CCP clearing for the South African bonds and repo markets
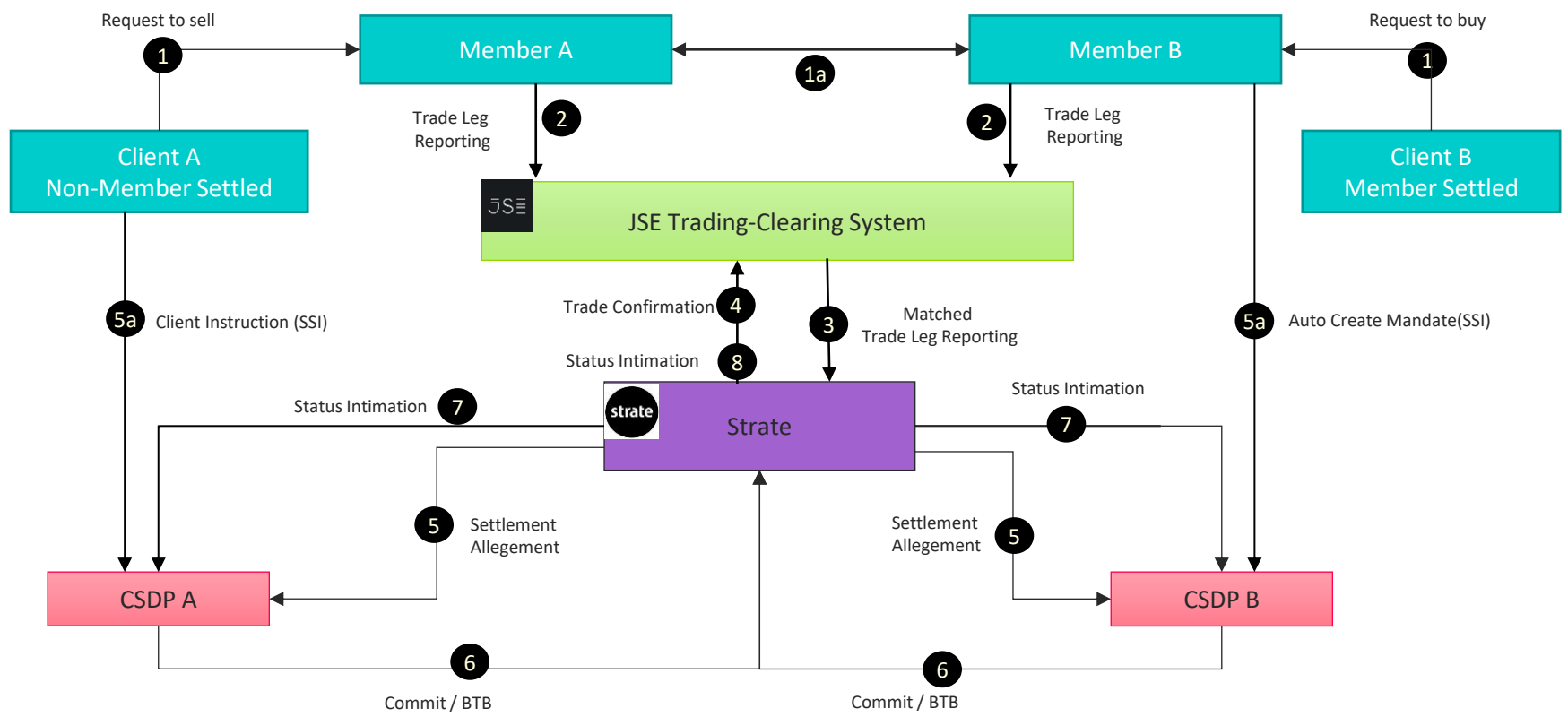
Strate and CSDPs Impact

18th November 2024

let's connect
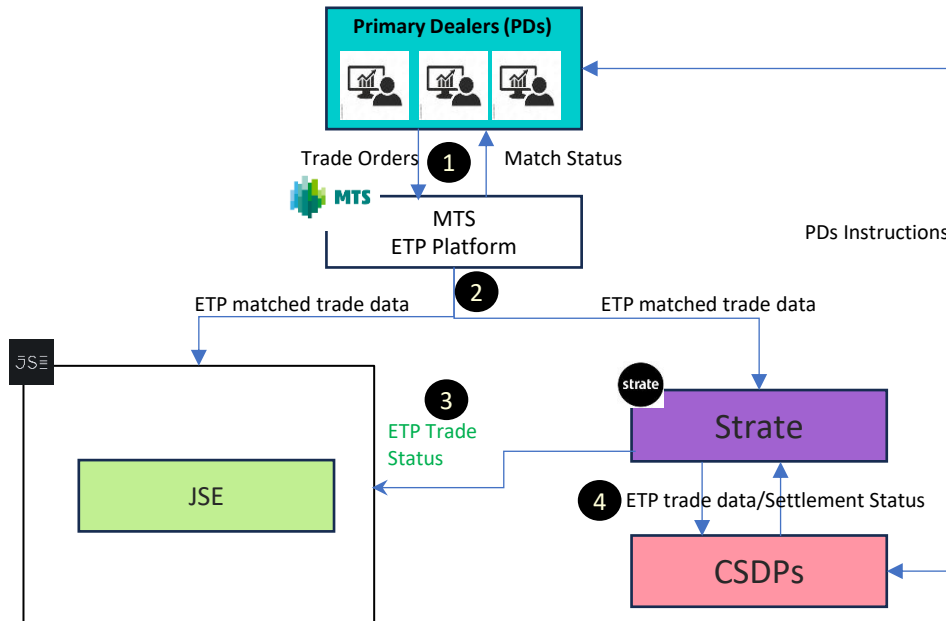
Bonds CCP | Agenda

1. Current trade and settlement flow of IRC and ETP market

2. Trade and settlement flow of IRC and ETP trade in Bond CCP solution

3. Settlement timeline for CCP cleared trades

4. Summary of key changes for Strate and CSDPs

5. ETP Trade Cancellation change

6. ETP Trade Recon process change

7. Securities Collateral Service

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Current ETP trade flow :

Primary Dealers (PDs)

Trade Orders — 1 — Match Status

MTS
ETP Platform

ETP matched trade data — 2 — ETP matched trade data

PDs Instructions

JSE

3 — ETP Trade Status

strate

Strate

4 — ETP trade data/Settlement Status

CSDPs

Key Notes

1. Currently, both JSE and Strate receive ETP trade data from the MTS-ETP platform.

2. Strate generates the MTS Trade ID. (10 digit no) and shares it with market participants (JSE and CSDPs etc.) as Strate trade leg no in MT messages.
   20C:: TRRF //034514136

1. Guaranteed flag for MTS trade messages shared between the participants is marked as "Y"("/GUAR/Y"),

2. Strate and CSDPs priorities the settlement of ETP trades using BPID and BIC codes.

3. JSE performs a recon process with MTS and Strate at EOD (3-way recon process)
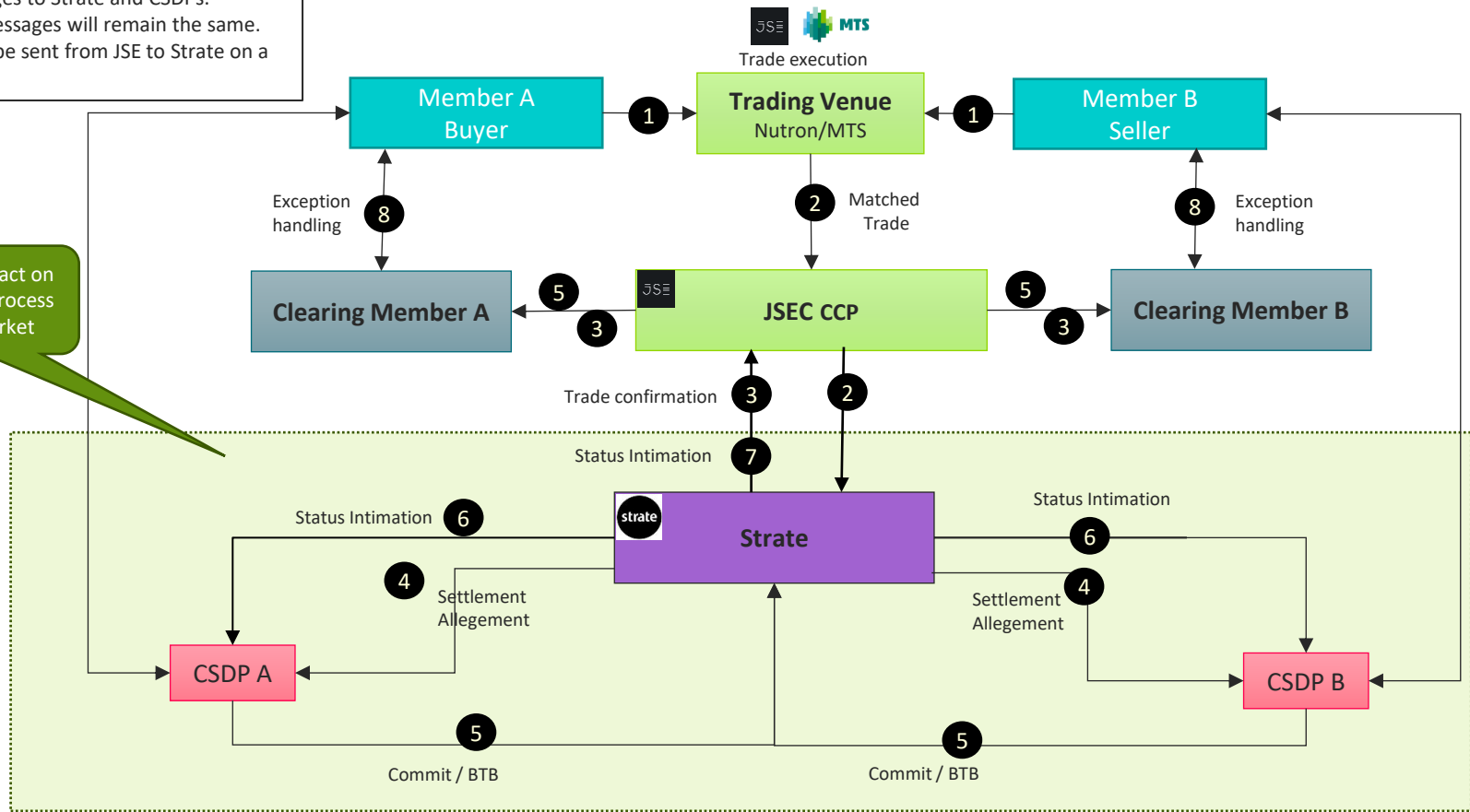
Bond CCP ETP trade flow

Impact - Bond CCP trade flow: Link between MTS-ETP platform and Strate will be discontinued. JSE will send ETP trade data to Strate in the same way it currently sends the reported bond trade data using swift messages (MT541/3). Therefore, Strate to configure their systems to receive MTS-ETP trades directly from JSE using Swift messages (MT541/3).

JSE CLEAR
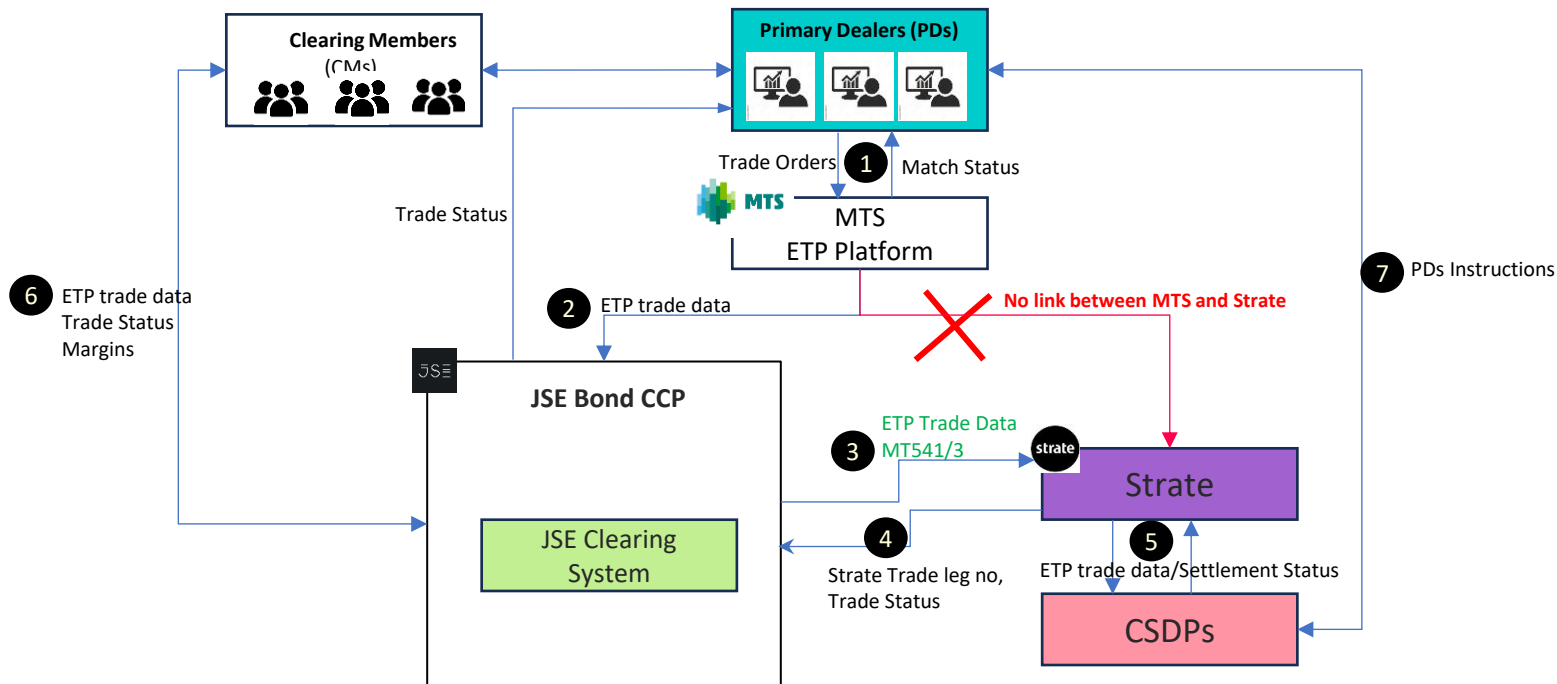
- ✓ No major changes to Strate and CSDPs.
- ✓ All MT(swift) messages will remain the same.
- ✓ Trades will still be sent from JSE to Strate on a gross basis.

Trade execution

Member A Buyer

Trading Venue Nutron/MTS

Member B Seller

No major impact on Settlement process of bond market

Exception handling

Matched Trade

Exception handling

Clearing Member A

JSEC CCP

Clearing Member B

Trade confirmation

Status Intimation

Status Intimation

Strate

Status Intimation

Status Intimation

Settlement Allegement

Settlement Allegement

CSDP A

CSDP B

Commit / BTB

Commit / BTB

✓ No impact to settlement timeline for CSDPs. CSDPs to priorities the commit for all CCP cleared trades.

S-1							S				
7h00	9h00	11h00	13h00	15h00	17h00	19h00/ 07h00	9h00	11h00	13h00	15h00	17h00

TMs ensure CSDP is in position to commit

CSDPs commit

08h30

*CSDP commit becomes unconditional before settlement is triggered at Strate

Exceptions handling:
13h15 – 14h00 TMs source cover CMs
14h00 – 14h30 CMs force cover if necessary

S

13h00	13h15	13h30	13h45	14h00	14h15	14h30	14h45	15h00	15h15	15h30	15h45	16h00	16h15	16h30

- Any Cleared trades in an unstable group will be unlinked and isolated for settlement
- As a result, various trades in that settlement group may become uncovered

Trading Members will have 45min to source cover

If covers are not in place by 14h00, members will be forced to obtain cover from their CM or from NT as the last resort

Settlement administration for cover trades to be finalised by CSDP

Final Strate settlement run

Final SAMOS run

Bond CCP: MT messages between JSE - Strate – CSDPs (Both ETP and Reported market)

JSE	Strate	CSDPs

Trade Acceptance

MT540/1/2/3 →

Accept: MT548-0101 NAFI ← **Y/N**

Settlement Allegement: MT586 →

Reject: MT598-0901/MT548-0901 ←

Trade Commit

Commit: MT598-101 ←

Commit: MT548-0201 AFFI ←

Settlement

Settled: MT548-0601 ←

Settled: MT548-0601 →

Cancellation

MT598-122 →

MT548-0401 ←

MT548-0401 →

Note:
1. *JSE receives additional status intimation MT messages from Strate which are not transmitted to participants.*
2. *MT54X – Reason for Uncommit must still be continued to be sent by CSDPs for client trades.*

Bond CCP | Impact to Strate & CSDPs

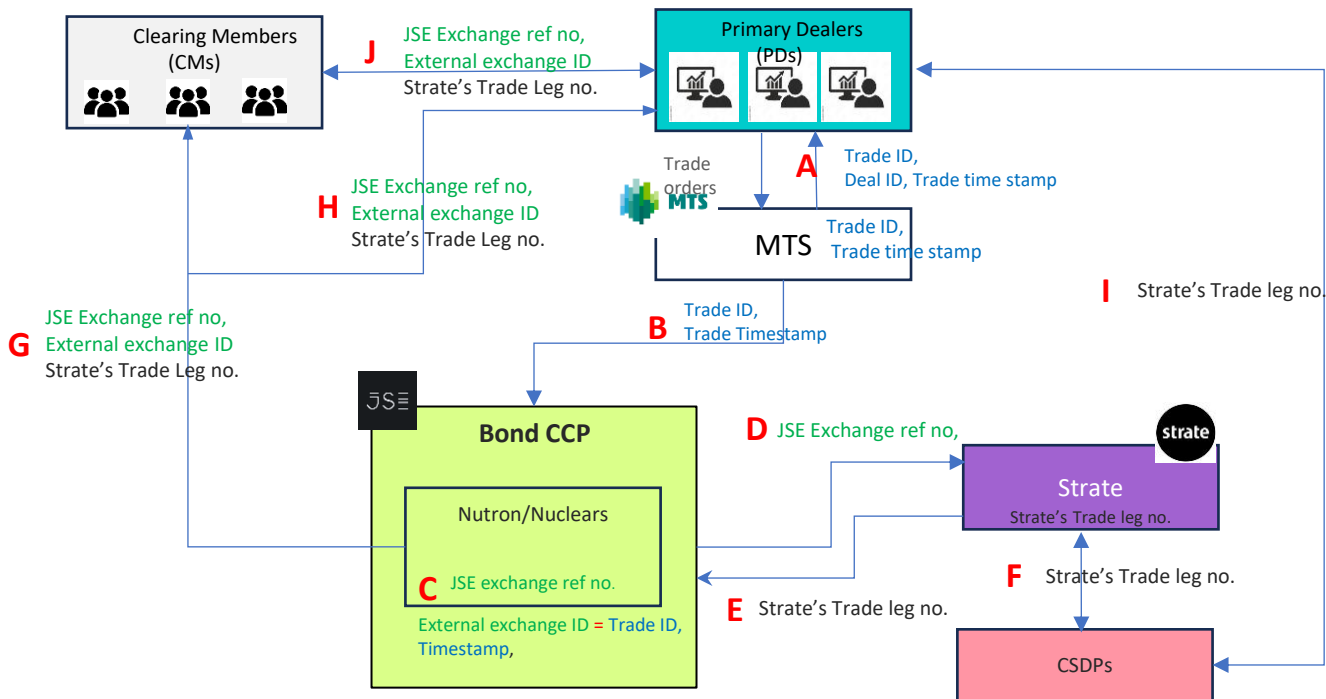|	Current MTS-ETP & IRC Flow	Bond CCP Solution	Impact to Strate	Impact to CSDPs
Trade Flow	• Currently, both JSE and Strate receive ETP trade data from the ETP platform.	• Only, JSE will receive ETP trade data from MTS. • JSE will forward the ETP trade to Strate using the same MT messages (MT541/3) as used for the reported trade currently.	✓	
Strate Trade Leg no.	• Strate generates a Strate trade leg no. for MTS-ETP Trades by concatenating the MTS trade ID and date field e.g. • 20C:: TRRF //034514136	• Strate to generate Strate trade leg no. for MTS-ETP trades using the same logic as is currently used for reported trades e.g. • 20C:: TRRF //0920935702	✓	✓
Guaranteed flag	• Guaranteed flag = Y ("/GUAR/Y"), sent to Strate (from MTS) and to CSDPs (MT586), currently indicates that the trade was executed on ETP trading platform.	• Guaranteed flag = Y, sent to Strate (MT541/3) and CSDPs will indicate that the trade is being cleared via JSE Clear. This will be applicable to trade executed via ETP and in IRC reported market.	✓	✓
Settlement priorities	• Strate and CSDPs prioritise the settlement of ETP trades against the reported trades using BPID and MIC codes.	• Strate and CSDPs to prioritise the settlement of cleared trades against the reported trades using the Guaranteed field (cleared vs non-cleared) in the MT messages e.g. Y= Cleared & N = Non-cleared	✓	✓

BPID	• Below BPID is used for reported and ETP trade currently. It will remain same for bond CCP solution as well.
	  JSE IRC BP ID : ZA001012
	  JSE ETP BP ID : ZA127175
		• No change.		

BIC Code	• There is a separate BIC codes are maintained for JSE IRC and ETP market.
	  BIC Code for ETP : JSE (XJSEZAJJBETP),
	                    Strate (STRAZAJ2HXXX)
	  BIC Code for IRC :JSE (XJSEZAJJXXXX) ,
	                    Strate (STRAZAJ2AXXX)
		• No change.		

Bond CCP | Impact to Strate & CSDPs

	Current MTS-ETP & IRC Flow	Bond CCP Solution	Impact to Strate	Impact to CSDPS
Trade Cancellation process	Currently Strate receives the cancel status from MTS platform for ETP trades.	JSE will send MT598-122 message for ETP trade cancellation. Strate to send MT548-0401 message to JSE.	✔	
Trade Recon process	• Strate run a recon process with MTS and JSE at EOD.	• Strate doesn't need to run a recon process with MTS. The Recon process between Strate – JSE Clear and JSE-MTS will continue. • Additional Cleared flag may be required in the Strate file shared to JSE. • Recon process between JSE and Strate needs to completed before the JSE EOD margin run.	✔	✔
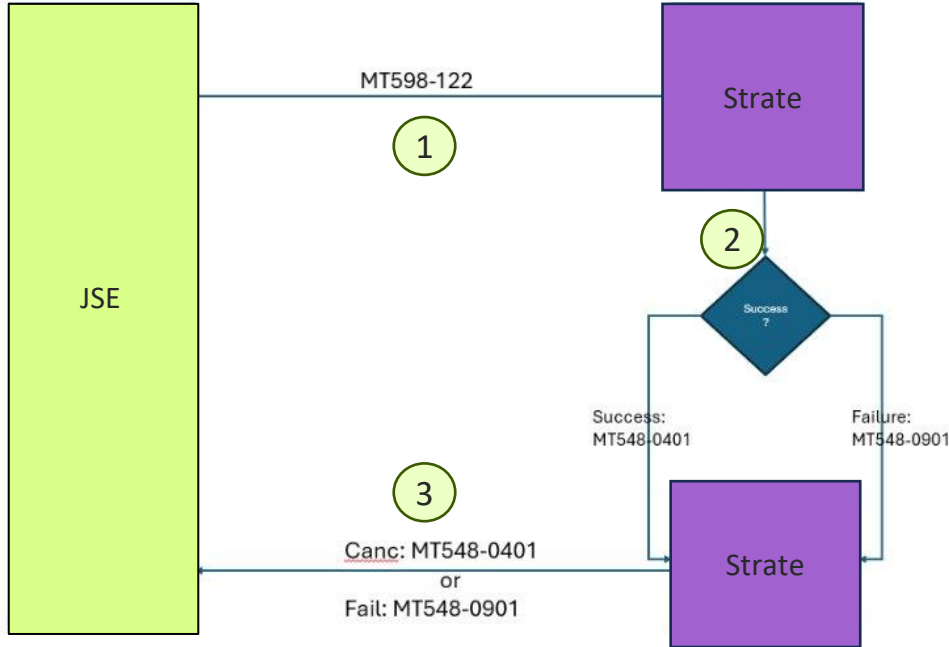
Key Notes:

1. Currently, Strate receives ETP trade cancellation messages from MTS, this will be discontinued.

2. JSE to send MT598-122 trade cancellation message to Strate.

3. Strate to send successful trade cancellation messages (MT548-0401) or trade cancellation failure messages (MT548-0901) to the JSE.

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ETP Trade Flow – Different Trade IDs applicable for Recon process.

Clearing Members (CMs)

J — JSE Exchange ref no, External exchange ID, Strate's Trade Leg no.

Primary Dealers (PDs)

Trade orders MTS

A — Trade ID, Deal ID, Trade time stamp

MTS — Trade ID, Trade time stamp

H — JSE Exchange ref no, External exchange ID, Strate's Trade Leg no.

G — JSE Exchange ref no, External exchange ID, Strate's Trade Leg no.

B — Trade ID, Trade Timestamp

I — Strate's Trade leg no.

Bond CCP

Nutron/Nuclears

C — JSE exchange ref no.

External exchange ID = Trade ID, Timestamp,

D — JSE Exchange ref no,

Strate — Strate's Trade leg no.

E — Strate's Trade leg no.

F — Strate's Trade leg no.

CSDPs

Key Note:
1. Current Trade Recon process between JSE Clear, Strate & CSDPs should remain same. **Strate's Trade leg no**. will remain the primary field in recon process.

2. New Trade recon process between JSE Clear, Clearing members will be required.

3. **H,G & J** : JSE clearing system will publish the below trade IDs in the trade data to clearing member and trading members(PDs) which can be used for reconciliation purpose:
   1. JSE exchange ref. no. (generated at JSE)
   2. MTS trade ID.
   3. Strat's Trade leg no.

Note: Different colors in the trade ID text shows its origin. IDs in green is originated at JSE, blue at MTS & black is at Strate.

1. Current Trade flow of IRC and ETP market (Nitesh)

2. Trade flow of IRC and ETP trade in Bond CCP solution (Nitesh)

3. Settlement timeline for CCP cleared trades (Vaneshri)

4. Summary of Key Changes for Strate and CSDPs

5. ETP Trade Cancellation change

6. ETP Trade Recon process change

7. Securities Collateral Service

- Service Offering
- Primary Stakeholders
- Pledge vs Cession
- Process Flow & Messages
- Substitutions, Top-ups & Withdrawals
- Securities Collateral SOD & EOD Processing
- Eligible Securities

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- **Background**

  - Initial Margin (IM) requirements is calculated as part of the daily EOD process and settled on T+1 and is payable in ZAR-cash only.

  - The acceptance of securities collateral by JSE Clear, allows members to meet their IM requirements through a combination of ZAR cash and liquid South African fixed rate government bonds.

- **Securities collateral will be offered in the following markets for Bond CCP**

  - Interest Rate Derivatives and cleared Bond CCP trades

- **Securities Collateral Value Proposition**

  - Reduce liquidity pressures and funding costs for derivative market participants in an environment of increasing regulatory capital requirements and other cost pressures

  - Alleviate liquidity pressures in times of market stress when margins inevitably increase

  - Mitigation of the concentration risk that arises from the CCP investing the margins it receives from clearing members for derivative exposures back with the same institutions

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Bonds CCP | Securities Collateral (Service Offering)

- **Eligible securities**
  - Initial phase - liquid South African government bonds
  - Later phases - equities will be considered

- **Obligations for which securities collateral will be accepted**
  - Initial margin (including the margin add-on's)

- **A minimum percentage of the IM obligation will still need to be settled in ZAR cash**
  - Initially this will be 65% i.e., up to 35% of the IM obligation can be collateralized through securities
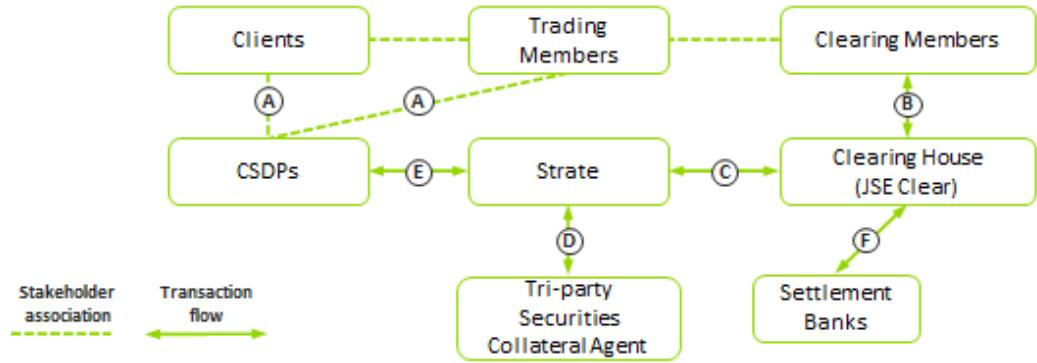
Associations and transaction flows:

A) Clients and Trading Members to open an independent collateral giver account or trading collateral giver account at STRATE via their CSPDs for the pledging of securities collateral

B) Initial margin amounts confirmed by JSE Clear with Clearing Members as part of the daily end-of-day process

C) Allowable securities margin amount sent to Strate per Client and Trading Member for securities collateralisation

D) Strate will allocate or release securities as available in Client and Trading Member independent collateral giver account

E) CSDPs are required to commit to all security pledges and release requests for them to be valid (automated process)

F) JSE Clear to determine remaining cash amount required (i.e. total margin required less pledged securities) and once clearing members confirm the cash breakdown cash settlements are done via the settlement banks

JS≡ | CLEAR

Position holders (Trading members and clients) will pledge securities directly to JSE Clear for their exposures

The 'pledge' mechanism (as opposed to 'cession') will be used for securities collateral

Pledging allows the collateral giver to retain ownership of the security and be entitled to all coupon payments

Similar to the position if cash is posted for IM, the securities must remain the property of the market participant in question and not form part of the assets of JSEC

Cession is a transfer of ownership from the market participant to JSEC and not a collateral arrangement

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Bonds CCP | Substitutions
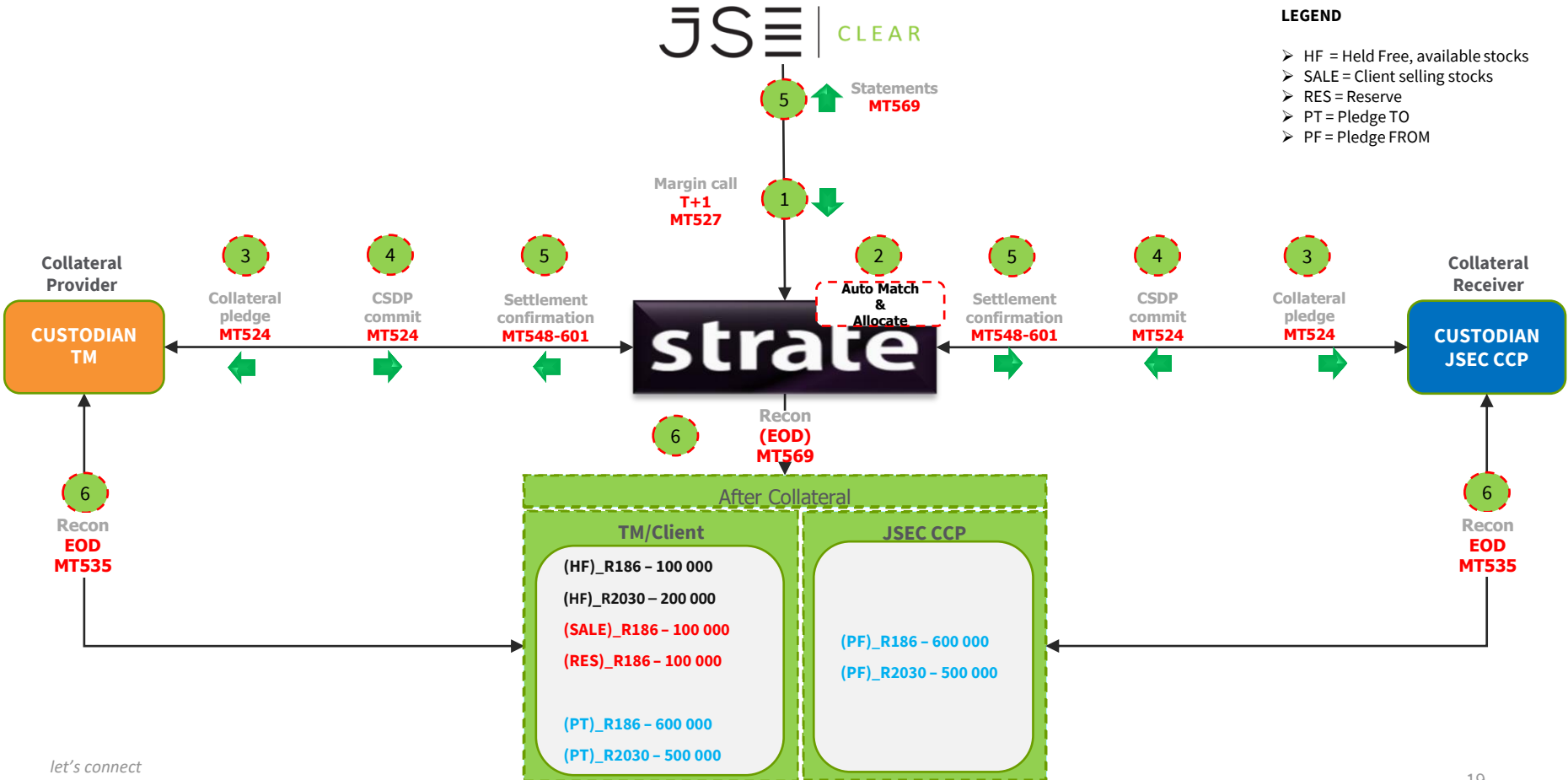
- What happens if a stock is allocated as collateral and sold by the client
  - Bond stock being sold will be substituted with another eligible stock

Before Substitution

TM/Client

(SALE)_R186 – 100 000
(RES)_R186 – 100 000

(HF)_R186 – 200 000
(HF)_R2030 – 200 000

(SALE)_R2030 – 400 000

_____

(PT)_R186 – 700 000
(PT)_R2030 – 500 000

JSEC CCP

(PF)_R186 – 700 000
(PF)_R2030 – 500 000

R186 – 100 000

R2030 – 200 000
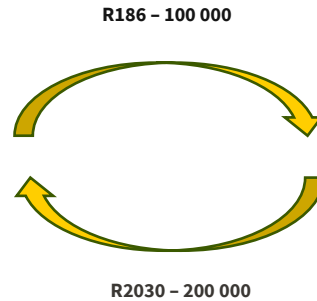
After Substitution

TM/Client

(SALE)_R186 – 100 000
(RES)_R186 – 100 000

(SALE)_R2030 – 400 000
(RES)_R2030 – 400 000

(HF)_R186 – 100 000

_____

(PT)_R186 – 800 000
(PT)_R2030 – 300 000

JSEC CCP

(PF)_R186 – 800 000
(PF)_R2030 – 300 000

let's connect
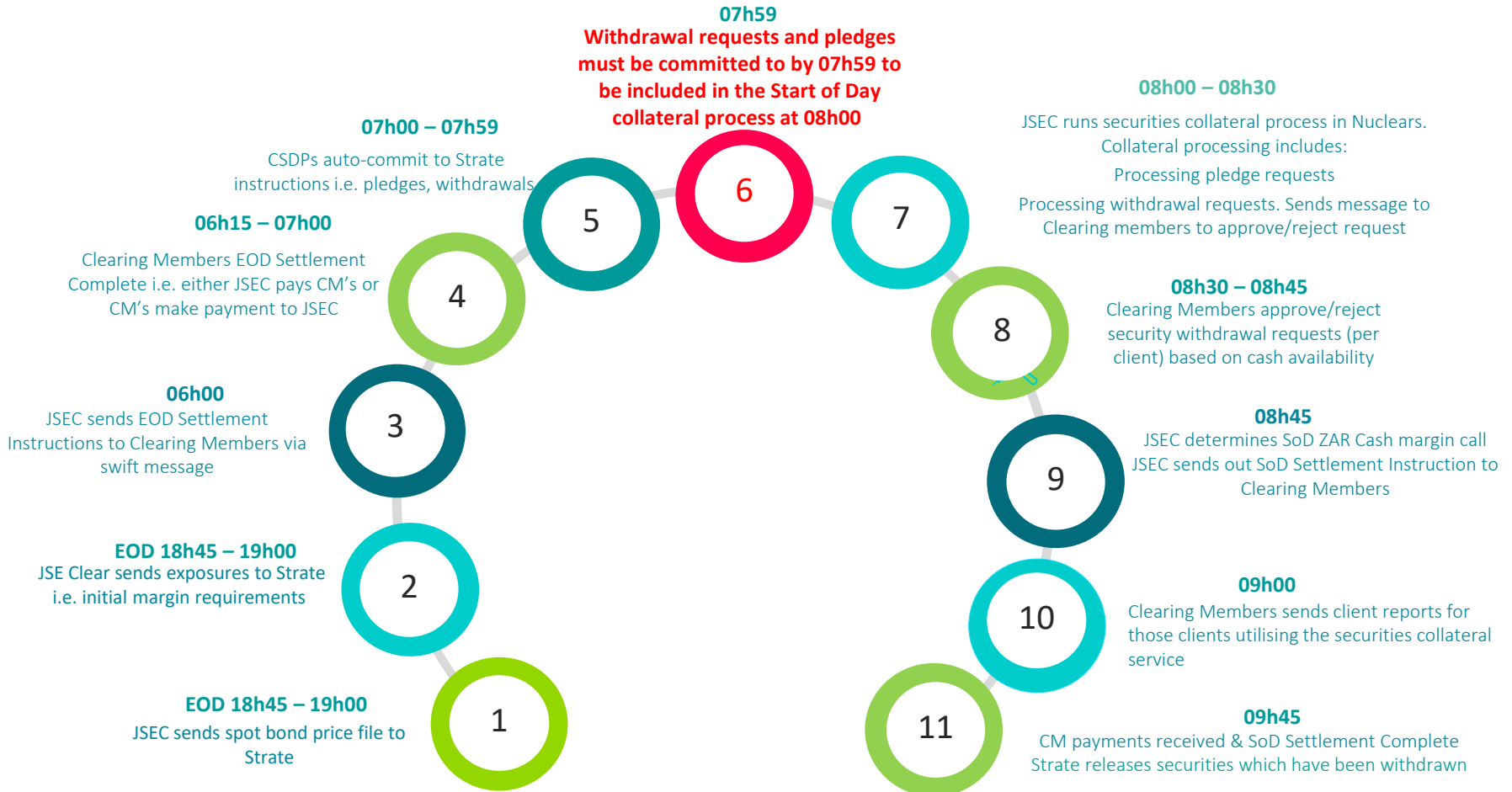
Bonds CCP | Top-up & Withdrawal

- Exposure value increase
  - Additional collateral will be placed

- Exposure value decrease
  - Collateral will be withdrawn and returned to the TM/client

Before Top-up		After Top-up		After Withdrawal	
TM/Client	**JSE CCP**	**TM/Client**	**JSE CCP**	**TM/Client**	**JSE CCP**
(HF)_R186 – 100 000		(HF)_R186 – 50 000		(HF)_R186 – 200 000	
(SALE)_R186 – 100 000		(SALE)_R186 – 100 000		(SALE)_R186 – 100 000	
(RES)_R186 – 100 000		(RES)_R186 – 100 000		(RES)_R186 – 100 000	
(SALE)_R2030 – 400 000	(PF)_R186 – 800 000	(SALE)_R2030 – 400 000	(PF)_R186 – 850 000	(SALE)_R2030 – 400 000	(PF)_R186 – 700 000
(RES)_R2030 – 400 000	(PF)_R2030 – 300 000	(RES)_R2030 – 400 000	(PF)_R2030 – 300 000	(RES)_R2030 – 400 000	(PF)_R2030 – 300 000
(PT)_R186 – 800 000		(PT)_R186 – 850 000		(PT)_R186 – 700 000	
(PT)_R2030 – 300 000		(PT)_R2030 – 300 000		(PT)_R2030 – 300 000	

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- Withdrawal requests will be processed once a day during the SOD collateral process

- Clearing Members will be required to approve/reject withdrawal requests

- Securities on the back of the withdrawal request will be released only once the Clearing Member's cash settlement including the cash covering the value of the security to be withdrawn is physically in JSEC's account

- Thereafter, JSEC will instruct Strate to release the securities

- Security withdrawal requests received after 8am will only be processed during the SOD collateral process the following business day

  - Clients will need to be aware of this and manage their collateral accordingly and CMs will need to timeously process withdrawal request approvals

Bonds CCP | Securities Collateral Process Indicative Times

JSE CLEAR

07h59
Withdrawal requests and pledges must be committed to by 07h59 to be included in the Start of Day collateral process at 08h00

07h00 – 07h59
CSDPs auto-commit to Strate instructions i.e. pledges, withdrawals

06h15 – 07h00
Clearing Members EOD Settlement Complete i.e. either JSEC pays CM's or CM's make payment to JSEC

06h00
JSEC sends EOD Settlement Instructions to Clearing Members via swift message

EOD 18h45 – 19h00
JSE Clear sends exposures to Strate i.e. initial margin requirements

EOD 18h45 – 19h00
JSEC sends spot bond price file to Strate

08h00 – 08h30
JSEC runs securities collateral process in Nuclears.
Collateral processing includes:
Processing pledge requests
Processing withdrawal requests. Sends message to Clearing members to approve/reject request

08h30 – 08h45
Clearing Members approve/reject security withdrawal requests (per client) based on cash availability

08h45
JSEC determines SoD ZAR Cash margin call
JSEC sends out SoD Settlement Instruction to Clearing Members

09h00
Clearing Members sends client reports for those clients utilising the securities collateral service

09h45
CM payments received & SoD Settlement Complete
Strate releases securities which have been withdrawn

1 2 3 4 5 6 7 8 9 10 11

Transaction flows

1. JSEC sends eligible securities, closing prices and maximum allowable securities value for Equity and Currency Derivative markets to Strate
2. Strate sends back an acknowledgement of receipt
3. JSEC sends eligible securities, closing prices and maximum allowable securities value for Interest Rate Derivatives and Bonds markets (cleared bonds CCP trades) to Strate
4. Strate sends back an acknowledgement of receipt
5. Publishing of daily settlement values, for settlement on T+1

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- **The following criteria will be used to determine which bonds form part of the list of eligible securities:**
  - Nominal value in issue greater than R100 billion
  - Average daily value traded (ADVT) of more than R500 million
  - Term to maturity greater than 6 months
  - Ability to value the security and determine the valuation haircut and concentration limits
  - Availability of data to support these functions

- **Eligible collateral will be reviewed quarterly and ad hoc as required**

Current list of eligible SA Govi bonds based on the eligibility criteria above with indicative haircuts

ISIN	Alpha Code	Haircut (%)
ZAG000016320	R186	6.96
ZAG000106998	R2030	8.32
ZAG000077470	R213	8.98
ZAG000125980	R2040	9.08
ZAG000107004	R2032	9.3
ZAG000125972	R2035	9.53
ZAG000107012	R2037	9.72
ZAG000030404	R209	10.32
ZAG000106972	R2044	10.59
ZAG000096173	R2048	10.87

let's connect

Thank you

Q&A

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