

MARKET NOTICE

Number: 318/2024

Relates to: Equity Market
 Equity Derivatives Market
 Commodity Derivatives Market
 Currency Derivatives Market
 Interest Rate Derivatives Market
 Bond Market
 Bond ETP Market

Date: 28 October 2024

SUBJECT: IMPLEMENTATION OF CHANGES TO THE INITIAL MARGIN METHODOLOGY AND CLEARABLE PRODUCTS FRAMEWORK

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

Dear JSE Stakeholder

Changes to the JSE Clear Initial Margin methodology

As part of JSE Clear's ongoing focus on enhancing the sophistication and optimizing the efficiency of its margin models, JSE Clear will be implementing the following initial margin methodology changes for the Equity Derivatives (EDM) and Currency Derivatives (FXM) markets:

- Implementation of a time-weighted Filtered Historical Simulation (FHS) method including a distinct stress period component and a margin floor for the determination of contract-level initial margin requirements (IMRs). This will replace the existing standard historical simulation Value-at-Risk (VaR) initial margin methodology.
 - The FHS method will ensure greater responsiveness of margins to market conditions offering improved protection in periods of stress and greater overall efficiency of margins (lower margin cost over time).
 - The enhanced methodology includes two anti-procyclicality measures in the form of the stress period component and margin floor.
 - This methodology change will impact both the base margin requirements (IMRs) and the 1-day VaR applied in the determination of the Liquidation Period Add-on (LiPAO).
- Removal of the R50mn Liquidation Period Add-on threshold for the EDM and FXM markets to ensure that liquidation period add-on will be levied on all positions determined to take longer than 2 days (JSE Clear's base liquidation period assumption) to liquidate, considering the position size and the liquidity of the contract or it's underlying as applicable. This change will ensure:

- That sufficient margin is held on all large individual positions; and
- A fair and competitive playing field with regards to the levying of this margin add-on.
- The result of the above changes is an approximate 2% reduction in margins across the EDM and FXM markets. Individual participant margin impacts vary and could be either an increase or decrease depending on portfolio composition. Client-level margin impacts will be communicated to Clearing Members for communication on to their clients.

Implementation timing and additional details

- Margins will be updated based on the enhanced margin methodology (including the removal of the LiPAO threshold) in the End-of-Day margin run on **Monday, 4 November 2024** for settlement **Tuesday, 5 November 2024**.
- The enhanced margin methodology can be found on the JSE Clear website at the following link:
<https://jseclear.jse.co.za/pdf/Jse%20Pdf/Resources/JSEC%20Initial%20Margin%20Methodology%20-%20September%202024%20Clean.pdf>
- Updated IM Parameters will be published to the market on **Friday, 1 November 2024**.

Changes to the JSE Clear Clearable Products Framework

As described above, the removal of the LiPAO threshold as part of the margin methodology enhancements will ensure that this add-on is levied on all positions determined to take longer than 2 days to liquidate. This change enables a change to the JSE Clearable Products Framework, i.e., the removal of specific liquidity criteria. This will allow for the clearing of derivatives on a wider universe of single name equity and ETF underlyings.

- The existing average daily value traded (ADVT) thresholds will be removed from the criteria used in determining whether a product can be cleared.
- Additionally, the existing market capitalization thresholds will be replaced with the requirement that the underlying is listed on either the JSE or a major international exchange.

The updated Clearable Products Framework can be found on the JSE Clear website at the following link:

<https://jseclear.jse.co.za/pdf/Jse%20Pdf/Resources/JSE%20Clear%20Clearable%20Products%20Framework%20-%20June%202024.pdf>

The revised Clearable Products Framework will become effective with the implementation of the enhanced margin methodology on **5 November 2024**.

Should you have any queries regarding this Market Notice, please e-mail: risk@jse.co.za

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