

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 30 November 2017
Time: 13h15
Venue: Serengeti Meeting Room

Johannesburg
Stock Exchange

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Present:

Dr. R Karuaihe	- Chairman
Mr. C Sturgess	- JSE Capital Markets
Ms. D. Nemer	- JSE Director: Capital Markets
Mr. P Faure	- CJS Securities
Mr. R Heine	- RMB representing Clearing Members
Mr. W Lambrechts	- Vanguard Derivatives
Dr. D Strydom	- GrainSA
Dr. K Keyser	- Brisen/AFMA
Mr. L Joseph	- Cargill
Mr. J du Toit	- RMB
Mr. R Jansen van Vuuren	- RMD
Ms. J Van Zyl	- RMD
Mr. J Theron	- Polarstar Fund Management
Mr. A Wienand	- ETG/SACOTA
Mr. D Mathews	- Private Producer
Mr. P Jackson	- NCM/RCL Foods
Ms. S Soobramoney	- JSE Capital Markets
Ms. Z Dastile	- JSE Capital Markets
Mr. V Mpumza	- JSE Capital Markets

Apologies:

Mr. AR Moosa	- SAOPA
Mr. P Lovelace	- CEOCO/SAOPA
Mr. T Jacobsz	- Farmwise
Mr. C Schoonwinkel	- GrainSA
Mr. J Maritz	- VKB/Agbiz
Mr. J de Villiers	- Afgri/Agbiz
Mr. A vd Berg	- RMB
Mr. W Martens	- CJS Securities
Mr. W Snyman	- RMB

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 DOTs and SOTs

Dr Karuaihe referred members to market notice 431 of 2017, dated 03 October 2017, in which the JSE informed the market of its intention to proceed with implementation of the planned reporting process after consultations with market participants. Under this new arrangement members will be permitted to enter and report DOT and SOT trades directly onto the ATS system themselves. As per the said market notice, members were given a grace period of two months to get ready. That period also gave the JSE enough time to test system and that went well. The JSE also improved efficiency of publishing information to the market as the information on reported trades will now be published every 15 minutes. The effective date for members booking these transactions is Monday, 04 December 2017.

Dr Karuaihe indicated that the Commodities team has also been engaging with Market Regulation to update the rules. Market regulation suggested that, instead of making changes piecemeal, we should consider incorporating other related issues in the rule change once. One crucial point raised, Dr Karuaihe added, is the consideration of a minimum lot size for DOTs that Market Reg prefers to be incorporated.

Dr Karuaihe alluded that some market players seconded the introduction of minimum lot size while others raised concern that this might impact the smaller players. Further to the aforementioned, another issue was the turnaround time for reporting off-screen transactions. The JSE is testing if we can introduce a fixed time period within which transactions must be captured.

Dr Karuaihe asked for comments from the Committee members. Ms Nemer mentioned that even though not everybody was supportive of going this direction, this was consistent with international best practice. She further wanted to know if there were any unforeseen issues that needed to be brought to the attention of the JSE that members picked up during the testing phase of capturing reported trades.

Mr du Toit said that there was nothing from their side and he felt that they more in control of the whole situation. However, he had reservations introducing fixed time periods within which to book/report trades. Mr Sturgess responded saying you can only institute time once a player has covered their deltas otherwise

you would be putting pressure on the option writer to get futures. Mr Sturgess added that Market regulation is busy finalizing their rules which will define the process of DOTs and SOTs within rules. In these rules, they will provide guidance on the process.

Mr Lambrechts shared his sentiments around this item however suggested deals should be reported before the delta is filled because it is the volatility that's relevant. Furthermore it should be a requirement for both members to report the deal. Mr Sturgess responded saying the challenge is system constraints at the moment not accommodating such.

After some discussion, Committee Members supported the introduction of a minimum lot size of 20 contracts for DOT trades.

2.2 Consistency of JSE Storage Rates

Mr. Sturgess reported that this was raised by Mr Mulder from RMD at the last meeting. Mr Sturgess reported the JSE had prepared a response and a market notice which went out the previous prior meeting. Mr Sturgess further added that the notice was also circulated to the storage operators' and the JSE trusts that any confusion around storage rates was cleared up on the notice.

Dr Keyser asked how far can clients go back to recover their losses? He further wanted to know if one can request a JSE receipt in any quantity of 50/100 tons. Mr Sturgess responded, saying over the 25 years there has been flexibility. In terms of JSE agricultural specifications, increments are not defined but rather defined maximum certificate size of a thousand.

Dr Keyser raised a question if market can start engaging with storage operators now? Mr Sturgess said yes but bearing in mind those storage operators' rates might have been cheaper than JSE rate in certain instances.

This was acknowledged by the Committee members.

2.3 Financial standing of approved Storage Operators

Dr Karuaihe reported this was a point raised at the last meeting. It was felt that the financial net-worth that grain storage operators are required to put down as collateral when applying for recognition as JSE-approved storage operators was inadequate, outdated and needed to be revised. This will provide comfort to financiers and structured lenders. Storage operators are required to have good standing net financial worth that is commensurate with the silo storage capacity that they will handle. Dr Karuaihe informed the meeting that the numbers have been revised a while ago and asked Mr Mpumza to share the revised work.

Mr Mpumza alluded that after thoroughly examining storage operators' total capacities and annual financial statements, there are some storage operators with combined total capacities of over a million metric tons.

The table below shows the revised figures:

<i>Proposed sliding scale</i>		
Silo Capacity (Tons)	Net Financial Worth Required	
Up to and including	Old Sliding Scale (Rand)	New Sliding Scale (Rand)
20 000		20 000 000
40 000		40 000 000
60 000	20 000 000	
100 000	40 000 000	
>100 000	60 000 000	
150 000		60 000 000
300 000		120 000 000
600 000		240 000 000
1 200 000		285 000 000
2 000 000		1 000 000 000

The committee members felt that the revised figures are a big improvement and a step in the right direction. They fully supported the new proposed sliding scale. They suggested that this should be circulated to storage operators rather than to the full market. The JSE will prepare a market notice for storage operators highlighting the changes and giving a grace period before implementation.

3 TRADING AND SETTLEMENT ITEMS:

3.1 Feedback on recent operational issues

3.1.1. Systems upgrade

Ms Nemer reported that ITaC timelines for projects 1b & c were scheduled to go live in February 2018. There has been several dress rehearsals, which have been progressively better. However the question is whether the market is ready for the implementation, and more specifically the clearing members are ready for implementation. Ms Nemer added at this time with tech freezes coming in mid-December, it is not looking favourable for clearing members. She further alluded that the JSE EXCO had some discussion around it and news would be coming out soon with regard to timeline of ITaC. The work done by JSE readiness has been progressive and met our timelines however it seems the rest of the market is not ready particularly clearing members. Thus, if project 1b & c are pushed out, then there is no timeline as yet for project 2 involving Commodities, Bonds and Interest Rate market.

Mr Heine further added all clearing members are using STT at this point in time. The system is not working at all. RMB clearing have gone through dress rehearsals and could not do any deal management. RMB clearing member mandatory script testing that had to start November 27, 2017 has been pushed out to January 22, 2018 to give STT time to provide them with a better system.

The Committee members took note.

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

Dr Karuaihe reported that this is for noting and comments, now that the JSE had published a market notice informing market of fixed registration for storage locations.

The Committee members acknowledged and supported the proposal.

3.3 Contingencies during the festive season

Dr Karuaihe reported that most members will by now have received the market communication sent out, simply to say that the remainder of 2017 is actually quite volatile (downgrades from ratings agencies; ANC elective conference) and as such the JSE is requesting members to give us critical key contact details of personnel to contact during this festive season.

The Committee members took note.

4 **GENERAL:**

4.1 Zambian update

Mr. Sturgess reported that the JSE had received a good response from Reserve Bank (SARB). He highlighted that the JSE with ABSA and Standard Bank approached SARB with a new settlement approach where authorised dealers/or clearing members would facilitate the dollar bank account, with back-to-back collateral management agreement with the offshore counterparty. This arrangement ensures that no individual USD accounts will be needed by participating clients. Mr Sturgess added that SARB has come back and granted us the approval. Secondly, only South African corporate entities, directly involved in agriculture are to participate. The JSE has asked the Reserve Bank to consider extending the approval to all South African clients.

The JSE had decided not to go out to the market and communicate this until JSE is in a position to be able to roll out the product. Furthermore, JSE is in discussion with ABSA and Standard Bank clearing who have been supportive of this product. Mr Sturgess alluded that the Commodities team appreciates that ITaC is the main priority at the JSE and that has to get a key focus. The JSE is not in a position to disclose when the product will be rolled out.

The JSE will prepare a market note for the wider market to acknowledge progress done on Zambian Grains.

4.2 Soyabean and Sunflower meal contracts

Dr Keyser reported that these two items were requested by the AFMA association. The AFMA association feels that being such a big crusher, it is about time the JSE considered at introducing domestic soybean meal contract. The association is prepared to take part, have delivery points and minimum requirements in place for the contracts. The association has also requested for a working group to discuss the specifications so that both contracts are listed.

Dr Strydom said it is a great thing for the industry and fully supports AFMA proposal. Mr Sturgess added that association should count on the JSE joining the working group.

4.3 Increasing Soybean and Sunflower contract sizes

Dr Keyser raised this item representing AFMA association. The association is of the opinion that the soya bean and sunflower seed markets have significantly grown particularly soya beans. They believe it is about time the contract sizes for both products to be increased to 100 tons. Dr Strydom representing GrainSA alluded that the body has to first consult with the producers about the proposal and provide feedback to the Committee.

Mr Mathews mentioned that the emerging sector is not big in sunflower seed and the industry will find itself excluding the small emerging farmers. The Committee felt soya beans can be changed to 100 tons but not sunflower at the moment.

The Committee recommended the JSE to explore mini, maxi contracts as well as to test the wider market on the proposals.

4.4 Composition of Agricultural Advisory Committee

Dr Karuaihe reported this is a well-established committee and most of the representatives are seconded to come represent their respective industry organisations. However JSE Commodity members are the only where we don't hold regular elections and there have been enquiries from those members who are not represented on the board. The JSE has decided to test the market to see who wants to be part of this Committee. A market communication to members will go out in due course.

Mr Mathews reported this was his last meeting and has enjoyed the meetings since the days of SAFEX. Mr Sturgess thanked Mr Mathews for his wisdom shared through the number of years in this Committee board.

The Committee members acknowledged the comments.

4.5 WFE – WG on Sustainable Commodity Derivatives

Dr Karuaihe invited Ms Shameela Soobramoney, JSE Snr Manager of Strategy and Sustainability, to shed more light on the recently launched Working Group on Sustainability Framework for Commodity Derivatives.

Ms Soobramoney informed the meeting that the World Federation of Exchanges (WFE) has set up this working group and invited a number of commodity derivatives markets to be part of the task team that will draft the terms of reference for this working group. The JSE is a part of the task team.

Producers/users of commodity derivatives markets are increasingly concerned with specific sustainability aspects of the commodities they use. Examples include environmental concerns such as deforestation and water use; human rights issues; labour issues such as use of forced and/or child labour; and bribery / anti-corruption concerns. In addition, initiatives such as the United Nations Sustainable Development Goals (SDGs) calls on all actors, including the private sector, to work to address the world's most pressing sustainability challenges, she said.

We will provide update from time to time on these developments.

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 as much as the JSE could not accede to the initial request, the JSE is willing to setup the meeting with FSB and that industry should count the JSE on joining that meeting with FSB to ensure the reservations as highlighted by the JSE are accurately conveyed.

The Committee members acknowledged the comments.

5.3 Wheat Grading and December 2018 expiry

Dr Strydom reported that the industry is looking at wheat grading and the possibilities of having to change wheat grading in February 2018. Dr Strydom wanted to know what minimum requirements the JSE needs from the industry concerning listing December 2018 wheat expiry. Mr Jackson alluded that from the Millers side, there have been quite few discussions on the grading however added that the industry should first see what pens out before listing December 2018.

Dr Keyser suggested that the JSE must stipulate their time frame for listing December 2018. Mr Sturgess reported the JSE normally lists the December expiry early March. Mr Sturgess added that the industry should let the JSE of timelines and it was suggested that JSE wait until end of January 2018.

5.2 Broker of Choice

Ms Van Zyl raised this issue and reported that when broker of choice is executed by JSE, there are few seconds where the counterparty is visible. She wanted to know what is the JSE is doing about it? Mr Sturgess responded saying when broker of choice was introduced; the JSE never guaranteed visibility or anonymity. Unfortunately that is how the system was designed from day one. The JSE will do its best to make sure those deals are accepted as quickly as possible. Clearly it is a software change. The JSE has explored other avenues unfortunately JSE clearing system when trying to capture the deals; they still go back to the Nutron frontend.

Mr Lambrechts suggested clients to send these requests in the morning and JSE will just book them before market opens. Mr Sturgess responded it is something the JSE can test.

The JSE will have to go back and revisit booking times as well as test the case of using JSE as counterparty.

5.3 Calendar Spreads

Mr Wienand raised the issue and requested if the JSE can do something concerning the South African style of trading calendar spreads. Mr Sturgess responded that the current system cannot accommodate the request raised however MIT did confirm they can do both. The JSE will consult with the wider market to see if both styles of trading calendar spreads can be incorporated into ITaC for Commodities.

6 **PROPOSED MEETING DATES FOR 2018:**

Thursday 15 March 2018

Thursday 21 June 2018

Thursday 23 August 2018

Thursday 22 November 2018

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