

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 23 August 2018
Time: 13h15
Venue: Ubuntu Meeting Room

Present:	Dr. R Karuaihe	- Chairman
	Mr. J du Toit	- RMB
	Dr. D Strydom	- GrainSA
	Mr. C Schoonwinkel	- GrainSA
	Dr. K Keyser	- Brisen/SACOTA
	Mr. C Joubert	- NAMC
	Mr. J Theron	- Polarstar Fund Management
	Mr. P Faure	- CJS Securities
	Mr. H Grobler	- Zargoscape
	Ms. M Purnell	- Agbiz
	Mr. B de Klerk	- Agbiz/TWK
	Mr. H Smit	- BVG Commodities
	Mr. J Bucknall	- GWK
	Mr. P Lovelace	- SAOPA/CEOCO
	Mr. W Lambrechts	- Vanguard Derivatives
	Mr. M Kalian	- Representing ABSA Clearing Member
	Mr. M Kabai	- FSCA
	Mr. P Mphanama	- FSCA
	Dr. K Muganiwa	- JSE Market Regulation
	Mr. J Shayi	- JSE Market Regulation
	Ms. A Matutu	- JSE Capital Markets
	Ms. Z Dastile	- JSE Capital Markets
	Mr. V Mpumza	- JSE Capital Markets
Apologies:	Mr. AR Moosa	- SAOPA
	Mr. L Sewpersadh	- ABSA representing Clearing Members
	Mr. R Heine	- RMB representing Clearing Members
	Mr. T Jacobsz	- Farmwise
	Mr. A Wienand	- ETG/SACOTA
	Ms. D. Nemer	- JSE Director: Capital Markets
	Mr. R Olwagen	- BVG Commodities
	Mr. P Jackson	- NCM/RCL Foods
	Mr. L Joseph	- Cargill
	Mr. C Sturgess	- JSE Capital Markets
	Mr. G van Rensburg	- Bester
	Mr. S Janse van Rensburg	- BSEC
	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 with changes made.

2 MATTERS ARISING FROM PREVIOUS MEETINGS:

2.1 Position limits on physically settled commodities

Dr Karuaihe reported that the JSE received quite a number of submissions, latest being on the day of the advisory meeting. The JSE needs some time to apply its mind to consider all submissions. Dr Karuaihe indicated an internal meeting will be setup between Capital Market, Legal and Market Regulations to go through market submissions.

This was acknowledged by the Committee members.

2.2 Soybean and Sunflower meal contracts

Dr Keyser reported that there is still demand for meal contract for both cash and physically settled contracts. Dr Keyser indicated that in the last industry forum, there was consensus on the contract specifications. The JSE highlighted that if the market decides to pursue a cash settled contract, there is currently no reliable cash market data to use for cash settlement of the contract.

Dr Keyser indicated that AFMA will facilitate a workshop to address industry concerns around physical delivery. The meeting is scheduled for early November 2018.

This was acknowledged by the Committee members.

2.3 COT Report

Dr Karuaihe reported that the JSE has written to FSCA about the background of COT report. FSCA in turn suggested a workshop to allow an opportunity for market participants to provide their input, but had indicated that they will need JSE assistance in facilitating this.

FSCA, who were represented, reported that not much progress has been made since last meeting as FSCA was still busy with restructuring. They have set a tentative date towards end September 2018 to host the COT workshop at their premises in Pretoria.

The JSE will send out market notice to request for submissions prior the workshop.

This was acknowledged by the Committee members.

2.4 Pending issues on Location Differentials

Dr Strydom reported that there was need from the producers to relook at the following items:

2.4.1. Split of reference point between White and Yellow Maize and consider inland reference points other than Randfontein. Dr Strydom reported that producers feel the products are very distinct and concentration has shifted over the years. They feel that each commodity should have a reference point close to concentration where currently the commodity is consumed and processed. Dr Strydom highlighted that Competition Commission has this data but are reluctant to share the information. The JSE will setup a meeting with the Competition Commission to try and get this data.

2.4.2. Possibility of introducing Yellow Maize FOB price with delivery location. Dr Strydom reported that producers as well as Agbiz feel that there is a need for FOB reference point with delivery facility when South African market gets to export parity. Dr Strydom highlighted that a thorough investigation needs to be done to see if this can be possible without affecting liquidity in the market. The JSE committed to test the market if this proposal is feasible.

2.4.3. Consider introducing Cape reference point for wheat. Dr Strydom reported that a lot of discussions took place with the Cape producers. They felt they are not realising their premiums. The request is to move the reference point from Randfontein to the Western Cape.

Mr Sturgess cautioned that the Western Cape is a wheat producing region and hence won't be ideal as a reference point. Reference point must be located in processing region to allow grain to move from high to low concentration. Mr Johann Theron supported this notion. The JSE committed to test the market if this proposal is feasible.

2.4.4. Consider basis futures trading. Dr Strydom reported that the industry players requested that the JSE relook at trading basis futures. The industry feels a lot of these anomalies can be sorted out by basis futures trading. The industry is aware of the challenges but the JSE should look at the challenges.

2.4.5. Origin discounts. Dr Strydom reported that there is a request to re-introduce origin discounts however the right values must have scientific calculation on what the discount should be. Dr Karuaihe presented a paper the JSE prepared on origin discounts. The committee indicated the paper is a good starting point but needs more work. Dr Strydom indicated that he would present the paper to Grain SA and assist with collating input and suggestion. The committee agreed to keep status quo as is and suggested the JSE make changes once consensus is reached in the market.

Mr Lambrechts observed that it appears as if Grain SA is bringing all challenges in the cash market for the JSE to resolve. He emphasised that the JSE is a financial market and it cannot be expected to solve all problems in the physical market.

This was acknowledged by the Committee members.

2.5 Approved JSE silos and the issuing of ESC certs on year storage

Dr Karuaihe reported that the JSE continues to accommodate year storage but this is not mandated in JSE rules. The JSE allows for differentiation of one operator to the other and operators are thus not in violation of any of the JSE rules if they prefer not to issue year storage for stock on JSE certificates.

This was acknowledged by the Committee members.

3 TRADING AND SETTLEMENT ITEMS:

3.1 CME Data licensing Agreement

Dr Karuaihe reported that the JSE has reached a new SLA with CME Group which will be effective in the last quarter of this year. The JSE will continue to list and trade CME Group products had been listed on the exchange.

This was acknowledged by the Committee members.

3.2 Report back on Soya workshop

Dr Karuaihe reported that it was evident from the workshop attendees that there was overwhelming support to maintain the status quo and leave Soya without location differentials. However, what this means going forward is that there won't be any new registration of far-out locations for Soya in the absence of a single reference point, unless the JSE sees expansion of crushing capacities in those affected areas. Further, the JSE will also closely monitor those locations where there is perennial redeliveries of Soya. If the quality of the grain is being compromised at those locations, the JSE will reserve the right to deregister those locations in accordance with the prevailing JSE rules.

This was acknowledged by the Committee members.

3.3 DOT and SOT Rules

Mr Shayi reported that they have had consultations with market participants regarding the rule amendment pertaining to DOTs and SOTs. He observed that, following those consultations, it is possible that Market Regulation may revisit those rules changes. For example, based on overwhelming response from market, the JSE may have to move away from imposing minimum contract size on DOTs.

This was acknowledged by the Committee members.

4 GENERAL:

4.1 Market resilience Document

Ms Dastile reported on the market resilience document that was requested by the market following an incident where an incorrect MTM price was inadvertently published, resulting in market confusion and delays.

The market resilience document is a process doc that details the step by step process to be followed during market outages. The purpose of the document is to outline the communication channels that will be used by the JSE to communicate to clients during market trading disruptions.

The document has been drafted and circulated internally for commenting. Once that has been completed, it will also be distributed to the wider market for comments.

Mr Theron asked that, whenever the JSE publishes an incorrect price, we should ensure that the price is excluded from statistics as this impacts risk analysis, VAR calculation and margining. Furthermore, Mr Lambrechts highlighted that the JSE turnaround time in correcting issues is slow. For example, it took the JSE three weeks to resolve the deliveries issue, which is way too long. The delays pose a huge risk to the client.

Mr Lambrechts also requested that the JSE remove cancelled trades from DOT and SOT report published on the website. The JSE took note of the request.

This was acknowledged by the Committee members.

4.2 Update on ITAC

Ms Dastile reported that ITAC 1b and c is going as planned and the JSE is still pushing for a go live date of October 2018. There was a dress rehearsal the past weekend which went well. The migration from Nutron to MIT for EDM and IRC would require testing to ensure a seamless transition for markets migrating and those remaining on Nutron. CDM clients are also required to test decommissioning on Nutron and were urged to participate to ensure thorough functionality testing and to identify possible bugs before the go live date.

Ms Matutu also pointed out that clients should be aware of the upcoming commission fee structure change. On ITAC go live all trading members will no longer be able to take a turn on executed deals. Clients will have to be invoiced separately for broker commission. This change may require system development, for the invoicing. The majority of the committee members were not aware that the change is also applicable for CDM and requested for JSE to reconsider making the change for CDM.

4.3 IOSCO consults on Commodity Storage and Delivery Infrastructures

Mr Theron stated that the IOSCO document circulated earlier is the best document he has read in a while. He further alluded to the highlights in the document that any inefficiency in delivery and storage has an impact on financial instruments. The industry wants to see a great ecosystem going forward and this document covers those points that can be rectified.

Dr Karuaihe asked the committee members to go through the document and submit any comments by 29 August 2019.

This was acknowledged by the Committee members.

5 **ADDITIONS TO AGENDA:**

5.2 Sunflower oil content

Mr Lovelace raised a concern about the oil content of sunflower that have been delivered via the exchange. Mr Lovelace asked the JSE to look into introducing minimum oil content in the futures contract specifications. Ms Purnell indicated that the issue could be with silo operators' equipment but definitely something she will look into. Furthermore, Ms Purnell asked Mr Lovelace to send more details concerning oil content.

This was acknowledged by the Committee members.

6 **PROPOSED MEETING DATES FOR 2018:**

Thursday 22 November 2018

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