

MINUTES

Johannesburg
Stock Exchange

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 22 August 2019
Time: 13h15
Venue: Ubuntu Conference Room

Tel: +27 11 520 7000
Fax: +27 11 520 8584

www.jse.co.za

Present:

| | |
|--------------------------|---------------------------------|
| Dr. R Karuaihe | - Chairman |
| Dr. D Strydom | - GrainSA |
| Mr. L van der Walt | - GrainSA |
| Dr. K Keyser | - Brisen/AFMA |
| Mr. J Theron | - Polarstar Fund Management |
| Mr. W Martens | - CJS Securities |
| Mr. P Faure | - CJS Securities |
| Mr. H Grobler | - Zargoscape |
| Mr. P Lovelace | - SAOPA/CEOCO |
| Mr. G Roswell | - representing RMB |
| Mr. W van der Merwe | - RMD |
| Mr. S Janse van Rensburg | - BSEC |
| Mr. R Olwagen | - BVG Commodities |
| Mr. D Dannhauser | - Representing NCM |
| Ms. D Nemer | - JSE Director: Capital Markets |
| Mr. M Ngcobo | - JSE Post Trade |
| Mr. J Shayi | - JSE Market Regulation |
| Dr. K Muganiwa | - JSE Market Regulation |
| Ms. Z Dastile | - JSE Capital Markets |
| Ms. A Matutu | - JSE Capital Markets |
| Mr. V Mpumza | - JSE Capital Markets |

Apologies:

| | |
|--------------------|-----------------|
| Ms. M Purnell | - Agbiz Grain |
| Mr. P Jackson | - NCM/RCL Foods |
| Mr. R Heine | - RMB Clearing |
| Mr. L Joseph | - Cargill |
| Mr. C Schoonwinkel | - GrainSA |
| Mr. J Du Toit | - RMB |
| Mr. H Mulder | - RMD |



WELCOME:

Dr Karuaihe welcomed all attendees and thanked them for their participation.

1 CONFIRMATION OF MINUTES:

The Minutes of the previous meeting were accepted and approved, subject to changes made.

2 MATTERS ARISING FROM PREVIOUS MEETINGS:

2.1 Prof Roberts Report

Dr Karuaihe reported that a general consensus was reached on most of the recommendations made by Professor Roberts in his report, as presented in the briefing workshop held on 01 August 2019. There were however some recommendations where further research needed to be done, especially the following:

- **Anonymity** – the committee was divided on this issue hence more work needs to be done to determine if trading anonymity will improve liquidity or will affect liquidity negatively
- **Redelivery differential** – the committee felt that this issue still needs to be explored further. The calculation for redelivery differential is a concern and the committee felt that not all possibilities have been exhausted. There are many stakeholders that are involved and since the frequency of changing this differential will have a direct bearing on the existing financing model, the banks may have an issue with this recommendation.
- **Zero differential zone** - Since this is linked to the redelivery differential, the two may need to be resolved jointly.

It is now left to the JSE to provide further guidance on the way forward. The JSE will send out market communication with a concise action plan on the how and when which recommendations will be implemented.

2.2 Calendar Spread Margins

Cognisance was taken of the content of a presentation made by the JSE Risk team regarding calendar spread margining methodology findings for white maize (**Annexure A**). This was welcomed by the Advisory Committee but suggested that this also be extended to yellow maize contract since the product is bigger than white maize and that there is high correlation on both products. JSE Risk team will conduct the same tests for yellow maize and confirm that this is within JSE Clear's risk appetite. The methodology is expected to be implemented by end of September.

This was acknowledged by the Committee members.

2.3 Issues with JSE Rules and Regulations

Market regulation raised a concern that what they believed to be member specific issues with market regulation were being tabled at the advisory committee meetings as outstanding items with market regulation when in reality such issues have nothing to do with the broader advisory committee membership but the member impacted by that issue. Market regulation requested that such issues needed to be channeled through the relevant unit in the market regulation division. The comments were well received by the members of the advisory committee.

Mr. Theron then indicated that he believed that there were issues that he had discussed with market regulation which he believed had such a market wide impact that needed to be discussed at the advisory. He made specific reference to the rules on cross trades and pre-arranged trades and requested that market regulation needed to publish a paper to clarify their interpretation of those rules. Mr. Shayi mentioned that a discussion had already taken place internally between capital markets and market regulation on those rules as other members had complained about those rules. Mr. Shayi further mentioned that a teleconference had been scheduled to discuss the matter with the broker concerned and that further feedback will be provided to the advisory.

Mr. Grobler enquired about the DOT and SOT rule and all Mr. Shayi could say was that the delay was primarily caused by consultations between market makers and other brokers on certain aspects of the rule but he was reluctant to stipulate a timeline as to when the market was likely to be consulted on that rule.

2.4 COT Report

Dr Karuaihe referred to a memorandum submitted earlier and said that, even though there is no regulatory instrument to ensure that members comply with the requirement, JSE felt that they should go ahead and start getting the information on a voluntary basis. The COT report is work in progress and we need to start somewhere until such time that a statutory instrument is in place, especially now that we are moving towards anonymous trading.

Mr Theron suggested that the review circulated by the JSE seems to be a regression from the earlier submissions and that we should send the last COT report to the market for comments while we engage with FSCA.

3 **TRADING AND SETTLEMENT ITEMS:**

3.1 Update from Wheat forum

a. Grading Specifications

Dr Keyser informed the meeting that the Wheat Forum had agreed to use a simple method to calculate the grade discounts. The super grade will attract a premium. A letter to the JSE will be sent out shortly by the Forum to outline the resolutions taken and request the JSE to adopt same.

b. Origin discounts

Similarly, origin discounts will be a function of grade discounts for those countries that are identified to attract an origin discount.

c. Soymeal and sunflower oilcake contracts

Mr Mpumza reported that the JSE has received everything from the working group to initiate the process of taking both products to the JSE New Products Committee for approval. The request came from the animal feed industry to investigate the probability of trading both contracts on the JSE. The products are still work in progress.

3.2 Proposal to mark option volatility to the observed skew instead of current flat surface

This follows a request submitted by Mr Grobler for the JSE to consider marking option volatilities to the observed skew. Mr Sibanda from JSE Valuations reported that preliminary investigations to date indicate that JSE has adequate trade data for near contracts on white and yellow maize but not enough data on other contracts and expiries to build a skew. With that being said, can the market consider a generic skew for the less liquid contracts? Mr. Sibanda further added that there will be P&L implications on day one when the JSE switches from a flat skew.

The committee was divided and it was agreed that JSE engages with option writers first to at least get their input and then proceed with a proposal.

3.3 Update on Deliverable Diesel

Ms Dastile reported that an API has gone out to Software Providers to know what has changed or has been added on the current commodity derivatives nutron trading system. The JSE has already started meeting with Fuel Majors and Banks to sensitize them about the product. The JSE envisage go live date in November 2019. Workshops will be conducted closer to the live date.

The Committee note the developments with Deliverable Diesel contract.

4 GENERAL:

4.1 Announcement

The Executive Director, Ms Donna Nemer announced that she will be retiring at the end of October 2019 and will go back to the USA.

This was acknowledged by the Committee members.

5 REMAINING MEETING DATES FOR 2019:

Thursday 20 November 2019

Dr Karuaihe thanked the committee for their input and called the meeting to a close.



