

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 31 August 2017
Time: 13h15
Venue: Serengeti Meeting Room

Present:

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| Dr. R Karuaihe | - Chairman |
| Mr. C Sturgess | - JSE Capital Markets |
| Ms. D. Nemer | - JSE Director: Capital Markets |
| Mr. P Faure | - CJS Securities |
| Mr. W Martens | - CJS Securities |
| Mr. W Lambrechts | - Vanguard Derivatives |
| Ms. M Purnell | - Agbiz Grain |
| Mr. D Strydom | - GrainSA |
| Mr. C. Joubert | - NAMC |
| Dr. K Keyser | - Brisen representing SACOTA |
| Mr. Z de Jager | - Representing Farmwise |
| Mr. L Joseph | - Cargill |
| Mr. P Mphanama | - FSB |
| Mr. J du Toit | - RMB |
| Mr. A Van Den Berg | - RMB |
| Mr. H Mulder | - RMD |
| Ms. A Clayton | - JSE Public Policy |
| Mr. L Cockeran | - JSE Legal Counsel |
| Dr. K Muganiwa | - JSE Market Regulation |
| Mr. A Ramotlou | - JSE Trading and Market Services |
| Ms. A Matutu | - JSE Capital Markets |
| Mr. V Mpumza | - JSE Capital Markets |

Apologies:

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| Mr. AR Moosa | - SAOPA |
| Mr. P Lovelace | - CEOCO/SAOPA |
| Mr. J Theron | - Polarstar Fund Management |
| Mr. T Jacobsz | - Farmwise |
| Mr. D Mathews | - Private Producer |
| Mr. C Schoonwinkel | - GrainSA |

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 with no changes.

2 MATTERS ARISING FROM PREVIOUS MEETINGS:

2.1 Update by JSE to create a transparent platform to display out loading constraints

Dr Karuaihe reported that this is for noting and comments, now that the JSE has established a facility where storage operators can report out loading constraints. Thereafter, the JSE will update the template on the website as new information is passed on. The process is still manually driven and in a trial phase. Dr Karuaihe further added that this arrangement is mainly to address issues for stock on JSE silo certificates.

This was acknowledged by the Committee members.

2.2 Proposed change to spot month limits

Mr. Sturgess reported that there was comment circulated by Mr. Theron, which came through a day before meeting. The request calls for everyone who has breached that spot month position limit to be contacted by the JSE.

Dr Muganiwa responded by saying clients are contacted if the limit is breached. The general thinking is that clients must show that the positions are for bona fide hedging however they not particular with what prove is provided.

Mr. Sturgess thanked Dr Muganiwa for the input and highlighted that the JSE is considering changing the single and all-combined months' limits by 3 and 5 percent respectively. A market note will be published by JSE market regulation. For the spot month limit, it was suggested to increase the limit based on a big harvest month? If this is accepted then the JSE will have to look at changing rules to accommodate the suggestion.

After some discussion, the JSE resolved that it will go back to the drawing board and reconsider the spot month position limits. The consensus is to leave the spot month limit as is and JSE market regulation to be vigilant on assessing every breach that goes through.

3 TRADING AND SETTLEMENT ITEMS:

3.1 Feedback on recent operational issues

3.1.1. DOTs and SOTs

Dr Karuaihe made reference to a market notice that was circulated sometime in July, where the JSE was proposing allowing members to book their own reported trades. The JSE invited comments and a few objections were received from the market about allowing members to book their own reported trades.

Dr Karuaihe then asked Mr Sturgess to elaborate. Mr Sturgess reported that the JSE has formally responded to the one market participant concerned. He further added that the JSE position on this is certainly not to change any of the reporting criteria but simply moving the capturing of the trades to members. JSE Market Regulation will continue to play their role, making sure there is compliance in terms of reporting requirements.

There were several comments that the reporting will be open to abuse and that the JSE is creating a market that is not transparent as these trades are reported late. Mr Sturgess mentioned that JSE has always accommodated DOTs and SOTs. The JSE is not stepping away from its responsibility and if there is no compliance in reporting then market regulation will step in and fulfil its role.

There were numerous comments and concerns shared by Committee members. It was finally agreed that the JSE will go back and find a way to ensure that these reported trades are captured on the system and published for all of the market to view as soon as possible.

3.1.2. Systems upgrade

Ms. Matutu reported that there will be systems upgrade coming up to accommodate the new deliverable diesel contract. She further added that the JSE internal testing team is busy with testing and in due course the JSE will offer market dress rehearsal. The times will be communicated with the market in due course.

This was noted and acknowledged by the Committee members.

3.2 Anonymous trading for white and yellow maize

Mr. Sturgess reported that a request from the market was received to reconsider enabling anonymous trading. Mr. Sturgess appreciated this was discussed in the past 12 months and put the question to the committee members present. Mr Sturgess also acknowledged the written feedback from Johann Theron.

Various committee members highlighted their views regards the request to remove member codes from the depth windows especially for the more liquid products like white maize. There was also a view that questioned if white maize was indeed liquid enough to consider this.

After an extensive discussion a committee member suggested that via show of hands the Advisory Members indicate who supported a change to anonymous trading, even if it was just for a trial purpose of a few months. The majority present still supported leaving the member codes as is, however the following members confirmed support for anonymity, Rand Merchant Bank, Brisen, and Vanguard. Polar Star, whom was not present, also supported the change in writing before the meeting.

Since many of the remaining committee members supported the status quo, it was agreed the JSE would inform the wider market that the request was discussed and there was no major support to change. The market notice would solicit comments and test the broader Commodities Membership if there was interest to change the anonymity status of the commodities market.

3.3 Proposal for fixed registration period(s) for storage locations

Dr Karuaihe reported that the JSE has received objections from the market concerning registration of storage locations mid-season. Dr Karuaihe asked if the committee had any objections if the JSE introduced fixed registration period for storage locations, one for summer and the other for winter crops.

The Committee members acknowledged the proposal and fully supported the proposal.

4 GENERAL:

4.1 MiFID II regulations and their potential impact on our market – an update

Ms Nemer introduced the topic and mentioned since its implementation in November 2007, MiFID has been a cornerstone of capital markets regulation in Europe. Since its inception, not all benefits have been fed down to the end investor as contemplated. MiFID II is aiming to address the shortcomings of the original MiFID release and has been amended with measures as a result of the lessons learned from financial crisis.

MiFID II will command significant changes in business and operating models, systems, data, people and processes. A fundamental transformation will emerge and the biggest impact will be on banks, brokers and trading venues. Additionally, investment managers, insurance firms, independent financial advisors, custodian banks and other asset servicing entities will also need to undertake effort.

Ms Clayton highlighted the objectives and key themes of MiFID II

- a) Increased investor protection
- b) Alignment of regulation across the EU in certain areas
- c) Increased competition across the financial markets and;
- d) Introduction of reinforced supervisory powers.

Ms Nemer highlighted those European clients operating in the South African will be impacted by MiFID II and the JSE will rely on these clients to comply with MiFID II regulations. The JSE will not act in accordance or approach European Market Infrastructure Regulation (EMIR) but the European clients should do so as it has a significant impact on them.

The Committee members took note and acknowledged the impact thereof.

4.2 Zambian update

Mr. Sturgess reported that the contracts will continue to trade in dollars and thanked two clearing members namely ABSA and Standard Bank. They have suggested a proposal whereby individual clients would not be required to open up a ring fenced USD bank account in order to participate. This would make the process easier to access this new product and so for non-resident participants, they would post in dollars to the Clearing members partner bank in Zambia. For South African clients, they will post Rands to the Clearing members whom will, in turn, convert them into dollars for settlement purposes.

There will still be a ring-fenced CFC dollar account, however only required for the JSE and its clearing members. Mr. Sturgess further added that the JSE would be meeting with the Authorised Dealers as well as SA Reserve Bank to discuss this simpler settlement method. The JSE will keep the market updated once all the necessary approvals are received..

4.3 Indicative Wheat Grade Discount

Dr Karuaihe reported that the new marketing season for wheat is fast approaching and indicated that the JSE will apply the new methodology in calculating wheat grade discounts. The JSE is mimicking what is done on CME Group regards Kansas Wheat as we try to align ourselves to the international market.

Dr Karuaihe added that the indicative wheat grade when using only 5 of the seven weeks price data for B2 and B3 is R97 and R194 respectively. The remaining two weeks data will be added as they fall due.

The Committee members took note.

5 **ADDITIONS TO AGENDA:**

5.1 Commitment of Traders Report

Dr Keyser raised this issue and wanted to know whom the industry should approach with regard to the CFTC commitment of traders report. Mr. Sturgess indicated that the point of contact should be the Financial Services Board. Mr. Sturgess added as much as the JSE could not accede to the initial request, the industry should count the JSE on joining the meeting with FSB to ensure the reservations as highlighted by the JSE are accurately conveyed.

The Committee members acknowledged the comments.

5.3 Consistency of JSE Storage Rates

Mr. Mulder was concerned that there is a discrepancy in storage rates between JSE and Storage Operators' certificates. The problem usually arises when a client with JSE certificate is told to switch to folio accounts at out-loading but then the storage rates are changed. Clients want to see consistency until out loading if the stock was bought on JSE silo certificates.

Mr. Sturgess confirmed that storage operators are free to charge whatever rate they want to charge however when it comes to JSE receipts, the JSE publishes a standardised rate applicable to product delivered in completion of a futures contract. The terms and conditions applicable to JSE silo receipts should therefore be clear and be consistently applied by all parties concerned.

Mr. Sturgess suggested that an elegant solution is to have two folio accounts; one as JSE account and another being internal folio account. This will resolve the issue of having different rates when a client wants to out load stock that is in JSE receipt. Ms Purnell added that she will convey the message to the members of Agbiz.

The JSE will take this up with Agbiz to ensure consistency in terms of the application of the JSE receipts..

5.2 Approved JSE Silos – Financial Standing

Raised by Mr. Van der Berg, he queried whether it was not time to refresh the financial requirements for JSE approved storage operators and also consider the types of storage when determining the financial requirements.

Dr Karuaihe undertook to reconsider this and would as a starting point adjust the requirements based on existing balance sheet positions of operators.

6 **NEXT MEETING:**

The next meeting is scheduled for 30 November 2017.

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