

Market Notice

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CPSS-IOSCO Compliance: Approval of Safcom as a Qualifying CCP

The JSE is pleased to announce that Safcom (the licensed clearing house for the JSE's derivatives and cash bond markets) has been certified as a "Qualifying" central counterparty (CCP) by the Financial Services Board (FSB), as a result of its compliance with the principles issued by the Bank for International Settlements (BIS) and International Organisation of Securities Commissions (IOSCO). The achievement of CPSS-IOSCO compliance is a major step forward for Safcom and the market as a whole, and enhances the credibility of the South African financial markets as a foreign investment destination.

More specifically, the establishment of a qualifying CCP in South Africa is a key enabler for the derivatives market as we approach the implementation of Basel III in January 2013. The ability to clear trades through a CPSS-IOSCO compliant Safcom will have a material impact on both Clearing Member and Trading Member capital, translating into lower capital adequacy requirements and improved liquidity in the marketplace.

A number of improvements have been introduced this year in order to improve our risk management standards and also to support CPSS-IOSCO compliance:

- Major enhancements to the Safcom governance structure (i.e. formalisation of the Safcom Board Charter; creation of the Safcom Risk Committee)
- Refinement of Safcom's Risk Management functions (i.e. restructuring of the JSE's Post-Trade Services Risk Management area; implementation of new Risk Management Policy and Assessment Framework)
- Improved sophistication of Safcom's quantitative environment (margin methodology enhancements; implementation of Credit and Liquidity Stress Testing; Model Validation and initiation of formal back-testing thereof). Independent validation indicates that our methodologies comply with international standards and are based on prudent standards
- Broad-based operational changes (revision of Safcom SLAs / Default Rules + Procedures / Portability Policies / Intraday Margining Rules and Procedures)
- In October, Safcom became a participant in the SA's Payments Association (PASA) network, offering improved settlement assurance

In addition to the IOSCO-related changes, we have also introduced a noteworthy enhancement to the Safcom operating model. The new Risk Waterfall and Default Fund allow Safcom to cap the liability of Clearing Member default exposure, while also having its own skin in the game (creating a rigid and more equitable line of defense should our market ever experience a significant default event).



Safcom remains a global leader with regards to the protection of client assets. By providing for the segregation of funds and the segregation of assets we ensure that we avoid many of the losses caused by the lack of segregation as witnessed in certain instances during defaults in the recent crisis.

Along with our efforts in the exchange-traded environment, the JSE is also working with the market to resolve need to centrally clear the Over-The-Counter (OTC) Derivatives market. Having Safcom certified as a qualifying CCP for exchange-traded products creates a great foundation for the future development of an CPSS-IOSCO-compliant OTC offering.

We would like to use this opportunity to thank the banks and Safcom market participants for their assistance with and support for the numerous changes that we have implemented this year. The changes would not have been possible without the support of our market. We would also like to thank our regulator, the Financial Services Board (FSB) for their comprehensive review and assessment of our compliance activities, as well as their guidance throughout the compliance process.

Safcom is committed to continually improving its operations and services, and aligning itself with the changing needs of the market and international standards. We are fully aware of the vital role played by the CCP in this space, and are pleased to be contributing to the growth and development of South African financial markets.

Sincerely,

Leila Fourie

Designation: Director
Division: JSE Post-Trade Services
Tel: +27 11 520 7005
E-mail address: leilaf@jse.co.za

Distributed by the Company Secretariat +27 11 520 7346