

JSE INTEREST RATE AND CURRENCY DERIVATIVES MARKET

Explanatory Memorandum

Date: - March 2025

Subject: - Proposed rule and directive amendments – Tri-party repurchase transactions

The JSE is currently undertaking an initiative in collaboration with Strate to enhance its offering in the Interest Rate and Currency Derivatives market through the introduction of tri-party repurchase transactions.

A tri-party repurchase transaction is a type of repurchase transaction for which the assurance of settlement of the transaction, including collateral selection, custody of collateral securities, and collateral management during the life of the transaction is managed by Strate as a tri-party agent appointed by both the buyer and seller.

The JSE does not, therefore, have to manage the settlement of tri-party repurchase transactions as it does for other repurchase transactions in JSE listed bonds, due to the tri-party agent performing this function. However, the settlement of tri-party repurchase transactions will still be effected by Strate as the central securities depository.

In the event of a default, the procedure to be followed will be outlined in the underlying agreement between the buyer and seller, with the tri-party agent facilitating the process.

It is anticipated that the flexibility and efficiencies inherent in the structure of tri-party repurchase transactions will have benefits for the broader JSE bond and repo markets, which include -

1. The product allows the tri-party agent (i.e. Strate) to play an active role in optimising collateral and risk management, by selecting and making substitutions of one item of collateral for another, where necessary, and without the need to close out and re-book another repurchase transaction (e.g. replacing collateral where it has been sold by the seller, or where it no longer meets the relevant pre-agreed credit, liquidity or concentration criteria); and
2. Post trade overheads and administration costs associated with collateral management, including the closing out and rebooking of repurchase transactions whenever collateral needs to be changed or substituted, will be significantly reduced.

To facilitate the introduction of tri-party repurchase transactions, the JSE is proposing amendments to the Interest Rate and Currency Derivatives rules and directives attached as Appendix (A). These proposed amendments include a new definition for

tri-party repurchase transactions and the introduction of provisions to recognise the post-trade role to be undertaken by Strate in these transactions as the tri-party agent.
