

# Securities Collateral Service

JSE | CLEAR

*let's connect*

©Johannesburg Stock Exchange

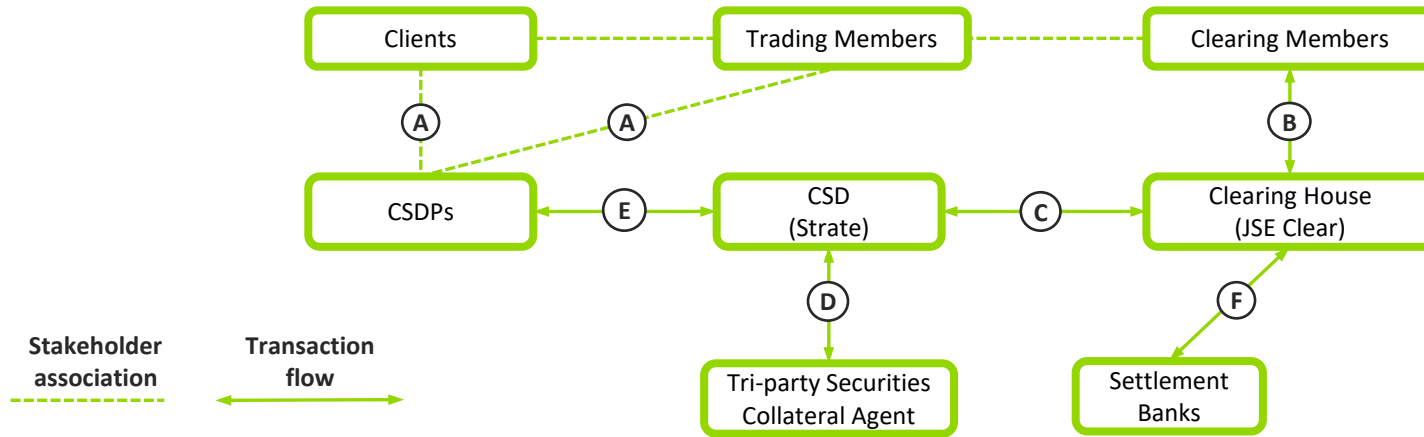
- **Background**

- JSE Clear, the Clearing House for listed derivatives in the South African market, calls for initial margin (collateral) against all open derivative exposures held by its clients.
- Initial Margin (IM) requirements are currently calculated as part of the daily EOD process and settled on T+1 and is payable in ZAR-cash only.
- The acceptance of securities collateral by JSE Clear, now allows its members to meet their IM requirements through a combination of ZAR cash and liquid South African fixed rate government bonds.

- **Value Proposition**

- Reduce liquidity pressures and funding costs for derivative market participants in an environment of increasing regulatory capital requirements and other cost pressures
- Alleviate liquidity pressures in times of market stress when margins inevitably increase

- **Securities collateral is initially offered in the following derivative markets**
  - Equity Derivatives and Currency Derivatives
- **Eligible securities**
  - Initial phase - liquid South African government bonds
  - Later phases – equities will be considered
- **Obligations for which securities collateral will be accepted**
  - Initial margin (including the margin add-on's)
  - Clearing member default fund contributions will be catered for in a later phase
    - NB: Additional margin required by Clearing Members on top of the CCP margin call will not be covered by securities *via the JSE Clear collateral solution* and variation margin will remain payable in ZAR cash
- **A minimum percentage of the IM obligation will need to be settled in ZAR cash**
  - Initially this will be 65% i.e. up to 35% of the IM obligation can be collateralized through securities



## Associations and transaction flows:

- A) Clients and Trading Members to open an independent collateral giver account or trading collateral giver account at Strate via their CSDPs for the pledging of securities collateral
- B) Initial margin amounts confirmed by JSE Clear with Clearing Members as part of the daily end-of-day process
- C) Allowable securities margin amount sent to Strate per Client and Trading Member for securities collateralisation
- D) Utilising their tri-party securities collateral service, Strate will allocate or release securities as available in Client and Trading Member accounts
- E) CSDPs are required to commit to all security pledge and release requests in order for them to be valid
- F) JSE determines remaining cash amount required (i.e. total margin required less pledged securities). Cash settlements are done via settlement banks



Trading members and clients as position holders will pledge securities directly to JSE Clear for their exposures



The 'pledge' mechanism (as opposed to 'cession') will be used for securities collateral

Pledging allows the collateral giver to retain ownership of the collateral and be entitled to all coupon payments

Similar to the position if cash is posted for IM, the securities must remain the property of the market participant in question and not form part of the assets of JSEC

Cession is a transfer of ownership from the market participant to JSEC and not a collateral arrangement

## Separate Collateral Giver

- Manual intervention required for:-
- Sales and stocks impacted corporate events
- Transfer of eligible stock between accounts

### TRADING ACCOUNT



### COLLATERAL GIVER

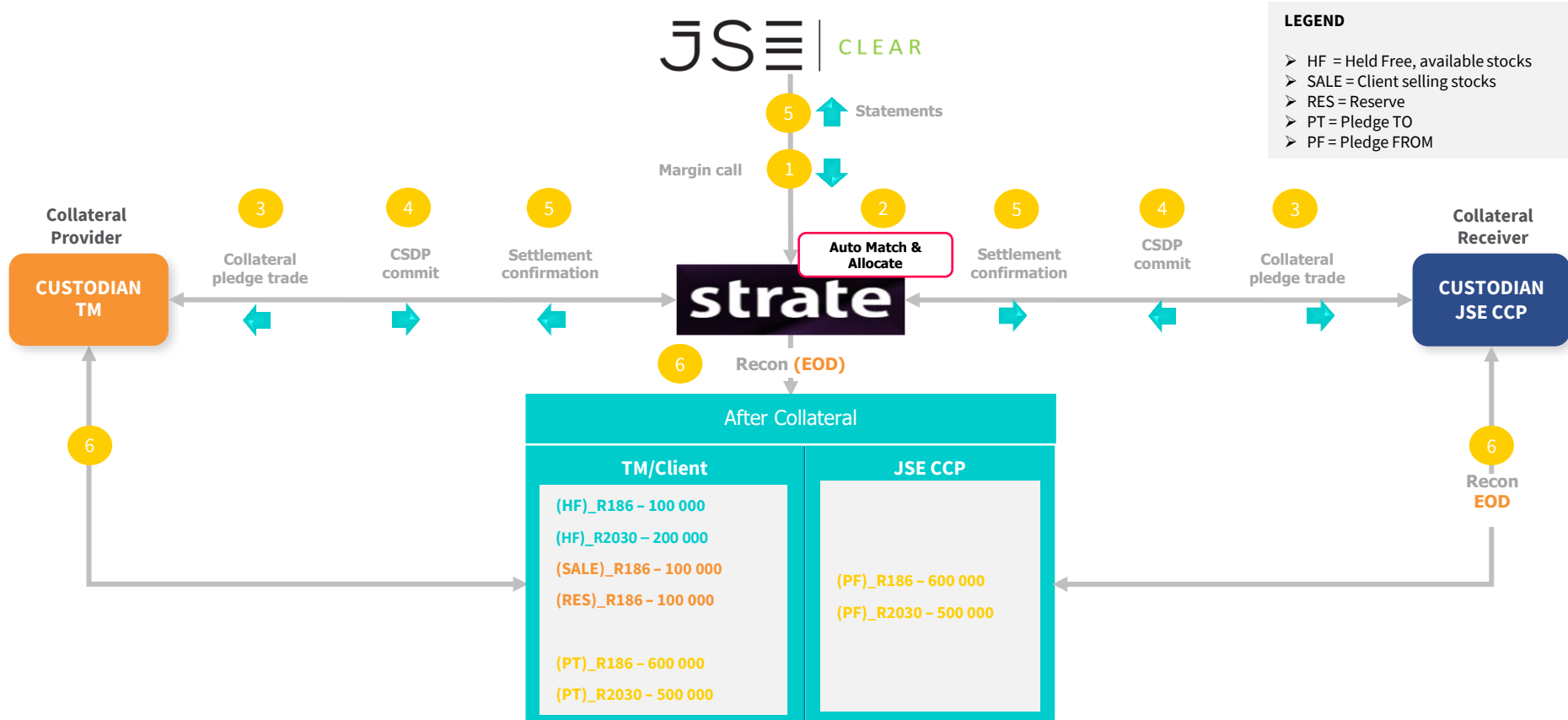


## Single account Trading and Collateral Giver

- No manual intervention required
- Automatic recalls and substitution for sales/corporate events
- Automatic eligibility check

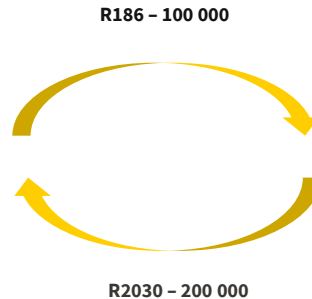
### TRADING & COLLATERAL GIVER





- What happens if a stock is allocated as collateral and sold by the client
  - Bond stock being sold will be substituted with another eligible stock

Before Substitution	
TM/Client	JSE CCP
(SALE)_R186 - 100 000	
(RES)_R186 - 100 000	
(HF)_R186 - 200 000	
(HF)_R2030 - 200 000	
(SALE)_R2030 - 400 000	
<hr/>	
(PT)_R186 - 700 000	(PF)_R186 - 700 000
(PT)_R2030 - 500 000	(PF)_R2030 - 500 000



After Substitution	
TM/Client	JSE CCP
(SALE)_R186 - 100 000	
(RES)_R186 - 100 000	
(SALE)_R2030 - 400 000	
(RES)_R2030 - 400 000	
(HF)_R186 - 100 000	
<hr/>	
(PT)_R186 - 800 000	(PF)_R186 - 800 000
(PT)_R2030 - 300 000	(PF)_R2030 - 300 000



- Exposure value increase
  - Additional collateral will be placed
- Exposure value decrease
  - Collateral will be withdrawn and returned to the TM/client

Before Top-up	
TM/Client	JSE CCP
(HF)_R186 – 100 000	
(SALE)_R186 – 100 000	
(RES)_R186 – 100 000	
(SALE)_R2030 – 400 000	(PF)_R186 – 800 000
(RES)_R2030 – 400 000	(PF)_R2030 – 300 000
(PT)_R186 – 800 000	
(PT)_R2030 – 300 000	

After Top-up	
TM/Client	JSE CCP
(HF)_R186 – 50 000	
(SALE)_R186 – 100 000	
(RES)_R186 – 100 000	
(SALE)_R2030 – 400 000	(PF)_R186 – 850 000
(RES)_R2030 – 400 000	(PF)_R2030 – 300 000
(PT)_R186 – 850 000	
(PT)_R2030 – 300 000	

After Withdrawal	
TM/Client	JSE CCP
(HF)_R186 – 200 000	
(SALE)_R186 – 100 000	
(RES)_R186 – 100 000	
(SALE)_R2030 – 400 000	(PF)_R186 – 700 000
(RES)_R2030 – 400 000	(PF)_R2030 – 300 000
(PT)_R186 – 700 000	
(PT)_R2030 – 300 000	

Withdrawal requests will be processed once a day during the SOD collateral process and securities will only be released if the Clearing Member approves the release and once the Clearing Member's cash settlement including the cash covering the value of the security to be withdrawn is settled in JSEC's account

At this point JSEC will instruct Strate to release the security

Security withdrawal requests received after 8am will only be processed during the SOD collateral process the following business day

- Clients will need to be aware of this and manage their collateral accordingly and CMs will need to timeously process withdrawal request approvals



- **The following criteria will be used to determine which bonds form part of the list of eligible securities:**
  - Nominal value in issue greater than R100 billion
  - Average daily value traded (ADVT) of more than R500 million
  - Term to maturity greater than 6 months
  - Ability to value the security and determine the valuation haircut and concentration limits
  - Availability of data to support these functions
  
- **Eligible collateral is reviewed quarterly and ad hoc as required**

List of eligible SA Govi bonds based on the eligibility criteria above		
Instrument ISIN	Alpha Code	Haircut %
ZAG000016320	R186	6.96
ZAG000030404	R209	10.32
ZAG000077470	R213	8.98
ZAG000096173	R2048	10.87
ZAG000107012	R2037	9.72
ZAG000106998	R2030	8.32
ZAG000107004	R2032	9.3
ZAG000106972	R2044	10.59
ZAG000125972	R2035	9.53
ZAG000125980	R2040	9.08

Due to the list being reviewed periodically, kindly request the most recent list from [seccollateral@jse.co.za](mailto:seccollateral@jse.co.za)

- **Valuation and haircuts:**
  - In determining the sufficiency of the cash and securities posted to cover IM obligations, JSEC will value the securities pledged to JSE Clear at their market value less any haircut applicable.
  - JSE Clear will mark these securities to market on at least a daily basis and will adjust the amount of cash to be paid to (or from) JSE Clear from (or to) market participants to cover their remaining initial margin requirements.
  - The haircuts will be calculated to account for market volatility of each security
  - Haircuts will be reviewed at least quarterly for appropriateness and more frequently should JSE Clear so require.
  - Market participants will be notified of applicable haircuts and any changes thereto.

- **Concentration Limits**

- JSE Clear will impose limits on the aggregate amount of a particular security per clearing member
- Limits are set for the following reasons:
  - I. to avoid undue concentration of collateral in a particular asset class, type of security, obligor, etc.
  - II. to restrict the maximum amount of non-cash collateral a market participant may pledge to JSE Clear for its margin requirements in respect of its position
- Limits will be based on liquidity of the security

- In the event of a default, all securities pledged to JSEC will be liquidated into ZAR cash via a JSEC appointed broker, over and above the standard default management process
- Securities collateral will only be accessed/sold in the event of a default
- Securities will be liquidated within a maximum of 2 days from the time of the default  
Haircuts and concentration limits are quantified accordingly i.e. based on a 2-day liquidation period
- The settlement cycle of the trades booked to liquidate securities may vary from same day settlement to T+3 settlement
- Proceeds from the sale of collateral may therefore be received from DD to DD+4 (where DD is Default Day)

- **JSE Clear Fee**

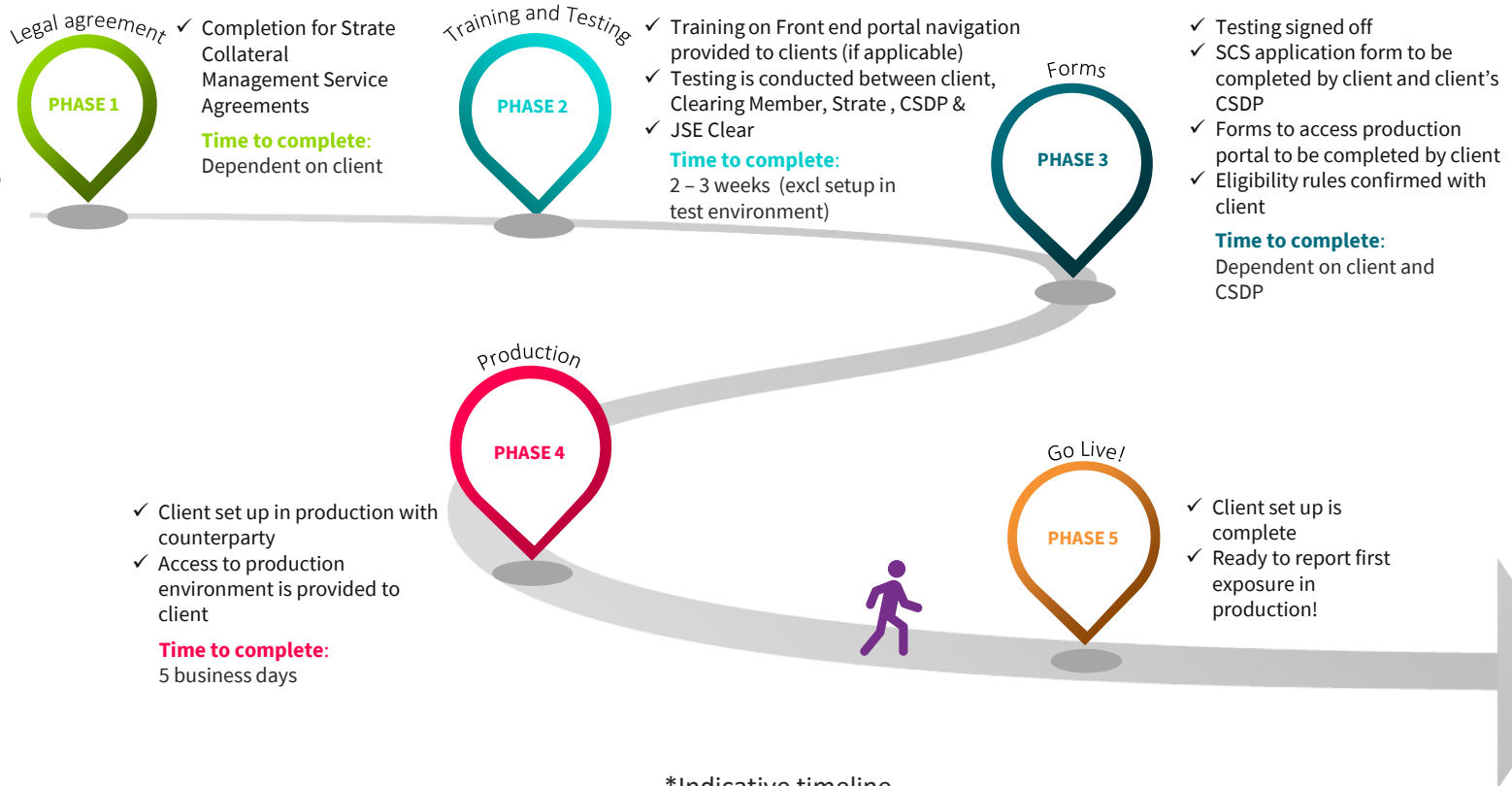
- JSEC will charge a daily annualised fee of 25bps (excl VAT) on the ZAR market value of collateral pledged
- A transactional fee will be introduced in 2024

- **Other Fees**

- Clients utilizing the securities collateral service will be charged fees by their CSDP & STRATE and potentially, Clearing Members
- Clients would be required to consult with their CSDP and Clearing Member for their respective fee schedules



# JSE Clear Collateral Services Onboarding Timeline



\*Indicative timeline

# Questions

JSE Clear facilitates the testing process and onboarding of members/clients, please contact [seccollateral@jse.co.za](mailto:seccollateral@jse.co.za) for assistance.



Thank you

---

*let's connect*

©Johannesburg Stock Exchange

JSE | CLEAR