

MARKET NOTICE

Number: 024/2024

Relates to:

- ☐ Equity Market
- ☒ Equity Derivatives Market
- ☒ Commodity Derivatives Market
- ☒ Currency Derivatives Market
- ☒ Interest Rate Derivatives Market
- ☐ Bond Market
- ☐ Bond ETP Market

Date: 26 January 2024

SUBJECT: ALL DERIVATIVES MARKETS | LARGE EXPOSURE ADD-ON MARGIN THRESHOLD AND STRESS TESTING SCENARIO DEFINITIONS

Name and Surname: Alex Comninos
Designation: Chief Risk Officer (JSE Clear)

Dear Client,

JSE Clear will be implementing two risk management updates on Monday, 29 January 2024 which are expected to result in a margin decrease in terms of the Large Exposure Add-on (LEAO) margin. Further detail on each update is provided below.

- 1) Increase in LEAO threshold for EQD and FXM (ITAC markets) from R100mn to R150mn (increase in the threshold would lead to reduction in the LEAO margin add-on levied for impacted accounts) – to be implemented in the Monday, 29 January 2024 EOD margin run for settlement Tuesday, 30 January 2024.
- 2) Update to stress testing scenarios (removal of scenario symmetry assumption) that are used in the Default Fund exposure and Large Exposure Add-on margin calculations – to be implemented after EOD on Monday, 29 January 2024.

1) Increase in Large Exposure Add-on threshold for EQD and FXM (ITAC markets) from R100mn to R150mn

During H1 2023, JSE Clear observed high default fund exposures driven predominantly by material portfolio changes and increases in net exposures. This prompted risk management actions such as the temporary increase of base margin rates (IMRs) and reduction in the LEAO threshold which resulted in more base and LEAO margin being called for to offset the increased risk exposure at the time. Recent stress testing results show that the default fund exposure has settled at lower levels since around September 2023, and is now consistently below the R500mn default fund size under the no-porting assumption.

The LEAO margin is levied on very large portfolios which under stress scenarios would expose a significant proportion of the R500mn default fund were the participant to default.

Currently the LEAO threshold is set at R150mn for the commodities and interest rate derivatives markets (CDM and IRD i.e. Nuclear markets) and R100mn for the equity and currency derivatives markets (EQD and FXM i.e. ITAC markets). JSE Clear will be increasing the ITAC market LEAO threshold to R150mn, bringing it into alignment with the Nuclear market LEAO threshold.

Setting the LEAO threshold at R150mn for all derivatives markets is one of the updates related to the new JSE Clear IM Methodology that was approved by the Risk Committee in Q4 (Nov) 2023. The implementation of the new IM Methodology will follow a phased approach, starting with the equity and currency derivatives markets, following the conclusion of an independent model validation. Further communication on the implementation of the new IM Methodology will be provided in due course.

JSE Clear will be implementing the ITAC market LEAO threshold increase from R100m to R150m (R50m increase) in the Monday, 29 January 2024 EOD margin run for settlement Tuesday, 30 January 2024.

2) Update to stress testing scenarios (removal of symmetry assumption) that are used in the Default Fund exposure and Large Exposure Add-on margin calculations

Certain stress testing scenarios applied by JSE Clear in the stress testing methodology assume scenario symmetry: a single absolute change in market prices was used to define both stress up and down market scenarios, with this absolute change defined as the most extreme of the originally observed price changes, i.e. the larger of the two original scenarios in absolute terms.

The revision to the stress scenarios (approved by the Risk Committee in Q4 2023) replaces the symmetry scenario shifts with observed historical shifts, resulting in absolutely lower shifts in the affected scenarios. The impact of this update is potentially lower default fund exposures, and lower LEAO margin for impacted clients. The update will be implemented after EOD on Monday, 29 January 2024.

Should you have any queries regarding this Market Notice, please contact risk@jse.co.za

This Market Notice is available on the JSE website at: [JSE Market Notices](#)