

MARKET NOTICE

Number: Y1420
Date: 26 September 2014

Terence Saayman

Designation Head of Risk
Division Post trade services
Tel +27 11 520 7713
E-mail address: risk@jse.co.za

Subject: Initial Margin Review of Currency Derivatives

The JSE will introduce a new methodology for calculating Initial Margin Requirements (IMRs) for currency derivatives. The new methodology will be in line with the methodology that was agreed on by the JSE Executive Committee and the Risk Committee of the JSE Clear Board in December 2013. In particular:

VaR Methodology	Confidence Interval	Liquidation Period	Look-Back Period
HistVaR	99.7%	At least 2-days	Rolling 750-day plus stressed 250-day

A liquidation period of 2-days will be used for all currency pairs, and the 250-day stressed period will be defined as the period from 01-June-2008 to 31-May-2009.

The rationale for the abovementioned enhancements is mainly as follows:

- Currently, the IMR methodology for currency derivatives does not meet the minimum requirements stipulated by the European Market Infrastructure Regulation (EMIR) for CCPs. JSE Clear is required to apply for recognition by ESMA (the European Securities and Markets Authority), as a result of the fact that JSE Clear has Clearing Members that are either branches or subsidiaries of European registered entities.
- CCP risk management is increasingly scrutinised by participants seeking to minimise counterparty credit risk. Participants have demonstrated a desire to move exposures from CCPs with less-than-rigorous risk management standards to CCPs with more robust risk management frameworks.

The new IMR methodology represents a shift from the way in which JSE Clear currently determines the IMRs for currency derivatives, and as such, there will be a cash flow impact for certain participants. In an effort to reduce a sudden impact on client cash flows, the changes will be introduced using 10 equal increments, as per the below:

Market Notice	Implementation Date
03-Nov-14	10-Nov-14
17-Nov-14	24-Nov-14
01-Dec-14	08-Dec-14
05-Jan-15	12-Jan-15
19-Jan-15	26-Jan-15
02-Feb-15	09-Feb-15
16-Feb-15	23-Feb-15
02-Mar-15	09-Mar-15
01-Apr-15	08-Apr-15
14-Apr-15	22-Apr-15

It is anticipated that clearing members and trading members may look to revise the amount of additional margin they call for on currency positions to account for the higher initial margin being calculated and called at the center.