

# JSE CLEAR INITIAL MARGIN POLICY

November 2020

Table of Contents

Version control ..... 3

Version History ..... 3

**1. Introduction..... 4**

**2. Mark-to-Market Settlement Cycles ..... 4**

**3. IM Calculation ..... 4**

**3.1. Parameters and Offsets ..... 5**

**4. Controls ..... 5**

**4.1. Back-testing..... 5**

**4.2. Data ..... 5**

**4.3. Model Testing ..... 5**

**5. Policy Governance..... 6**

**VERSION CONTROL**

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<b>Approved by</b>	JSE Clear Risk Committee JSE Clear Board

**VERSION HISTORY**

Version	Date	Summary of changes	Author
1.0	March 2016		JSE Clear Risk team
2.0	September 2017	Minor wording updates	JSE Clear Risk team
3.0	October 2018		JSE Clear Risk team
4.0	October 2019	Regular review	JSE Clear Risk team
5.0	November 2020	Adjusted backtesting escalation rules Included intraday margin call thresholds Minor wording updates	JSE Clear Risk team

### 1. Introduction

Margin represents the primary prefunded line of defense for JSE Clear (JSEC) in managing the risks associated with clearing financial instruments. The aim of this document is to articulate JSEC’s policy with regards to:

- The frequency of margin settlement cycles;
- The initial margin calculation methodology; and
- The control measures which are in place to ensure that JSEC’s margin levels are, at all times, commensurate with the risks cleared by JSEC.

JSEC makes use of Initial Margin (IM), Variation Margin (VM) and Additional Margin paid to the Default Fund in order to manage its counterparty credit risk.

### 2. Mark-to-Market Settlement Cycles

VM refers to the settlement of profits and losses, while IM addresses the anticipated costs that JSEC would incur in hedging and portfolio liquidation in the event of a participant default. Additional Margin paid to the default fund is used to mutualise losses exceeding IM and is dealt with in the Default Fund Policy. Both IM and VM settlement obligations are processed as part of JSEC’s Mark-to-Market (MtM) settlement cycles. JSEC must perform at least one MtM settlement cycle per business day for each product cleared under the JSEC risk waterfall. JSEC does, however, reserve the right to perform ad hoc MtM settlement cycles should market conditions warrant this action in accordance with the Intraday Margin Call policy.

The VM obligations associated with a particular MtM cycle are payable in cash only, in the currency of the product cleared. At an account level, VM obligations are netted across all positions, per currency cleared. The IM obligations associated with a particular MtM cycle can be covered by cash or securities, as per the JSEC Collateral Policy. Both VM and IM are calculated at an account level, and netted at a clearing member level.

The IM posted against the exposures held in a particular account can only be used to satisfy the losses incurred in liquidating the positions held in the particular defaulting account.

### 3. IM Calculation

JSE Clear is responsible for establishing initial margin levels which are commensurate with the risks and particular attributes of each product, portfolio, and market operated by JSEC. To this end, the JSE Clear Chief Risk Officer (CRO) must ensure that the initial margin required for an outright position in a particular contract in any of the derivative markets operated by JSEC, is at least equal to the amount calculated under the following approach:

Methodology	Confidence Level	Liquidation Period	Look-Back Period
Historical Value-at-Risk	99.7%	At least 2-days	Rolling 750-days plus 250-days stressed

### 3.1. Parameters and Offsets

Initial margin offsets between different contracts are governed by the JSE Clear Initial Margin Methodology. The JSE Clear Chief Risk Officer (CRO) must ensure that daily account-level initial margin calculations are performed in accordance with this framework, and that the parameters which feed into the framework are calibrated as specified in the JSE Clear Initial Margin Methodology.

The JSE Clear Initial Margin Methodology is owned by the JSE Clear Responsible Officer (RO), and any changes to this methodology must be approved by the JSE Clear Risk Committee.

## 4. Controls

### 4.1. Back-testing

JSEC is required to perform daily back-testing of IM requirements in order to assess whether IM coverage remains at the required confidence levels. Back-testing is conducted by taking end of day IM observations, and comparing these to the cumulative change in VM which has accrued by the clearing member, trading member and client accounts over the assumed liquidation period. Any negative changes in VM which exceed the associated IM are flagged as exceptions. Exceptions, both contract and client level, are reported daily to the CRO. Summaries are provided to the JSEC Risk Committee on at least a quarterly basis.

The CRO must escalate back-testing results to the RO in circumstances where:

- VM exceeds IM at a clearing member level; or where
- Client-level VM exceeds IM by 50% and totals more than ZAR 10 million; or where
- Client-level VM exceeds IM by more than ZAR 50 million; or where
- More than 50 account level breaches are observed on a single day.

The abovementioned escalation must occur before 12h00 on the date of observation. Thereafter, the RO will determine the appropriate course of action, which may include escalation to the JSE Clear Risk Committee and recommendation to affect:

- Adjustments to IM parameters; and/or
- Intra-day MtM settlement cycles; and/or
- Adjustment to the size of the JSEC default fund.

### 4.2. Data

Valid historic data is integral to the IM and MtM models that JSEC employs. Controls are in place to ensure that the capture of such data on a daily basis identifies any anomalies, errors or staleness.

Where reliable data is not available, proxies should be examined and applied, provided such proxies are deemed to be a suitable representation of the risk characteristics of the product. Use of such proxies will be subject to specific authorisation by the CRO. The CRO must maintain a repository of all instances where such proxies are used, and this repository should be reviewed by the CRO on at least an annual basis.

### 4.3. Model Testing

JSEC must regularly review and validate its IM and MtM calculation methodologies in accordance with the JSE and JSE Clear Model Governance Framework. For any new products, the validity of the existing models must be assessed via the new products approval process.

## 5. Policy Governance

This policy is owned by the JSE Clear Responsible Officer and will be reviewed annually or when there are any material changes to the JSEC’s risk profile, methodologies or processes.

The JSEC Risk Committee will recommend the initial approval of this policy by the JSEC Board or when there are material changes. The regular annual review of this policy will be approved by the JSE Clear Risk Committee.

### A - Appendix A – Governance Committee Actions

No.	Ref	Action Item	Frequency	Applicable Governance Forum
1.	5	The JSEC Risk Committee will recommend the initial approval of this policy by the JSEC Board or when there are material changes. The regular annual review of this policy will be approved by the JSE Clear Risk Committee.	Annual	<ul style="list-style-type: none"> <li>JSE Clear Risk Committee</li> </ul>