

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 23 March 2017
Time: 13h00
Venue: Ubuntu Meeting Room

Present:

Dr. R Karuaihe	- Chairman
Mr. C Sturgess	- JSE Capital Markets
Mr. R Heine	- RMB representing Clearing Members
Mr. P Mphanama	- FSB
Ms. J van Zyl	- Representing RMD
Mr. P Faure	- CJS Securities
Mr. W Martens	- CJS Securities
Mr. W Lambrechts	- Vanguard Derivatives
Mr. D Strydom	- GrainSA
Mr. C Schoonwinkel	- GrainSA
Mr. P Lovelace	- CEOCO/SAOPA
Mr. E Jordaan	- Representing National Chamber of Milling
Dr. K Keyser	- Brisen representing AFMA
Mr. T. Jacobsz	- Farmwise
Mr. J du Toit	- RMB
Mr. J Theron	- Polarstar Fund Management
Mr. D Mathews	- Private Producer
Mr. B. de Klerk	- TWK representing Agbiz Grain
Mr. J. Maritz	- VKB representing Agbiz Grain
Dr. K Muganiwa	- JSE Market Regulation
Mr. J. Shayi	- JSE Surveillance
Mr. M. Randall	- JSE Valuations
Mr. T. Saayman	- JSE Risk
Ms. A Matutu	- JSE Capital Markets
Mr. V Mpumza	- JSE Capital Markets
Ms. L. Paterson	- JSE Capital Markets - minute taker

Apologies:

Mr. AR Moosa	- SAOPA
Mr. A. Bothma	- Cargill
Ms. M Purnell	- Agbiz Grain
Mr. C. Joubert	- NAMC
Mr. H. Mulder	- RMD
Ms. D. Nemer	- JSE Director: Capital Markets

WELCOME:

Dr. Karuaihe welcomed all attendees and thanked them for their participation. Mr Sturgess indicated Dr Karuaihe would be Chairing the meeting with his full support.

1 CONFIRMATION OF MINUTES:

The Minutes of the previous meeting were accepted and approved with no changes.

2 MATTERS ARISING FROM PREVIOUS MEETINGS:

3.1 Update on the “commitment of traders” survey

Dr. Karuaihe reported that a separate document was circulated earlier on with the findings of the pilot survey. The pilot survey was aligned to U.S CFTC reporting categories. Dr. Karuaihe then asked Mr. Mpumza to present the findings.

Mr. Mpumza thanked everyone who participated in the survey and highlighted that the same information was used for the report last year. Mr. Mpumza stated that 41 clients were identified and the majority of the identified clients provided feedback. Mr. Mpumza made reference to the separate document that was circulated earlier, where he gave a quick rundown of the findings.

The Committee acknowledged the contents of the report and there was consensus that the JSE proceeds and provides market information along the same lines as the CFTS’s Commitment of Traders Report.

Since the report needs to be mandatory and everyone needs to participate, the next step is for the JSE to meet with legal counsel to discuss possible rule changes. The report will be published on a weekly basis. Mr Sturgess did caution that since rule changes would most likely be required as well as possible system changes to ensure the weekly report is automated, this would take some time before anything can be rolled out.

3.2 Update on the MTM process & exclusion of VWAP process

Mr. Randall updated committee members of the new MTM process and the exclusion of VWAP process. The new MTM process will pertain to all contracts, including the global products. Mr. Randall indicated that the team has done regression testing and they are happy with the outcome of the testing results.

He further added that the team is ready for implementation and that there will be a market notice going out in about a week or two outlining the new process.

3.3 Feedback regarding Wheat forum meetings and conclusion of December 2017 and March 2018 expiries (Refer to Market Notice 110/2017)

Dr. Karuaihe made reference to a market notice distributed prior to the meeting. He indicated that the market notice was to introduce the Dec17 and Mar18 WEAT expiries as well as the JSE's position on guaranteed grade and grade and origin discounts. After several discussions around these topics, Committee members felt that:

On guaranteed grade, there are no objections from the market and so the JSE can roll this out in conjunction with storage operators who are willing to participate and provide the guarantee.

On grade discount, the JSE needed to make a call on the way forward. Mr Sturgess asserted that the JSE will take some more time to look at the work of other exchanges in this regard and urged anyone with a potential solution to approach the JSE in the coming two weeks.

On origin discount, the committee takes note of the JSE's decision to remove the R100 origin discount on imported wheat.

The Committee felt that there was no need to hold back any longer on listing the Dec17 and Mar18 wheat expiries and that the JSE should proceed with the listing. Furthermore, the B1 grade will be listed for trading as the reference grade. The remaining grades, namely B2 and B3, will be referenced off the B1 grade using a still to be confirmed methodology.

The JSE will circulate a market notice introducing the above within two weeks.

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

Dr. Karuaihe reported that the team is working really hard with IT to create a platform, where problematic outloading issues are flagged. The committee took note of this, however, felt the JSE is delaying the process of implementing. A comment was made that storage operators are misleading the market by insinuating that they have no issues with outloading. The Agbiz representatives highlighted that it is imperative that clients who experience out loading issues with storage operators report these to either Agbiz Grain or JSE. The same representatives also extended an invite that all operational issues be reported regardless whether or not the issue was specific to JSE silo receipts. Mr Sturgess thanked Mr Maritz and Mr de Klerk for this offer and indicated the JSE would publish a market notice to inform clients of this and which contact details to use to report issues. This was acknowledged by the Committee.

3 TRADING AND SETTLEMENT ITEMS:

4.1 ITaC Project

Ms. Matutu updated the Committee that the plan is to move the derivatives market to the new technology MIT for trading, and Cinnober for clearing. It is intended that the Currency and Equity derivatives markets go live on the 30th October 2017. The JSE will circulate progress report in Quarter two of 2017. Ms Matutu iterated that members need to start looking for vendors, who will provide them with trading front-end. The Committee took note.

4.2 Market Regulation feedback on market abuse

Mr. Shayi advised that we had extended an invitation to an FSB representative to come and share with the Committee the recent verdicts passed by the FSB on market abuse and where the accused were former dealers in the commodity derivatives market. Unfortunately the FSB representative couldn't make it however Mr Shayi did step in to provide an update.

The outcome of the market manipulation case – Robert Fourie of September 2013 sunflower market – was published on 9 March where the accused was fined R2 million.

Mr. Shayi further cautioned JSE Commodity members who were providing direct market access to clients for trading. Beware of your gatekeeping role. Keep a record of each transaction, and re-iterate each client's responsibility, he said.

4 GENERAL:

5.1 Roll out of new products

Ms. Matutu updated Committee members on the status of Deliverable diesel contract and highlighted the JSE is working hard to have the product ready for trading. She further added that the JSE envisage go-live date towards the end of 3rd quarter this year, and was currently holding workshops and information seminars with the market.

Mr. Sturgess reported to the Committee that the JSE is working with Cape Wool SA to introduce a cash settled Wool contract. He further said that draft contract specification will be going out to the market. The official launch date is the 5th of June 2017.

Mr. Sturgess also reported the JSE is working with Clearing Banks to have their CFC accounts opened to clear Zambian Grains. Mr. Sturgess mentioned that ABSA Clearing has raised concerns around staff capacity to assist with client on boarding and opening of the US dollar settlement accounts. The JSE is discussing a potential solution with them to assist. He further added that 3 products are on the system to trade when ready.

Dr. Karuaihe reported that the service level agreement for Lamb carcass contract got clearance from JSE's Legal Counsel and this paves the way for the JSE to roll out this product. RMAA will be providing weekly prices to settle the contract and A2/A3 grades will be traded.

Dr. Karuaihe reported that the JSE is working closely with DIMASSA, who will be providing weekly prices to settle the Feeder Calf contract. The JSE will embark on holding training sessions to help the market understand and trade the instruments.

5.2 NAMPO

Dr. Karuaihe reported that NAMPO Harvest Day will be taking place from 16-19 May 2017, and members are more than welcome to attend and join the JSE at the stand.

5.3 Proposal to remove price limits earlier as from Options Expiry Day

Dr. Karuaihe presented a request that came from Dr Keyser to remove price limits a few days early immediately following Option Expiry Day. The motivation was that by accommodating this those clients who do have a futures position resulting from the option close out, would be able to trade out of their positions sooner than currently wait for first position day.

Mr. Saayman representing Risk team highlighted that there will be no changes to margin regime even though prices are allowed to rally or decrease.

The Committee acknowledged the request and supported the suspension of price limits the day after options expiry. This means that First Position Day will be moved to **four** business days preceding the first business day of the expiry month. Market notice with the changes will be circulated to the market.

5.4 Ideas for two additional prizes at the Spire Awards

Dr. Karuaihe reported that since joining the Spire awards three years ago, Commodities has only two categories namely **Best Commodities Market Maker** and **Best Commodities Broker**. The Commodities Division would like to look at other categories to be added. Mr. Lambrechts suggested **Best Soft Commodities Options Market Maker** award, where Brokers will be required to vote. There was also a suggestion for **Best Silo Operator** on the cards. The JSE will circulate a market notice to the market for more suggestions.

5.5 Guidance around listing of two Sorghum contracts

Mr. Sturgess reported that volumes have significantly deteriorated over the past two years for both sweet and bitter sorghum. Mr. Sturgess asked Committee members if there were any suggestions that could possibly revive the two contracts. The Committee felt that the JSE should open up and allow foreign imports to be deliverable on the exchange in order to improve liquidity of these contracts. The JSE undertook to investigate this.

5.6 Delta Options Rounding Issue

Mr. Lambrechts raised the issue of delta options always rounding down and wanted to know if there was nothing the JSE could do to fix this. The JSE felt it would be best to investigate the rounding issue. The JSE will revert with feedback at the next meeting.

5 **NEXT MEETING:**

The next meeting is scheduled for 14 June 2017.

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