

JSE CLEAR DEFAULT FUND POLICY

February 2026

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1 Version Control

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2 Version History

Version	Date	Summary of changes	Author
1.0	November 2012	Initial Draft of Policy.	Post-trade Risk
2.0	July 2017	Minimum of R10m contribution extended to Tier 1 clearing members.	Post-trade Risk
3.0	May 2018	Regular review, no significant changes.	Post-trade Risk
4.0	April 2020	Regular review, update to default fund replenishment example.	Post-trade Risk
5.0	May 2021	Regular review, inclusion of shortfall apportionment process.	Post-trade Risk
6.0	July 2022	Regular review and updates relating to the acceptance of securities collateral.	JSE Clear Risk
7.0	October 2023	Regular review and updates relating to the default fund size, fund replenishment and a new clearing member's default fund contribution.	JSE Clear Risk
8.1	October 2024	Updates following the Risk Committee meeting on 25 September 2024: <ul style="list-style-type: none"> - Clarification in relation to the claiming of any residual losses after the default waterfall has been exhausted. - Updates to Appendix 3 (JSE Clear Risk Committee and Board Actions) relating to approvals required for intra quarter changes to the default fund size. 	JSE Clear Risk
9.0	October 2025	Regular review and updates for the enhanced default fund contribution methodology.	JSE Clear Risk
10.0	February 2026	Clarifications of approval processes in relation to default fund size and default fund contribution changes, and updates to align Appendix 3 – 'JSE Clear Risk Committee and Board approval actions' to the approvals processes as described in the main sections of the document.	JSE Clear Risk

3 Context and purpose

As the clearing house for all exchange-traded derivatives in South Africa, JSE Clear plays a key role in mitigating systemic risk in the South African financial market. It does so by ensuring the efficient clearing and settlement of trades, thereby reducing the risk of a default impacting other counterparties and contaminating the market. In order to effectively perform this function, JSE Clear employs an array of risk mitigation measures. Amongst these is the establishment of a default fund to which all clearing members and JSE Clear make contributions.

The purpose of this policy is to detail the quantification, management and governance of the JSE Clear Default Fund. The policy has been drafted to ensure that JSE Clear meets the standards set out by the Committee for Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commission (IOSCO) and those set out in the Financial Markets Act 2012 Regulations, especially with regard to the establishment and maintenance of a default fund.

4 Risk management tools and risk waterfall

JSE Clear's primary role as a clearing house is to minimise the impact that a market participant default has on other market participants. JSE Clear employs an array of risk mitigation measures to achieve this. First, JSE Clear has set entry requirements to becoming a clearing member (spanning financial considerations, capital adequacy requirements and operational and risk management capability). Second, all trades are collateralised through a system of margins. The sufficiency of the quantum of margin is back tested against actual market experience to ensure performance is at the expected confidence interval. Last, there is the JSE Clear Default Fund, which is sized and monitored through stress testing and to which all clearing members must contribute. The JSE Clear Default Fund can be accessed to cover losses suffered in excess of initial margin as the result of the default of a clearing member/s.

There will be one default fund for JSE Clear and it will apply to all markets for which JSE Clear provides a clearing service. A default in one market will consequently be funded by clearing members across all markets. This is deemed appropriate due to the size of the different markets and trading profile of clearing members.

The JSE Clear Default Fund exists solely to fund losses as a result of a default event by a clearing member. The JSE Clear Default Fund is separate and exclusive of any unfunded guarantees provided by a clearing member or any other party.

4.1 The JSE Clear risk waterfall

In accordance with the JSE Clear Rules, in the case of a clearing member default, losses will be funded as follows (this is referred to as the risk waterfall):

1. All initial margin and/or other collateral held by JSE Clear in favour of or on behalf of or for the account of the clearing member is used first to settle any obligations the clearing member has to the market.
2. Should these amounts be insufficient to cover all obligations, the defaulting clearing member's contribution to the JSE Clear Default Fund is used.
3. Thereafter, JSE Clear's contribution to the JSE Clear Default Fund is used.
4. If any obligations to the market remain thereafter; the non-defaulting clearing members' contributions to the JSE Clear Default Fund are utilised.
5. Should the defaulting clearing member have any obligations to the market that are not covered by the financial resources listed above, these will be apportioned as per the processes described in Appendix 2.
6. Any losses suffered by JSE Clear, the Default Fund or any non-defaulting clearing member that has contributed to the Default Fund, as a result of the default of a clearing member, will be claimed by JSE Clear from the defaulting clearing member. Any amounts recovered by JSE Clear from the defaulting clearing member will be refunded to JSE Clear and the non-defaulting clearing members pro rata to the amount of their respective contributions to the Default Fund that have been utilised to meet the obligations and liabilities of the defaulting clearing member.

The obligations of market participants with regards to the replenishment of the JSE Clear Default Fund (following depletion of the fund because of a default) are explained in section 6.2.

5 Determining the size of the fund

5.1 The size of the default fund

JSE Clear must have sufficient prefunded financial resources to withstand the failure of its largest clearing member¹ and its affiliates in a severe yet plausible stress event. As stated in the risk tolerance statement JSE Clear will maintain an appropriate default waterfall that is sufficient for Cover 1 at all times and sufficient for Cover 2 (the default of the two largest Clearing Members) on at least 50% of the days in the rolling quarter. These prefunded financial resources consist of the JSE Clear Default Fund and initial margin (including margin add-ons and/or other collateral held by JSE Clear). The JSE Clear Default Fund is quantified to be large enough to cover stressed losses over and above initial margin, and must be of a value of at least ZAR 500 million.

The size of the fund is determined through various quantification methods and theories including stress testing results and engagement with clearing members. JSE Clear sets the size of the fund to ensure that the fund remains relatively stable factoring potential increases in the risk profile of the credit portfolio to which it is exposed. This creates the necessity for a buffer to be instated above the amount informed by stress testing results to reduce the need for pro-cyclical adjustments and at all times ensuring that the fund is adequately capitalised (to withstand sudden market events and exposure volatility).

Should the default fund size need to be increased urgently intra-quarter to ensure compliance with JSE Clear's risk appetite (in relation to the sufficiency of prefunded resources), such an increase must be approved by the JSE Clear CRO, JSE Clear CEO and JSE Clear Risk Committee chairman. The JSE Clear Risk Committee must be informed of the increase by the JSE Clear CRO or CEO.

Any decrease in the default fund size must be approved by the JSE Clear Risk Committee.

The JSE Clear Board must be informed of any change to the default fund size by the JSE Clear CEO or CRO.

5.2 Calculation methods – stress testing

Stress testing is performed daily in accordance with the JSE Clear Stress Testing Policy and Stress Testing Methodology. The stress testing results are compared to the size of the default fund. Where the results of the stress testing program (after the risk waterfall is considered) are greater than the default fund or indicate an

¹ "Cover 1" from Principal 4 of "Principles for Financial Markets Infrastructure (Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions (2012))"

insufficient buffer, JSE Clear will review the relevant scenarios and may increase the size of the fund to the extent deemed appropriate. Where the stress testing results indicate that default fund exposures are notably reduced, JSE Clear may review and decrease the size of the fund.

5.3 Quantification procedure

The default fund exposure, based on stress testing, will be calculated and compared to the size of the fund on a daily basis and the results will form part of the daily reporting to the Chief Risk Officer (CRO) and monthly to the JSE Clear Exco. The size of the fund and a summary of the supporting calculation results will be reported quarterly to the JSE Clear Risk Committee and the JSE Clear Board.

The size of the fund will be reviewed quarterly and clearing members' contributions will be calculated monthly as described in section 6.1 below. If the current size of the fund is determined to be insufficient based on stress testing results and JSE Clear's risk appetite for prefunded resources, at any time, JSE Clear will affect an intra-quarter resizing of the default fund and clearing members will be expected to contribute toward the increase in fund size based on the method described in section 6.1 below. JSE Clear will inform market participants of the increased default fund size.

The size of the default fund and the size of JSE Clear's contribution thereto will be reported to clearing members on a monthly basis, along with the proportion of their respective contributions to the fund calculated as described below. JSE Clear's contribution to the default fund is specified below.

6 Contributions to the default fund

The JSE Clear Default Fund is prefunded and made up of contributions by JSE Clear, as the central counterparty, and all clearing members of JSE Clear.

6.1 JSE Clear's Default fund contribution

JSE Clear's contribution to the fund is determined by considering international CCP practice and regulatory guidance and is set at ZAR 100 million (which equates to 16.6% of the current fund size). JSE Clear maintains a fixed commitment for reasons of stability and the need to provide certainty for the market infrastructure and the market it serves. Changes to JSE Clear's contribution will be reviewed and approved by the JSE Clear Board annually or

more frequently if JSE Clear's financial position and/or market conditions change and following an urgent increase or a decrease in the default fund size.

6.2 Quantifying clearing member contributions

The value of trades cleared in the South African market is not evenly distributed across the clearing members; the bigger clearing members account for a disproportionate share of cleared value and their stressed Exposure At Default (sEAD) varies significantly.

To address this concentration risk, the default fund contribution methodology ensures that clearing members introducing the greatest risk to the default fund will contribute proportionally more to the fund. The average initial margin and sEAD of each clearing member over the previous 30 business days are calculated as a proportion of the total values of these metrics across all clearing members. The resultant metrics are then weighted - 70% for the initial margin component and 30% for the sEAD component - to determine each clearing members' contribution. Regardless of the proportional calculation, no clearing member will contribute less than ZAR 15 million to the default fund.

The proportional contributions to the fund will be calculated based on data from the 30 business days ending on or before the 15th of the month (referred to as the 'lookback date') preceding the rebalancing date. JSE Clear will disclose the size of the fund and each member's contribution to them within 5 business days of the lookback date. Clearing members must top-up their contributions by 12pm on the first business day of the new month. Refunds will be processed thereafter.

The parameters of the contribution methodology – i.e. the lookback period, component weightings and minimum contribution size - will be reviewed at least annually (or on an ad-hoc basis if necessary) to ensure that the contributions are appropriate.

In the event of an unscheduled recalculation, clearing members will have 2 days to deposit funds if needed. Thereafter any refunds will be made to correct proportional contributions. For the sake of clarity, "funds" in this context refers to both cash and eligible non-cash securities to be used for default fund contributions as approved by the JSE Clear Board.

Where the contributions are provided in the form of cash, the assets will be invested as per the investment mandate for margin and default funds (referenced in section 7). Investment proceeds, less applicable service fees will be distributed, each month. Where contributions are provided in the form of securities collateral, these will be pledged to JSE Clear and managed in accordance with the JSE Clear Rules, policies, and procedures.

In the case of a credit loss event where non-defaulting members' contributions to the default fund are called upon to fund losses, these losses will be distributed as per the contribution proportions as communicated by JSE Clear at the previous quarter-end or later as the case may be.

6.3 The replenishment of the default fund following a default event/s

After any loss event where funds from the default fund are called upon, the non-defaulting clearing members will replenish the fund within 3 trading days as per the method described in section 6.1 which describes how the clearing member contributions are quantified.

JSE Clear will contribute an amount equal to the part of its first contribution utilised and limited to one additional contribution in a 12 month period.

If a second loss event occurs within 12 months and the non-defaulting clearing member's contributions of additional margin are used, the non-defaulting clearing members will replenish the default fund again in accordance with the method in 6.1. The size of each clearing member's contribution, post the second default event, is limited to 125% of the value of their contribution prior to the default for a period of 6 months after the default.

If a third loss event occurs within 12 months of the first loss event, the non-defaulting clearing member's contributions will be recalculated in accordance with the method in 6.1 and this contribution of additional margin will be limited to 125% of each clearing member's contribution prior to the default event.

For the sake of clarity, the three iterations of replenishment of the default fund described above are not applicable to the same default event.

In any twelve month period, where the total contributions to the Default Fund by clearing members have been fully utilised twice-over, as a result of one or more clearing member defaults, the remaining clearing members will still be obliged to re-contribute default margin to the Default Fund as per the methodology in 6.1 and factoring the applicable contribution limits as described above, but such re-contributed default margin will only be utilised to meet the clearing member's own obligations i.e. this re-contributed amount will not be utilized.

An example of the replenishment mechanism is shown in Appendix 1.

Should stressed losses exceed the size of the default fund post a default event, JSE Clear will review the initial margin parameters to ensure that prefunded resources are sufficient for cover 1.

6.4 Contributions in the event of a terminating and a new clearing member

Where a clearing member exits the market or ceases to be a clearing member, the terminating member's contributions will be reimbursed once all positions cleared by the terminating member have been transferred to another clearing member/s or closed out and all obligations of the terminating member have been settled. To ensure the size of the fund is maintained after the reimbursement to the terminating member, the fund size will be recalculated and contributions rebalanced amongst the remaining clearing members as described in section 6.1.

If a new clearing member enters the market, that clearing member will contribute ZAR 15 million immediately and add to the fund on a weekly basis in the proportion as described in section 6.1 above as their exposure increases until the following month where a rebalance will take place as per normal. If a default happens during this time, losses will be shared in the proportion to contributions at that time.

7 Policy governance

This policy is owned by the JSE Clear CEO and will be reviewed at least annually or when there are any material changes.

The JSE Clear Risk Committee will recommend the initial approval of this policy by the JSE Clear Board or when there are material changes. The regular annual review of this policy will be approved by the JSE Clear Risk Committee.

JSE Clear will annually review the stress testing policy which is used in determining and validating the sufficiency of the size of the fund. Periodic back-testing will be performed on the quantum of the fund against stress testing results and breaches will be reported to JSE Clear Board. The methods of calculation will be validated in accordance with the Model Governance Framework and assurance of their applicability and accuracy will be provided to the JSE Clear Board.

The assets of the JSE Clear Default Fund will be invested as per the JSE Clear Investment Mandate for the investment of initial margin and default fund contributions.

APPENDIX 1 – REPLENISHMENT OF THE DEFAULT FUND

A clearing member’s replenishment obligations are limited in the fashion shown in the example below.

To start, assume Clearing Member AA (CMAA) has previously made contribution to the default fund of R50m. Thereafter, should a default happen on a particular day and the whole default fund is used to fund losses, CMAA will replenish the default fund with say R60m.

Should a second clearing member default within 364 consecutive days (note – not a calendar year) of that first default (i.e. before day 365) and the default fund is fully used to fund losses, CMAA will replenish the default fund with no more than R75m (125% X R60m). This amount is now only eligible to be used to fund losses arising from the default of CMAA itself, as no contribution to the default fund is at risk of being mutualised more than twice in a 12 month period.

Should a 3rd clearing member default occur within 364 consecutive days of the first default, CMAA’s contribution will only be used if CMAA is the defaulted clearing member. The default fund will be rebalanced (per 6.1) and CMAA’s contribution will be no more than R93.75m (125% X R75m). Again, CMAA’s contribution will only be used to fund losses arising from the default of CMAA itself, as no contribution to the default fund is at risk of being mutualised more than twice in a 12 month period.

APPENDIX 2 – APPORTIONMENT OF LOSSES IN THE EVENT OF A SHORTFALL AFTER APPLYING THE DEFAULT FUND

If after applying the funds of the Default Fund there is still a shortfall in meeting the obligations and liabilities of the defaulting clearing member, JSE Clear will deal with this shortfall as follows:

1. JSE Clear will calculate all variation margin amounts owed by or to each client and exchange member for each market in which the defaulting clearing member participated, through the normal mark-to-market process at the end of the business day on which the shortfall becomes evident;
2. All clients and exchange members who owe variation margin to JSE Clear must pay such amounts the following business day;
3. For the purpose of calculating the variation margin amounts owed by or to each client and exchange member for each market, there will be no offset of variation margin amounts across different markets;
4. JSE Clear will apportion the total shortfall across each market in which the defaulting clearing member participated, on a pro rata basis, based on the defaulter's outstanding obligations per market relative to the defaulter's total outstanding obligations across all markets;
5. The amount of the shortfall will be applied by JSE Clear to all variation margin amounts owed by JSE Clear to clients and exchange members, by deducting the amount of the shortfall per market from the amount owed to all clients and exchange members in each affected market, on a pro rata basis, based on the amount owed to each client and trading member relative to the aggregate amount owed to all clients and trading members in each affected market;
6. The net amount after the deduction described in point 5 will be paid by JSE Clear to each client and exchange member. The payment of this net amount will expunge all of JSE Clear's obligations and liabilities to the relevant clients and exchange members in respect of the variation margin amounts calculated in terms of point 1 above, and no client or exchange member may claim any further amounts from JSE Clear in respect of the variation margin amounts calculated in terms of point 1.

APPENDIX 3 – JSE CLEAR RISK COMMITTEE AND BOARD ACTIONS

No.	Ref	Action Item	Frequency	Applicable Governance Forum
1.	5.3	On a quarterly basis the size of the default fund and supporting calculation results will be reviewed.	Quarterly	<ul style="list-style-type: none"> • JSE Exco • JSE Clear Risk Committee • JSE Clear Board
2.	5.3	Should the default fund size need to be increased intra-quarter to ensure compliance with JSE Clear’s risk appetite for prefunded resources, approval must be obtained from the JSE Clear CRO, JSE Clear CEO and JSE Clear Risk Committee chairman. The JSE Clear Risk Committee and Board must be informed of the change by the JSE Clear CEO or CRO.	Ad-hoc	<ul style="list-style-type: none"> • JSE Clear CEO • JSE Clear CRO • JSE Clear Risk Committee • JSE Clear Board
3.	5.1	Any decrease in the default fund size must be approved by the JSE Clear Risk Committee. The JSE Clear Board must be informed of the decrease by the JSE Clear CEO or CRO.	Ad-hoc	<ul style="list-style-type: none"> • JSE Clear Risk Committee • JSE Clear CEO • JSE Clear CRO • JSE Clear Board
4.	6.1	The JSE Clear Board will review and approve JSE Clear’s contribution to the default fund annually or more frequently if JSE Clear’s financial position and/or market conditions change and following an urgent increase or a decrease in the default fund size.	Annually / Ad-hoc	<ul style="list-style-type: none"> • JSE Clear Board
5.	6.2	Should stressed losses exceed the size of the default fund post a default event; the JSE Executive Committee will review the initial margin parameters to ensure that pre-funded resources are sufficient for cover 1.	Ad-hoc	<ul style="list-style-type: none"> • JSE Exco
6.	7	The JSE Clear Risk Committee will recommend the initial approval of this policy by the JSE Clear Board or when there are material changes.	Annually	<ul style="list-style-type: none"> • JSE Clear Risk Committee
7.	7	The regular annual review of this the Default Fund Policy will be approved by the JSE Clear Risk Committee.	Annually	<ul style="list-style-type: none"> • JSE Clear Risk Committee
8.	7	Periodic back-testing will be performed on the quantum of the fund against stress testing results and breaches will be reported to JSE Clear Board, JSE Exco and JSE Clear Risk Committee.	Quarterly	<ul style="list-style-type: none"> • JSE Exco • JSE Clear Risk Committee • JSE Clear Board
9.	7	The methods of calculation of the default fund will be validated in accordance with the Model Governance Framework and assurance of their applicability and accuracy will be provided to the JSE Clear Board, JSE Exco and JSE Clear Risk Committee.	Not specified	<ul style="list-style-type: none"> • JSE Exco • JSE Clear Risk Committee • JSE Clear Board