is obliged to ensure fair, efficient and transparent markets and promote price discovery and price transparency for providing best execution
 - The JSE would like to further align the equity derivatives market with the research findings and international best practice
 - The ITaC systems functionality will support this

- Definition of principal and agency capacity

Principal trading refers to transactions concluded by a member for its own account

Agency trading refers to transactions concluded by a member as an agent on behalf of its clients



- Currently the equity derivatives system does not block members from changing the price (taking a turn) when performing allocations, assigns and tripartite allocations of trades booked as principal trades¹
- These deal management activities typically relate to transactions concluded by a member as an agent
- It can be interpreted that members acting as an agent are allowed by the system to record the transaction as a principal transaction and reflect a profit (turn) where commission or a fee should have been charged

¹ *Currently (and in future) the system will not allow the price of a trade to be changed when deal managing agency trades*

- Principal capacity
 - A reported trade is to be booked on the trading system at the appropriate price associated with the trade
 - The deal management functionality in the new clearing/post-trade system (RTC) will not allow the price of a transaction to be changed when performing any deal management activities for principal transactions

- Agency capacity
 - The new clearing/post-trade system (RTC) will provide existing functionality which allows members to allocate, assign and tripartite trades to clients at the same traded price
 - Proposal is that commission is charged outside of the JSE system
 - If required, the JSE is open to exploring options which may support or facilitate the processing of commissions



The following slides unpack these principles and the associated system functionality in more detail....

- Deal management will be performed on RTC
- RTC will cater for existing deal management functionality, although some aspects will change

- Assigns (give-ups)
- Allocations
- Tripartite allocations
- Accumulations

- Deal sub account modification
- Position sub account modification
- Allocation correction
- Principal correction

Deal Management for Agency Transactions



- Assign - member acting on behalf of another member
 - Trade matched on the new trading system
 - Member **assigns** (gives-up) the trade to receiving member at the same price through deal management on RTC
 - Receiving member accepts/rejects the trade on RTC
- Allocation - member acting on behalf of own client
 - Trade matched on the new trading system
 - Member **allocates** the trade to the client at the same price through deal management in RTC

Deal Management for Agency Transactions



- Tripartite allocation - member acting on behalf of a tripartite client
 - Trade matched on the new trading system
 - Member **allocates** the trade to the tripartite client at the same price through deal management on RTC
 - Tripartite agreement must already exist
 - Receiving member accepts/rejects the trade

Principal Transactions



- Member trades as principal with another member
 - Member books reported trade (Off Book trade) on the new trading system with the other member as counterparty
- Member trades as principal with own client
 - Member books reported trade (Off Book trade) on the new trading system with the client as counterparty
- Member trades as principal with tripartite client (not common but possible)
 - Member books reported trade (Off Book trade) on the new trading system with the tripartite client as counterparty

Note: Trade reporting models in will be covered in a future session

Deal Management Other Functionality



- Accumulation
 - Aggregation of several deals into a single deal with a volume weighted average price
 - The capacity (agency or principal) of the deals being accumulated must be the same
- Deal sub-account modification
 - Change a deal from member account to member sub-account or client suspense account and vice versa

Deal Management Other Functionality



- Position sub-account modification
 - Change a position from member account to member sub-account or client suspense account and vice versa
- Allocation error correction
 - Change the client code on a deal from one client to another client
- Principal correction
 - Change the client code on a deal from the incorrect client code to the member's house account

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Margin methodology



- ITaC will deliver an integrated clearing platform for all Derivative markets
 - Single margin run may allow cross-market margin offset opportunities where deemed appropriate and sound by the JSE Risk team and JSE Clear
- Plan to go live with current margin methodology i.e. JSPAN, with minor changes
 - Risk arrays
 - Rounding
- As currently, liquidation and large position add-ons to JSPAN will also apply

- All data required to replicate the margin methodology will be made available on IDP
 - JSPAN Margin parameters
 - IMR, CSMR, SSMR, VSMR, CSG, SSG
 - Risk Arrays
 - Closing MTM prices
 - Instrument Reference Data
 - Parameters for liquidation period & large position add-ons



- JSE Clear intends moving to a Historical Value at Risk (HistVaR) portfolio margin methodology
 - Sometime after go-live of the first phase of ITaC (EDM & FXD markets)
 - Market will be given ample notice and any margin methodology changes will be taken through JSE Clear governance structures
 - HistVaR will allow significantly more flexibility in providing margin offset

Margin methodology



- Software providers are encouraged to develop solutions which replicate the JSE Clear margin methodology
 - Current JSPAN specification is available on JSE website
 - Updated specification to be published in due course
 - Software providers welcome to engage with JSE Risk team if they require guidance and support
 - Queries can be channelled via ITAC@jse.co.za

Questions?

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