JOHANNESBURG STOCK EXCHANGE
Equity Derivatives

Market Notice

Number:	F5826A
Date	16 January 2013

Proposed Amendments to the Derivatives Rules to cater for the introduction of the SAFCOM Default Fund

Members are advised that the proposed amendments to the Derivatives Rules, as attached to this Market Notice, were adopted by the JSE Executive Committee on 14 January 2013. Unless written objections are lodged in terms of rule 1.80.3, within 10 ("ten") days of this Notice, the proposed amendments to the rules will be submitted to the Registrar for his approval.

Rationale for the Proposed Rule Amendments

1. In order to enhance investor protection and comply with international best practice, the individual Boards of Directors of JSE Limited ("JSE") and of the Safex Clearing Company (Pty) Limited ("SAFCOM") have resolved, in consultation with the JSE's clearing member firms, to establish and operate a default fund. This fund, to be known as the SAFCOM Default Fund ("SDF" or the "Fund") will serve as a final "line of defence" within SAFCOM's risk management structure (or "risk waterfall").

2. The SDF enhances the existing clearing member obligations with a formal arrangement that serves to mutualise losses in the event of a clearing member default.

3. In the event of a clearing member default, losses will be transmitted through the "risk waterfall" in the following order, against –

   a. Initial margin posted by the market participants

   b. Contributions to the default fund made by the defaulting clearing member

   c. Contributions to the default fund made by SAFCOM itself

   d. Contributions to the default fund made by all other non-defaulting clearing members

4. The Fund is designed to cover all JSE-regulated markets / listed instruments for which SAFCOM provides a clearing service. Consequently, a default in one market will be funded by clearing members operating across all the JSE's derivatives markets. Identical amendments are being proposed to both the Interest Rate & Currency and the Derivatives Rulebooks.

5. These rule amendments are based on the following concept of the SDF –

a. The JSE Derivatives Fidelity Fund Trust (both the Trust deed and the Fidelity Fund Rules) remains unchanged for now as the JSE is not altering the protections currently offered by the Fidelity Fund.

b. The default process will be governed by the rules, whilst the mechanics of the SDF will be reflected in a multi-party agreement – the collateral agreement – to be concluded between the clearing member firms, the JSE, SAFCOM and the SDF. By their very nature, the rules only deal with the material obligations and requirements of the JSE, SAFCOM and the clearing members, whilst operational matters are dealt with in the collateral agreement.

c. In terms of the proposed rule amendments and as defined in more detail in the collateral agreement, SAFCOM (in effect, the JSE) will provide collateral to the SDF, and clearing members will similarly provide collateral in the form of additional margin to secure their undertakings and obligations as clearing members provided for in the rules.

d. In terms of the rules and the collateral agreement, SAFCOM (the JSE) and clearing members will re-instate the collateral / additional margin to the limits specified upon a default event.

6. The overall size of the Fund, the quantification methodology and the quantum / terms of the JSE / SAFCOM contribution to the Fund have been agreed with clearing member firms and approved by the Boards of both SAFCOM and the JSE. Clearing members have also been advised of the manner in which their individual contributions to the SDF will be calculated, and of their actual (initial) contributions due on inception of the Fund.

7. Based on the prescribed quantification methodology, the size of the Fund on inception will be R500m (five hundred million rand). At the outset, the JSE / SAFCOM initial contribution will be R100m (one hundred million rand), and JSE / SAFCOM will only be obliged to replenish its collateral contribution following one or more default events to a maximum of a further R100m (one hundred million rand), or such other maximum amount determined from time to time, once in any twelve month period.

8. Clearing member contributions to the Fund will be termed "additional margin" so as to enjoy the protection of section 35A of the Insolvency Act. This collateral will earn interest, and will be "locked-in and committed", only returned if and when a clearing member relinquishes its role as such, and subject further to not less than three months notice to the JSE / SAFCOM (and such other conditions as may be applicable per the rules and / or collateral agreement).

9. Clearing members will be obliged to replenish their contributions to the SDF following one or more default events to a maximum of their contributed amount, or such other maximum as determined from time to time, once in any twelve month period following a default event for mutualised losses. In addition, within that twelve month period, all surviving clearing members shall make further contributions of additional margin in proportion to their own risk which additional margin shall only be applied in respect of their own risk and not be utilized within the "mutualised layer" of the SDF.

10. The Fund will invest contributed funds in the local money market in accordance with an agreed SAFCOM-approved investment mandate, and will remit interest earned to contributors on a regular basis, subject to retaining an administration haircut which will be remitted to JSE / SAFCOM.

11. The provisions in the rules relating to –

a. the sale of the JSE shares held by the clearing members is superfluous and has been deleted, and

b. the current R10 million suretyship has been deleted as this is being replaced by the obligation on clearing members to contribute to the Fund.

If members have any questions on the proposed rule amendments or this explanatory memorandum, please contact Louis Cockeran at louisc@jse.co.za or 011 520 7012.

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