

JSE CLEAR LIQUIDITY POLICY

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1. VERSION CONTROL

Issue date	July 2015
Owner	JSE Clear Chief Risk Officer
Document type	Policy
Version	V9.0 Final
Approved by	JSE Clear Risk Committee for annual reviews, and JSE Clear Board to approve initial version

2. VERSION HISTORY

Version	Date	Summary of changes	Author
1.0	July 2015	Approval of policy	JSE Clear Risk
2.0	September 2017	Minor wording updates	JSE Clear Risk
3.0	October 2018	Review	JSE Clear Risk
4.0	March 2019	Remove provisions for JSE Clear to fund payment obligations on behalf of Clearing Members experiencing operational difficulties.	JSE Clear Risk
5.0	November 2020	Minor updates	JSE Clear Risk
6.0	October 2021	Minor wording updates	JSE Clear Risk
7.0	July 2022	Regular review and updates relating to the acceptance securities collateral	JSE Clear Risk
8.0	October 2023	Annual review. Updates in relation to the different liquid resources that are available at different stages of the default process.	JSE Clear Risk
9.0	October 2024	Annual review. Updates in relation to the different variation methodologies utilised by the JSE Clear.	JSE Clear Risk

3. INTRODUCTION

As a central counterparty (CCP) which clears derivative securities listed on the JSE, JSE Clear is required to be aware of its potential liquidity requirements and manage its resources effectively to ensure effective and appropriate risk management in the markets for which it acts as CCP and clearing house. This is in line with the important role JSE Clear plays in safeguarding and maintaining sound financial markets.

To ensure adequate liquidity in the market and prompt payment to market counterparties, it is important that JSE Clear establishes certainty around how it manages cash-flows where there is a term mismatch between payments and receipts.

The Committee on Payment and Settlement Systems ("CPSS") and the Technical Committee of the International Organization of Securities Commissions ("IOSCO") also acknowledges the importance of managing the liquidity profile of the CCP and in particular, ensuring access to sufficient liquid resources. Principle 7 ("Liquidity risk") of the CPSS-IOSCO principles for financial market infrastructures (PFMIs) states that:

"An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios".

Against this background this document provides the policy framework within which JSE Clear will give effect to the management of liquidity, and specifically how any liquid resources will be used to effect prompt payment to market participants.

4. SCOPE

This policy provides details about the manner in which JSE Clear will enforce its rules to deal with liquidity requirements and the use of liquid resources.

5. LIQUIDITY MANAGEMENT

JSE Clear will ensure that it maintains sufficient liquid resources to minimise the impact to the market on the day of a Clearing Member default such that the potential liquidity shortfall (i.e. liquidity need less available liquid resources) is no more than 30% of the total variation margin profits due to market participants on this day.

JSE Clear will establish dedicated short-term borrowing facilities to assist in meeting the liquidity need on the day of the default. In terms of the JSE Clear Rules and the agreements that govern the facilities, the liquidity facilities will be used, up to the value of the initial margin of the defaulting entities, to assist in meeting the variation margin obligations of these entities i.e. the facilities together with the incoming variation margin

payments received from healthy entities will be used to assist in paying the variation margin profits due to market participants.

On subsequent days of the default process once the affected positions have been closed out and initial margin held against these positions is available, JSE Clear will ensure that there are sufficient liquid resources to make payments on behalf of the defaulted Clearing Member as and when they become due.

Once the defaulters' positions have been closed, initial margin will be available to pay the variation margin obligations of the defaulting entities. To the extent that the initial margin of the defaulting entities is sufficient it will also be used to pay any shortfall on the day of default i.e. to pay market participants who did not receive their full variation margin profit due on the day of the default.

The liquidity facilities may also be used to facilitate payments equal to the value of securities collateral held as initial margin once the securities have been sold and prior to the proceeds being received.

5.1 LIQUIDITY REQUIREMENT AND INVESTMENT GUIDELINES

Where third party funds are invested, due consideration will be given to liquidity requirements under normal and extreme conditions when establishing investment guidelines for those funds.

5.2 TIMING OF JSE CLEAR'S PAYMENTS

On a daily basis, JSE Clear receives variation margin from market participants whose exchange traded positions have decreased in value (variation margin loser). In the markets where the JSE Clear applies the Realised Variation Margin Methodology (RVM), it will pay the variation margin received to participants whose exchange traded positions have increased in value (variation margin winner) In the markets where the JSE Clear applies the Contingent Variation Margin Methodology (CVM), the variation margin received from the variation margin loser will be held by the CCP and a theoretical credit will be recorded for the account of the variation margin winner (i.e. variation margin profits are not paid forward to the variation margin winner).

It is important to note that a Clearing Member's failure to satisfy its payment obligations (this is the JSE Clear Rules' definition of a default) may not always be a result of the relevant Clearing Member being in financial difficulty. Clearing Members may be unable to settle payment obligations immediately due to operational difficulties or system errors and not as a result of being under financial stress. This notwithstanding, a Clearing Member's failure to meet its obligation to pay is still a default as defined in the Rules.

JSE Clear will only enforce its default rules and invoke the default procedures in circumstances where JSE Clear has clearly established that a Clearing Member's failure to meet its obligations is factually caused by an inability to pay.

When a Clearing Member defaults, its positions, the positions of all defaulting entities and the positions of healthy entities under the Clearing Member who aren't ported, will be closed out. Before these positions have been closed out, the JSE Clear liquidity facilities may be utilised, up to the value of the initial margin of the defaulting entities, to meet the variation margin obligations of those entities. Once the positions have been closed out, the initial margin of the affected entities will be used to meet their obligations. Non-defaulting Trading Members and clients of that Clearing Member will be ported where possible.

5.3 PROVISION OF LIQUIDITY

Unlike a bank, a CCP is not a source of liquidity. JSE Clear does not maintain resources readily available to fund a shortfall in obligations of any of its Clearing Members. JSE Clear will only consider accessing its liquid resources or its liquidity facilities to ensure speedy settlement of immediate obligations if a Clearing Member is in default and JSE Clear has initiated the default procedures.

5.4 SOURCES OF LIQUIDITY

In the event of drawing on any liquidity facility and to the extent possible, the JSE will do so from sources other than the Clearing Member that has caused the need for the liquidity facility to be used. This will prevent increasing the liquidity stress at that Clearing Member.

Liquidity providers will be selected through a Request for Proposal process considering inter alia service offering and facility fees. A minimum of three facility providers, will be selected to ensure that access to liquidity is not compromised in the event that a default occurs with one of the liquidity providers.

5.5 QUANTIFICATION OF THE LIQUIDITY REQUIREMENT

JSE Clear will calculate the appropriate amount of liquid resources required to ensure continued prudent management of the CCPs liquidity profile and payment obligations. The quantum of this requirement will be reviewed annually or when a material market event occurs. Details regarding the quantification methodology can be found in JSE Clear Stress Testing Policy and associated documentation.

5.6 MAXIMUM PROVISION OF LIQUIDITY

In order to place JSE Clear in a financial position to exercise its power to settle obligations as described above, the maximum amount that JSE Clear will pay on behalf of a Clearing Member to a market counterparty, will be limited to the amount that the Clearing Member has paid to JSE Clear as initial and additional margin for its own positions or to the amount of the initial margin paid by the market participants for which the Clearing Member clears, plus the quantum of the default fund.

Where a portion of the initial margin and/or default fund is held in securities and there is a need provide liquidity to a value over and above the amount of cash margin of the defaulter, JSE Clear will only provide liquidity against the value of securities collateral once the securities have been sold to lock in the price and confirm the proceeds that will be realised once the trades have settled.

5.7 COSTS

These liquidity facilities are for the benefit of the market, the costs incurred in maintaining these facilities will be borne by the Clearing Members in proportion to the amount of margin that is held by JSE Clear. These costs may be passed on to their trading members and clients at the Clearing Member's discretion.

Any and all costs incurred in accessing the facilities and interest incurred on the drawn amount will be charged to the Clearing Member for whom the facilities have been applied.

5.8 FACILITY REPAYMENT

The liquidity facility will be repaid as soon as funds become available after the issue has been resolved or as soon as positions are closed out. All proceeds from positions and the release of margin will first be used to set-off debt to JSE Clear as per the Rules, and thereafter, to the extent there are funds remaining, be paid back to the market participant concerned.

5. ROLES AND RESPONSIBILITIES

The JSE Clear Board delegates authority to the JSE Clear Executive Committee (Exco) for draw-down of any facilities that will place an ultimate obligation on the balance sheet or income statement of the JSE Clear.

The Board will delegate authority to execute a borrowing arrangement and draw down thereupon to the JSE Clear Exco.

The JSE Clear Exco approves all facility agreements with the liquidity providers. In line with the JSE Clear risk appetite, should JSE Clear's potential liquidity requirement exceed its available liquid resources, this should be escalated to JSE Clear Exco and JSE Clear Risk Committee. Should JSE Clear's potential liquidity requirement be 75% or more of its available liquid resources, this early warning indicator should be escalated to the JSE Clear Exco.

6. POLICY GOVERNANCE

This policy is owned by the JSE Clear Chief Risk Officer and will be reviewed annually or when there are any material changes to JSE Clear's risk profile, methodologies or processes.

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.

APPENDIX A – GOVERNANCE COMMITTEE ACTIONS

No.	Ref	Action Item	Frequency	Applicable Governance Forum
1.	5	<p>The JSE Clear Board delegates authority to the JSE Clear Exco for draw-down of any facilities that will place an ultimate obligation on the balance sheet or income statement of the JSE Clear.</p> <p>The board will delegate authority to execute a borrowing arrangement and draw down thereupon to the JSE Clear Exco.</p>	As required	<ul style="list-style-type: none"> • JSE Clear Board
2.	6	<p>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.</p>	Annual	<ul style="list-style-type: none"> • JSE Clear Risk Committee