



Market Notice

Number: F6611 A
Date 29 October 2013

Proposed Amendments to the Derivative Rules – Liquidity Facilities

Members are advised that the proposed amendments to the Derivatives Rules, attached as annexure A, have been approved by the JSE's Executive Committee on 23 October 2013. The JSE herewith publishes the proposed amendments to the Derivatives Rules for comment by members.

The proposed amendments to the Derivatives Rules are an essential pre-requisite for the establishment of and access to the liquidity facilities that the JSE will obtain pursuant to the promulgation of the proposed amendments to the Derivatives Rules. The proposed amendments to the Derivatives Rules will accord the JSE with the power to immediately meet the obligations of a market participant that is unable to do so, either as a result of it being in default or if it is unable to process payments as a result of technical or other issues.

The amendments have been proposed to enable the JSE to ensure that Safcom, the JSE's appointed clearing house for its derivatives, interest rate and currency markets, is able to meet the obligations of market participants that are unable to do so. This type of funding arrangement is a well-established and accepted principle in the derivatives market and the Derivatives Rules already make provision for and contemplate that a clearing member may settle the obligations of a trading member and that a trading member may settle the obligations of a client.

The liquidity facilities will be established with local commercial banks immediately after the proposed amendments to the Derivatives Rules have been approved and promulgated by the Registrar of Securities Services. Liquidity in this context refers to cash available to meet payment obligations immediately and should be distinguished from the default procedures contemplated in the Derivatives Rules.

The purpose of these facilities is to mitigate the liquidity risk to which the market is exposed, and to provide the CCP with access to liquid resources in order to ensure the smooth running of the markets it operates. The FSB has indicated that the establishment of these liquidity lines is a requirement for the maintenance of



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Safcom's certification as a CPSS-IOSCO compliant CCP. CPSS-IOSCO specifically acknowledges the importance of maintaining access to sufficient liquid resources in its Principles for Financial Markets Infrastructures.

In addition hereto, the amendments are necessary to address the possible timing difference from the date of default and the date when the positions are closed and the initial margin is released. If, for example, positions are only closed two days after the date of default, the variation margin due to the non-defaulting party will not be paid for those two days as the initial margin has not yet been released. The liquidity facility will be used to pay the variation margin (and any other obligations) pending the closing of the positions and the release of the initial margin.

Discussions with potential liquidity providers have culminated in offers for credit lines from three of the local banks. Neither the JSE nor the local banks will be able to enter into these agreements prior to the promulgation of the proposed amendments to the Rules. The JSE has proposed the amendments to the Derivatives Rules to accurately record the JSE and market participants' rights and obligations in the event of the JSE's use of the liquidity facilities.

Attached (in Annexure A) is the proposed wording for the new rules relating to the use of the liquidity facility. These rule changes are required to enable the JSE to utilize its liquidity facilities to ensure prompt payment to market participants in the event of a default or if technical issues have caused a delay in the processing of payments.

Unless written objections are lodged in terms of rule 1.80.3 within 10 days of this Notice, the proposed amendments to the Rules will be submitted to the Registrar for his approval.

Should you have any queries in respect of the proposed amendments to the rules, kindly contact Terence Saayman on (011) 520-7713 or TerenceS@jse.co.za.

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