

# JSE CLEAR COLLATERAL POLICY

Post Trade & Information Services

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## **1. Introduction**

Initial margin is paid to, or by, a member or client whenever the risk of loss, as determined by the JSE, changes with respect to the aggregate position of such member or client. Clearing members pay additional margin to the JSE Clear Default Fund. Rand cash is held in trust by JSE Clear and invested on behalf of market participants by JSE Clear or an agent thereof according to a mandate approved by the Board of JSE Clear. This policy details the way in which JSE will accept and manage securities collateral.

It is a fundamental requirement that eligible securities that will serve as collateral be validly and lawfully pledged to JSE Clear in accordance with the provisions of the relevant agreements, the JSE Derivatives Rules or the Yield-X Rules, the provisions of the Financial Market Act as well as the applicable principles of South African law.

Securities are accepted to cover a portion of the initial margin of market participants as well as a portion of the additional margin posted by clearing members to the Default Fund.

Securities will only be accepted from participants with a Segregated Depository Account (SDA) at Strate. The participant's Central Securities Depository Participant (CSDP) will be required to auto-commit to pledging securities as part of the JSE's procedures.

## **2. Minimum cash requirement**

To reduce liquidity risk in the normal course of business and in the case of a participant default, at least 65% of the initial margin requirement, and at least 65% of the clearing member's additional margin requirement with respect to the default fund, must be covered by Rand cash. The remainder of a market participant's initial margin obligation and a clearing member's additional margin obligation to the default fund may be covered in acceptable securities.

## **3. Eligible collateral**

JSE Clear in its sole discretion will determine the acceptance criteria to be satisfied by a security type or particular security to be used as collateral. In this determination, JSE Clear will consider market and price liquidity of the particular security as well as the interdependence between the pledger and security in question.

Only liquid, South African fixed rate government bonds will be accepted by JSE Clear as securities collateral. JSE Clear will determine the securities that are eligible to be posted as collateral, and make this list of securities publicly available by publishing it on the JSE website.

Only securities on which JSE Clear is the only pledgee will be accepted as collateral. Notification of the pledge must be received by JSE Clear from the Central Securities Depository (Strate, via their CMS) before any pledge of a security is recognised.

#### **4. Security substitution**

A market participant may request the Central Securities Depository to substitute a pledged security for another eligible security, provided the post-haircut value still covers the obligation covered by the original security. Where the trading member or client would like to use the pledged security for another purpose and has no eligible security with which to substitute it, the market participant must first cover the obligation by paying cash to the clearing house, before the pledge on the security will be released.

#### **5. Collateral valuation and haircuts**

When determining the sufficiency of the cash and securities posted by a market participant to cover its obligations, JSE Clear will value the cash paid and the securities pledged to JSE Clear for this purpose at their market value less any haircut applicable to those particular securities or types of security. Market participants will be notified of applicable haircuts and any changes thereto.

JSE Clear will mark these securities to market on at least a daily basis and will adjust the amount of cash to be paid to (or from) JSE Clear from (or to) market participants to cover their remaining initial margin requirements. Where appropriate, the JSE may revalue securities and adjust cash requirements intra-day.

Haircuts will be applied to each security that is eligible to be posted as collateral. This means that a discounted value from the mark-to-market value will be used to cover the margin requirement. The haircut is to account for potential adverse market movements in the price of the security between the time of default and the time of sale. The haircuts will be calculated to account for market volatility of each asset, and the concentration of that asset placed with JSE Clear as collateral.

The haircut will be determined by the market volatility and liquidity of that particular type of security or specific security. Haircuts will be reviewed at least quarterly for appropriateness and more frequently should JSE Clear so require.

#### **6. Limits**

JSE Clear will impose limits on the aggregate amount of a particular type of security or particular security per account for, among others, the following reasons:

- (i) to avoid undue concentration of collateral in a particular asset class, type of security, obligor, etc;
- (ii) to restrict the maximum amount of non-cash collateral a market participant may pledged to JSE Clear for its margin requirements in respect of its positions; or
- (iii) to restrict the maximum amount of non-cash collateral a market participant may pledge to JSE Clear for its contribution to the default fund.

JSE Clear will state the maximum amount of each security that may be posted as collateral for each account. This limit for an account will be the lower value of the determined percentage of total posted securities collateral and a fixed Rand amount per collateral type or particular security.

The portion by which a pledged security or basket of pledged securities exceeds any of the above the limitations or is not listed as eligible, will be valued at zero.

#### **7. Default of a market participant**

In the case of a market participant's default, JSE Clear will appoint a broker to sell the securities pledged to JSE Clear. Where possible, and in order to obtain the best price when selling the securities, the broker will execute the sale at best bid price and on the central order book.

The proceeds of the sale will be paid to JSE Clear. After all the participant's obligations to JSE Clear have been settled (including all fees and penalties) any remaining funds will be returned to the market participant through the respective clearing member.

## **8. Liability**

The JSE and JSE Clear will attempt to secure the best price when selling a participant's securities. In addition to the indemnities contained in the JSE's Rules and section 72 of the Financial Markets Act, neither the JSE nor JSE Clear shall have any obligation or responsibility to preserve, protect, collect or realize upon, and under no circumstances shall the JSE nor JSE Clear be liable for, any loss or diminution in value or depreciation in the performance bond collateral maintained pursuant to this rule.