

MARKET NOTICE

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Number: 631/2020
Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Currency Derivatives
 Interest Rate Derivatives
Date: 27 November 2020

SUBJECT: MARGIN METHODOLOGY UPDATE FOR COMMODITY DERIVATIVES MARKET

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Designation: Chief Risk Officer (JSE Clear)

Dear JSE Stakeholder

JSE Clear calculates initial margin by applying a 99.7% confidence interval with a lookback period of 750 days and a stress period of 250 days, as per the initial margin policy.

Methodology	Confidence Level	Liquidation Period	Look-Back Period
Historical Value-at-Risk	99.7%	2-days	Rolling 750-days plus 250-days stressed

The stress periods applied to each asset class are determined by considering the period with the highest realised 90-day volatility. To date the stress period used for all agricultural products has been that of white maize, as the benchmark product for the asset class. A change will be made to the margin calculation to use the stress period applicable to each agricultural product. These stress periods are detailed in section 2.1 of the [JSE Clear Margin Methodology](#) document. The change will be made with effect from the end of day margin run on Friday, 4 December 2020.

Clients are also notified of two further upcoming margin changes that are planned for implementation once calibration has been completed:

- Calibration of the Liquidation Period Add-on (LiPAO) for the Commodities market. The LiPAO levies an additional margin on large positions which would take longer than 2 days to liquidate (based on the assumption that one third of the average daily value traded (ADVT) of a contract can be traded without adversely affecting the price). The ADVTs for the Commodities market will be calibrated.

- Large Exposure Add-on (LEAO) - incorporation of the stresses experienced during March and April 2020 as well as hypothetical stress scenario into the set of stress testing scenarios used in the determination of the LEAO and sizing of the default fund. This is a change that will be applicable to all derivatives markets. For The Agris market this will be implemented together with a change to apply a more representative exposure-based composite stress to all Agris positions as opposed to applying the stress observed in the benchmark white maize contract.

The margin methodology for the commodity derivatives market can be found on the JSE website at:

<https://www.jse.co.za/content/JSERiskManagementItems/JSE%20Clear%20Margin%20Methodology.pdf>

Should you have any queries regarding this notice, please contact risk@jse.co.za or the Client Service Centre (CSC) on +27 11 520 7777 or Customersupport@jse.co.za

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