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2 April 2024

Ms. Shamila Kara
Divisional Head: Banking, Insurance and FMI Supervision Department
Prudential Authority
P.O. Box 427
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0001

Dear Ms. Kara

RE: JSE CLEAR COMMENTS ON THE CPMI-IOSCO CONSULTATIVE REPORT ON STREAMLINING VARIATION MARGIN IN CENTRALLY CLEARED MARKETS

JSE Clear welcomes the opportunity to comment on the consultative report on streamlining variation margin in centrally cleared markets published by the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO).

Our comments on the overarching questions as well those pertaining to each of the eight effective practices set out in the report are provided below. We are generally supportive of the practices put forward by the standard setters and believe these will support the objective of fostering market participants' preparedness for variation margin (VM) calls.

Please let me know if clarification is required on any of the question responses.

Yours faithfully,

Alex Comninos
CRO – JSE Clear

Overarching questions

1. **Do you agree that the eight effective practices identified in this report foster market participants' preparedness for above-average VM calls through the efficient collection and distribution of VM in centrally cleared markets?**

   Yes, JSE Clear agrees that the eight effective practices identified in the report support market participants' preparedness for VM calls in centrally cleared markets. There are some caveats and challenges associated with certain of the practices or elements thereof which we highlight in our commentary on the detailed questions below.

2. **Are there any other effective practices, mechanisms or changes that would streamline VM processes in centrally cleared markets which have not been covered in this report? If so, please describe such practices.**

   JSE Clear has not identified any additional practices that would streamline VM processes.

Effective practices

1. *Increasing the predictability of ITD margin calculations and collections to the extent practicable. This could be achieved by using, or increasing the frequency of, scheduled ITD margin calculations and collections where appropriate, after carefully considering the trade-off between the following:*

   a. *the increased operational burden associated with making more scheduled ITD calls, as well as the positive impact of using ad hoc calls when it is prudent; and*
   b. *the corresponding decrease in the probability of ad hoc ITD calls, as well as the positive impact on clearing members' operational readiness and financial capacity to meet the scheduled calls.*

a. **Do you agree that it is an effective practice?**

   Yes, JSE Clear agrees that increasing predictability of ITD margin calculations and frequency of collection is an effective practice.

b. **What are the pros and cons (including unintended consequences) of the effective practice?**

   Scheduled ITD calls assist market participants in anticipating and preparing for VM calls and reduce the probability of ad-hoc intraday margin calls. However scheduled ITDs do not eliminate the need for CCPs to invoke ad-hoc margin calls. An ad-hoc call may be necessary to cover realised losses and safeguard the market during periods of extreme volatility.

   Frequent scheduled ITD calls increases the operational burden on clearing members and market participants particularly in markets where the infrastructure to effectively support the collection and payment of margins through automated settlement processes across the value chain is not well established.

c. **Please discuss any drawbacks or hurdles to implementing the effective practice.**

Implementation of the infrastructure and automated processes across the value chain (CCP-CMs-TMs-End-users) to support scheduled ITD calls including the requisite payments infrastructure may entail a significant investment of financial and other resources, particularly for smaller markets.

d. **Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them**

More conservative margining (e.g. higher confidence intervals) could be considered as an alternative to catering for scheduled ITDs if the implementation costs and/or operational overheads associated with the latter are significant.

2. *Giving participants sufficient time to manage the liquidity impact of an ITD call, while also considering the need to collect VM on a timely basis in order to mitigate the build-up of current exposures.*

a. **Do you agree that it is an effective practice?**

Yes, allowing participants sufficient time to manage the liquidity impact of an ITD call reduces the likelihood of liquidity shortfalls and liquidity pressures.

b. **What are the pros and cons (including unintended consequences) of the effective practice?**

Allowing additional time should be balanced with the need to collect VM on a timely basis to prevent a build-up of exposures and increased counterparty credit risk.
Consideration should also be given to the fact that the CCP's ability to invoke an ITD is constrained by payment system cut-off times. Extending participants' time to settle ITDs may impact the CCP's ability to invoke an ITD beyond a certain time in the day thereby limiting its ability to cover intraday volatility experienced after a certain time in the day.

c. **Please discuss any drawbacks or hurdles to implementing the effective practice.**

See response to (b) above

d. **Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them**

CCP publication of ad-hoc ITD margin call thresholds, practices and processes and ensuring that this information is disseminated to and understood by end-users can assist the market in anticipating when an ad-hoc ITD may be invoked and thereby contribute to shortening the time required for participants to source the necessary liquidity and meet the call.

3. *Where allowed, practical and efficient, offsetting VM calls against other payment obligations, such as initial margin calls and product payment flows (eg coupons), in order to reduce liquidity demands on participants.*

a. **Do you agree that it is an effective practice?**

Yes, JSE Clears agrees this is an effective practice to reduce liquidity demands on participants.

b. What are the pros and cons (including unintended consequences) of the effective practice?

Where non-cash collateral or cash in a different currency to that of the underlying obligation is accepted for IM obligations and only cash in the currency of the obligation is accepted for VM obligations, offsetting of these obligations Is not possible.

c. Please discuss any drawbacks or hurdles to implementing the effective practice.

See response to (b) above

d. Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them

None identified

4. *Reviewing its operational practices based on an evaluation of the feasibility and the pros and cons of passing through ITD VM to mitigate the liquidity impact of ITD calls on participants.*

a. **Do you agree that it is an effective practice?**

Yes, JSE Clear agrees the passing through of VM where feasible and practical is an effective practice to reduce liquidity pressures.

b. What are the pros and cons (including unintended consequences) of the effective practice?

The passing through of VM can reduce liquidity pressures in the market. VM pass through may not be possible in certain cases e.g., where the contingent VM approach is adopted for certain asset classes or products or where non-cash collateral is accepted for VM payments.

c. Please discuss any drawbacks or hurdles to implementing the effective practice.

See response to (b) above

d. Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them

None identified

5. *Subject to agreement with the CM or client and where legally and operationally feasible, allowing the use of excess collateral to meet ITD VM obligations.*

a. **Do you agree that it is an effective practice?**

Yes, JSE Clear agrees the allowing the use of excess collateral to meet ITD call obligations is an effective practice to reduce liquidity pressures.

b. What are the pros and cons (including unintended consequences) of the effective practice?

Excess collateral in the form of securities could not be used if the CCP adopts the practice of VM pass through.

c. Please discuss any drawbacks or hurdles to implementing the effective practice.

See response to (b) above

d. Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them

None identified

6. *Providing information regarding the CCP's processes and timing for ITD VM calls in order to facilitate its participants' ability to predict and manage liquidity requirements. This could be achieved by clearly defining and making available to participants (through the CCP's rulebook or other relevant documentation) the following:*
    a. *the circumstances and any related thresholds according to which the CCP may make ITD VM calls;*
    b. *the timing and relevant notice periods for its ITD VM calls;*
    c. *the CCP's processes and rules concerning the netting of payments across margin accounts for each type of margin call, where excess collateral can be used to meet VM requirements, and any other provisions which have an impact on the amounts to be called from CMs; and*
    d. *granular information to help CMs understand the composition of VM calls, which may include items such as: a unique identifier to track the call across the CCP's systems, an indicator of whether the call relates to initial margin/variation margin/default fund/rights of assessment/other, a house/client account indicator, underlying unique portfolio/account identifiers, details of any offsets netted against other payments (such as other margin calls, securities deliveries and receipts or coupon payments), a breakdown of the calculation which sets out the individual elements comprising the total, the forms of eligible collateral or the quantity and forms of eligible excess collateral which may be used to satisfy the call, and details of the deadline(s) for meeting the call.*

a. Do you agree that it is an effective practice?

Yes, JSE Clear agrees the provision of information such as pre-defined thresholds, process details and timings is an effective practice that supports participants in predicting and managing liquidity requirements.

b. What are the pros and cons (including unintended consequences) of the effective practice?

The determination of pre-defined thresholds which would automatically trigger an ad-hoc ITD call if breached is challenging and CCPs require the ability to exercise discretion in deciding whether or not to invoke an ad-hoc ITD call if thresholds are breached, considering the specific market conditions, time of the day etc.

c. **Please discuss any drawbacks or hurdles to implementing the effective practice.**

See response to (b) above

d. **Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them**

None identified

7. *Seeking feedback on the CCP's VM practices from its participants and other relevant stakeholders (eg through risk committees or other established mechanisms) in order to aid the CCP's assessment of the trade-off between managing its own risks and the interests of its participants.*

. **Do you agree that it is an effective practice?**

Yes, JSE Clear agrees that participant engagement and feedback is an effective practice and helps the CCP understand participants' concerns and specific challenges in sourcing liquidity to meet VM calls, allowing for adjustments in the process and/or timings that accommodate participants' needs where possible.

a. **What are the pros and cons (including unintended consequences) of the effective practice?**

Accommodating participant preferences must be balanced against the CCP's risk management needs.

b. **Please discuss any drawbacks or hurdles to implementing the effective practice.**

No further drawbacks identified

c. **Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them.**

None identified

8. *Providing transparency to clients regarding the CM's processes and timing of ITD VM calls, which may facilitate clients' ability to predict and manage liquidity requirements. This could be achieved by clearly defining and making available to clients details of the following aspects of the VM calls it issues:*
    - *a. its practices and procedures for the calculation and collection/payout of VM;*
    - *b. schedules for timely payment that its clients may be required to meet; and*
    - *c. its rules and practices concerning:*
    - *d. the usage and forms of excess collateral eligible for meeting VM calls;*
    - *e. acceptance and transformation of non-cash collateral for the purposes of meeting VM calls; and*
    - *f. netting arrangements across client accounts*

a. **Do you agree that it is an effective practice?**

Yes, JSE Clear strongly agrees that providing transparency to clients regarding the CM's practices, processes and timing of ITD VM calls is an effective practice to facilitate clients' ability to predict and manage liquidity requirements.

b. **What are the pros and cons (including unintended consequences) of the effective practice?**

No comment.

c. **Please discuss any drawbacks or hurdles to implementing the effective practice.**

None identified

d. **Are there better, more efficient, more cost-effective alternatives to the effective practices? If so, please describe them.**

None identified