



## Market Notice

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### Initial Margin Requirement Methodology Changes

Safcom, which is represented by all the clearing banks of South Africa, has expressed concerns to the JSE about the current initial margin requirements (IMRs) for the fixed income derivative products traded on the JSE. In particular, one of the specific concerns raised relates to the current holding period of only 1 day for these instruments. As such workshops were held and the SAFCOM Risk Advisory Committee meeting held on 20 June 2012, proposed that changes be made to ensure any form of risk in trading these instruments be mitigated.

The following proposals and amendments to the current margining methodology for interest rate derivatives were tabled and accepted:

1. Use the historical simulation model (empirical distribution) instead of assuming the standardised normal distribution model, which has been in use since the beginning of the South African derivatives market;
2. The current holding period be changed from one day to two days;
3. Use a confidence level of 99.7% (under the assumption of normality this is equivalent to 3 standard deviations) instead of the current 99.95% (3.5 standard deviations).

The impact of this is shown in the following table for some of the current listed bond futures

Underlying	Current IMR	Proposed IMR	Confidence Level	Holding Period
R157	870	2110	99.7%	2-days
R186	2430	3940	99.7%	2-days
R209	2190	3410	99.7%	2-days
R202	5040	7190	99.7%	2-days

By adopting this new methodology, the impact on clients is quite sizeable and as such, the JSE has decided to implement this change over a 3-month period. Thus for example the total increase in initial margin on the



R157 is 126.14%, the monthly 3-month increase on the R157 will be 42.05% until the full increase has been implemented over the course of 3-months.

The first date of increase will be implemented on 01 August 2012, the next increase on 03 September 2012 and the final increase will be implemented on 01 October 2012.

For broader theoretical discussion, the document entitled Initial Margins for Interest Rate Derivatives has been attached to this notice or can be the download from the JSE web site at <http://www.jse.co.za/Markets/Interest-Rate-Market/Initial-margin-volatility-skew.aspx>.

**Leila Fourie**

Designation        Director  
Division            Post-Trade Services  
Tel                    +27 11 520 7005  
Fax                    +27 11 520 8005  
E-mail address:    [leilaf@jse.co.za](mailto:leilaf@jse.co.za)

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