

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 18 November 2021
Time: 13h00
Venue: Virtual Meeting – MS Teams

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| Present: | Dr. R Karuaihe | Chairman |
| | Dr. D Strydom | GrainSA |
| | Mr. R Krige | GrainSA |
| | Mr. D Mathews | GrainSA |
| | Mr. J du Plessis | GrainSA |
| | Dr. A van der Vyver | SACOTA |
| | Mr. P Faure | CJS Securities |
| | Mr. B de Klerk | Agbiz Grain |
| | Mr. W Lemmer | Agbiz Grain |
| | Mr. J du Toit | RMB |
| | Mr. R Heine | RMB Clearing |
| | Mr. W Strauss | RMB |
| | Mr. T Jacobsz | Farmwise |
| | Mr. G Schulze | Cargill RSA |
| | Mr. F Breedt | AFMA |
| | Mr. P Watt | AFMA |
| | Mr. F Sundai | NAMC |
| | Mr. R Olwagen | BVG Commodities |
| | Mr. J Theron | PolarStar |
| | Mr. G van Rensburg | Bester |
| | Mr. H Mulder | RMD |
| | Ms. V Reddy | Director Capital Markets |
| | Mr. V Mpumza | JSE Capital Markets |
| | Ms. Y Moshidi | JSE Capital Markets |
| | Mr. C Sturgess | Consultant to JSE |

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| Apologies: | Mr. C Joubert | NAMC |
| | Mr. S Janse van Rensburg | BSEC Derivatives |
| | Mr. W Martens | CJS Securities |
| | Mr. P Lovelace | CEOCO |

1 WELCOME

The chairperson welcomed all attendees and thanked them for their participation.

2 RESIGNATION OF RAPHAEL AND CONTINUITY AT JSE COMMODITIES

Ms. Reddy informed the committee members that the market had received a brief note advising participants of Dr. Karuaihe's resignation as head of the commodities division. Having said that, the JSE acknowledges the business continuity concerns, and as a result, Chris Sturgess will serve as interim Head in Raphael's departure for the next six months, beginning January 1, 2022. Dr. Karuaihe thanked everyone in attendance for their contributions and support throughout the years.

3 CONFIRMATION OF MINUTES

Minutes of the previous meeting were accepted and approved.

4 MATTERS ARISING FROM PREVIOUS MEETING

4.1 Update on changes to random allocation algorithm

The chairperson reminded committee members that the JSE issued a market notice a few weeks ago noting that the technical team working on the diesel project recommended that it would be too risky to make any further changes to the diesel code so close to go-live. Now that the diesel go-live date has been pushed forward to the end of January 2022, the JSE has opted to include this change in the diesel code to go live at the same time.

4.2 Update on improvements to determining Location Differentials

Mr Sturgess indicated that the JSE is making progress and has been fortunate to be able to collaborate with logistical providers, allowing us to agree on distances to Randfontein. The market should anticipate the release of a final distance in the near term. The JSE does not anticipate any controversy over such distances because they are supported by practical routes taken by logistics players to Randfontein. As a result, the JSE is attempting to make the differential as robust as feasible. Early in the year, the advisory committee and other market participants will begin to receive proposals for an improved methodology to adjust differentials.

4.3 Update on migration to new technology

Ms. Reddy reminded the committee that the JSE is looking into this in depth this year as they plan for the other markets, which include commodities, interest rate derivatives, bonds, cash bonds, and repos that are still using legacy technology. The JSE does not intend to undertake a large-scale market-wide effort like ITAC but is instead considering the best strategy to handle this shift. As things stand, it appears that the update of the STT platform will have the quickest time to market, be the least disruptive, and have the lowest cost and influence on the market, because STT is undergoing a lot of changes. We're actively reviewing everything, but this is a top priority for 2022. That is something we have committed to, and it is something we expect to do by the end of the first quarter of next year. So, beginning in April, JSE will begin to gather more information to develop the technical specifications.

4.4 Details regarding storage operator failure

Mr. Sturgess reported to the committee members that the process comes from the enhancements to the detailed contract specifications in which JSE committed to the market that it would walk through the failure of a

storage operator and the impact on that clearing member, member, and ultimately all the way down to client level. Having stated that, a comprehensive document has been created for the first round of internal talks between Capital Markets, the Legal team, and the Post-Trade services team. When the internal review is complete, the JSE will disseminate the document with the entire market.

Mr. Theron added that it is critical that we grasp the implications of a default, failure, or non-delivery, particularly what your recourse could be, whether it be legal or financial in terms of establishing your losses, and so on. And we also need to understand the credit risk connected or assumed by financiers and clearing members when an incident like this occurs, so he believes this is a critical topic to address as quickly as possible.

5 TRADING AND SETTLEMENT ISSUES

5.1 **Proposal incorporating multiple reference points – refer to pack distributed separately**

The Chairman introduced the concept and referred to the position papers that were circulated.

Mr Sturgess was asked to further elaborate on the way forward. It was emphasized that this proposal was considered since it aligned with a number of recommendations that were made in the Matt Roberts report. He confirmed the JSE was not considering any proposals that would remove the concept of location differentials but remained open to consider suggestions or perceived improvements to the current status quo of the commodity derivatives contract design.

For this reason, it was proposed that a Technical Committee be established including experienced market participants to discuss and debate the proposal. It was envisaged the specific committee will be limited in number of representatives to ensure the discussions are effective.

Mr Theron requested that the proposed technical committee discuss a much broader range of topics and not only the suggested proposal. These could include technical issues like out loading requirements for registered delivery points, basis trading and any other items that would strengthen the efficiency of the derivatives market.

5.2 **Feedback on New Products**

5.1.1. Diesel

Mr Mpumza informed the committee that the go-live date has been deferred from 20 November 2021 to 22 January 2022 due to non-readiness from some market participants and requests to move the go-live date to provide clients more time to test. This will also allow the JSE to secure a second clearing member, maybe in time for the January 2022 launch. To be clear, the go-live will be strictly technical in nature, which means that the code with diesel changes will be deployed into the production system, but no contracts will be listed until the second clearer is secured.

5.1.2. Iron Ore

Mr Mpumza reported that there is nothing to report, hence this item will be removed from the agenda until further developments occur.

5.1.3. Soymeal and SUNS Oilcake

Mr Mpumza said that AFMA invited the JSE to a meeting this week in coordination with other stakeholders interested in the Soymeal and SUNS oilcake. The conversation was mostly focused on identifying impediments in moving forward and eventually listing the products. Following a very

productive meeting, it was decided that JSE schedule a meeting with the crushers to reach agreement on the outstanding topics in finalising storage requirements and storage costs.

5.1.4. Carbon Credits

The chairperson reminded the committee members that carbon credit futures were meant to be a by-product of the government's Carbon Tax Act. As previously stated, there have been delays due to Covid-19 and other factors, which have impacted timelines. The JSE met with Department of Minerals and Energy a few weeks ago, and we now have a clearer picture of where they are and how they intend to proceed. They firmly advised that they are only an implementing agency of the government, and that when it comes to the development of regulations and their execution, JSE should consult with National Treasury. As a result, JSE is planning another meeting with both Department of Minerals and Energy and National Treasury to further understand the structure of this product before progressing its listing on the exchange.

5.1.5. Project Harvest

Mr. Sturgess informed the committee members that it was termed Project Harvest, which was an internal JSE name for an effort in which the JSE had been exploring the possibility of entering the cash commodities area. It was noted in the previous advisory, but the JSE just wanted to close the loop after spending some time investigating the possibilities. The JSE and a select group of its directors which are part of the Group Deals Committee have determined that this effort does not fit within the current strategic initiatives at this time and so it will not be pursued further.

5.3 Annual fee adjustments for 2022

The chairperson informed the committee members that a market communication will be sent out today advising the market of the JSE's decision to adjust service fees based on the Consumer Price Index. The adjustment will be 4%, which is the projected CPI, and commodity derivative fees will be adjusted accordingly.

6 GENERAL: ANY OTHER BUSINESS

6.1 Introduction of Basis Futures Contracts

Mr. Theron referred to market notice 151/2015 that was distributed by the JSE which dealt with proposal for the introduction of basis futures contracts as an extension to the deliverable grain futures contract. This was born of the fact that the market was seeking a more effective manner to bring transparency to the basis value of commodity in the various delivery points. It also links quite closely with the highly emotive issue of differentials and the need by some producers and other market participants to extract more value from their pricing points. This concept was not progressed further at the time since the proposed design was identified by the JSE Legal team as not complying with the definition of a security as defined in the FMA. Following several recent conversations with the JSE and internal legal, it's evident it remains a possibility however the instrument listed would be specific to product in each individual delivery point. So, for example, a future contract for white maize at Bultfontein would be a distinct listed futures contract. This concept could then be tested by introducing a number of delivery points where securing a basis for future delivery would add value to both buyer and seller. It was suggested then at participants trade a spread between the basis futures contract and the Randfontein contract and then effectively, allowing participants to hedge overall price risk together with the basis component. Mr Theron closed off by saying the JSE should seriously consider putting this on the market.

Members of the committee agreed that this should be included in the work of the technical advisory committee that will be formed.

6.2 Request to consider delivery of foreign origin sunflower seeds

Dr. van der Vyver informed the committee members that the sunflower seed contract on the JSE is the only product for which no foreign origins can be delivered against. Concerned about the dwindling production and risk of limited supply, SACOTA is requesting that the JSE consider allowing imported stock to be delivered on the exchange.

The request was supported but further discussions were required because the foreign product quality especially regarding oil content varied significantly from the local product.

6.3 Lithuania Wheat

The chairperson informed the committee that this was not the first time something had been brought to their attention. The JSE stated at the time that there was insufficient history for the exchange to deem the product deliverable on the exchange. The third step is to check with local milling companies via the National Chamber of Milling to determine if they have any objections to the product being deliverable through the exchange. Finally, origin discounts should be applied to the product, as they are to some of the other foreign wheat products delivered on the exchange.

Dr van der Vyver thanked the JSE for their efforts with this request and kindly requested if Latvian wheat also be considered during this process.

The request was supported by the advisory committee. SAGL will be consulted by the JSE to provide input regarding the quality analysis they have performed on the imported products.

6.4 Oilseeds Origin Discounts

Mr. Mpumza informed the committee members that a formula for determining maize origin discounts is currently in place. We are suggesting utilizing the same process, but because the oilseed marketing season starts earlier, we'll look at running the data from August to February the previous year. The JSE will run some numbers and provide them to committee members along with a document outlining the methodology for their feedback.

7 PROPOSED MEETING DATES FOR 2022

Thursday 24 March 2022

Thursday 21 July 2022

Thursday 17 November 2022

The chairperson thanked Committee members for their valuable input and called the meeting to a close.