

## MINUTES

**HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING**

Date: 04 February 2016  
Time: 13h00  
Venue: Serengeti

Present:

Mr. C Sturgess	- Chairman
Mr. K Baragwanath	- RMB
Dr. K Keyser	- Brisen representing AFMA
Mr. J du Toit	- RMB
Mr. D Fourie	- RMD
Mr. B de Klerk	- AGBIZ Grain
Ms. M Purnell	- AGBIZ Grain
Mr. AW Kriel	- AGBIZ Grain
Mr. G de Bruin	- AGBIZ Grain
Mr. D Kok	- SACOTA
Mr. C Meyer	- Farmwise
Mr. P Faure	- CJS Securities
Mr. W Lambrechts	- Vanguard Derivatives
Mr. TJ Matsena	- JSE TMS
Mr. B Kotze	- JSE PTIS
Ms. D Oosthuysen	- JSE Capital Markets
Mr. T Saayman	- JSE Risk
Mr. M Randall	- JSE PTIS
Mr. P Lovelace	- CEOCO representing SAOPO
Mr. P Jackson	- National Chamber of Milling
Mr. J Theron	- Polarstar Fund Management
Mr. P Mphanama	- FSB
Mr. J Shayi	- JSE Market Regulation
Mr. K Muganiwa	- JSE Market Regulation
Dr. R Karuaihe	- JSE Capital Markets
Mr. V Mpumza	- JSE Capital Markets - minute taker

Apologies:

Mr. C Joubert	- NAMC
Mr. J de Villiers	- GrainSA
Mr. C Schoonwinkel	- GrainSA
Mr. R Heine	- RMB representing Clearing Members
Mr. T Jacobsz	- Farmwise Grains
Mr. D Mathews	- Private Producer
Mr. AR Moosa	- SAOPO

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**1 WELCOME:**

Mr Sturgess welcomed all attendees and thanked them for their participation.

**2 CONFIRMATION OF MINUTES:**

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

**3 MATTERS ARISING FROM PREVIOUS MEETINGS:**

3.1 Procedure Document for out loading physical grain

Mr Sturgess made reference to the Procedures Document distributed earlier and reported that the intention of this updated document is to add to the detailed contract specification to further clarify the out loading procedure when it comes to storage operators. Important in this document on point (2) is that no JSE silo receipt can be issued by operator if quality and quantity is not available at the time of issuing. However be mindful if there is further cleaning required on that product no JSE silo receipt can be issued until quality and quantity are met.

Mr Sturgess reported that paragraphs 9 & 10 are new in this document. Paragraph 9 was addressing something already implemented in practise. First sentence –applies specifically to Wheat where a downgrade on grade is accommodated. Furthermore, with Section 10 the JSE wanted to clarify in the event that there are any financial disputes declared what is financial fair value. Any such disputes can be referred to the JSE where the JSE would need to make the final decision with guidance from JSE legal team.

Mr. Sturgess encouraged members to please submit their final comments.

3.2 Update on new products

Zambia grain contracts

Mr. Sturgess reported to the Committee members that detailed contract specifications have been published, outlining what the JSE offering. Mr Sturgess reminded members to indicate willingness to participate in this product. The JSE is also in discussion with four potential storage operators, who will provide storage facilities in Zambia. He further reported that the JSE continues to engage with clearing members to get final sign off from their internal systems department. Go live date to be confirmed in due course.

### Beef

Mr. Sturgess reported that the JSE is very pleased with the uptake and if any member has interest to partner on educational events please let us know. Mr Sturgess also informed the committee that the Feeder Calves contract remains work in progress.

### Euronext Wheat

Mr. Sturgess reported that JSE pricing around this product has been amended to bring it in line with other international wheat products.

### Basis Futures

Mr. Sturgess reported that the JSE is still seeking assistance from the market with regards to historical basis premiums. Without access to historical basis premium data it remains difficult to proceed with this initiative as we require this to determine the initial margin requirements for the derivatives contract. It remains work in progress.

### Hominy Chop contract

Mr. Sturgess reported that this is a potential product the JSE is looking at. This is work in progress for the JSE.

## 3.3 Commitment of Traders Reporting

Mr. Sturgess updated Committee members that the JSE has put forward various concept papers around how we could amend the spot month speculative limit. The consensus from the forum was to continue working on driving out a commitment of traders report.

Mr Sturgess further added that once we have 15 or more participants whom held positions greater than 10,000 tons, the JSE would then start to publish reporting details describing the percentage held by speculators versus hedgers.

Mr. Jackson raised a concern that what Mr Sturgess mentioned basically implied that White Maize is not liquid enough. He said maybe the benchmark was too high and if so the criteria should be adjusted.

Mr. Sturgess indicated it was possible to adjust the criteria however participants should be mindful the JSE required a minimum number of participants in a single category to specifically protect the confidentiality of the participants within the category. The minimum tonnage threshold could certainly be lowered if there was support for this. Mr Sturgess reminded the committee these thresholds were agreed previously with the FSB and advisory committee members.

Mr. Theron indicated that in the U.S the CFTC requires that players declare upfront whether they are hedgers or speculators. This was a necessary condition in SA market if we want to ensure accurate reporting.

It was suggested the JSE benchmark the criteria across other international markets and revert back to the committee.

#### 3.4 Listing of the 2016/2017 wheat expiries

Mr. Sturgess referred the Committee members to previous discussions where the Wheat Forum has discussed a range of alternatives to encourage the revival of the local wheat industry. To date no consensus could be reached across the various stakeholders regards some of the key proposals, for example updating grade discounts to 2% (B2) and 4% (B3), and amending grading regulations to include a lower protein level, in return for these adjustments buyers wished for silo receipts to be issued where the grade was guaranteed without the ability to outload one grade better or worse. Mr Sturgess reported that Agbiz Grain held a recent workshop to explore the request to guarantee grades as per the silo receipts however no consensus could be reached across its members. Stemming from one of Agbiz's intentions to advertise stock on their website that could be grade guaranteed, the JSE proposed using its existing spot basis platform through a standardised JSE futures contract for the market to participate in trading receipts where the grade would be guaranteed by the operator.

Mr Sturgess reported that AgBIZ Grain members did have a counter proposal that could be investigated that would allow each operator to decide their own terms upon which a guaranteed grade (GG) receipt could be issued. The concept of a GG receipt was discussed at a high level with limited support from advisory committee members for this concept.

Mr Jackson raised a point in terms of referencing the most recent version of the Agricultural Products Marketing Act where it stated that wheat should be packaged and stored separately per grade. It was not clear at the meeting if this was recently added or was in previous versions of the Act. Some participants at the meeting expressed this was not practically possible and tolerances did exist amongst grades. Mr Sturgess would consult JSE Legal to ascertain whether if this was not currently enforced in the market place that the JSE would need to be involved.

The committee felt that there was no need to hold back the December 2016 WEAT contract any longer and that the JSE should proceed with its introduction. Members agreed that the contract should continue as is with grade discounts of 4% and 8% and to keep to the grade of B1 as the reference quality. Furthermore, regards the continuation of the origin discounts, except for GSA and Johann Theron, committee supported that this be removed from the contract specifications. Mr Sturgess thanked the Committee for their feedback and indicated the JSE would consider the feedback received and would make the ultimate call regards the wheat origin discount.

Finally, following a request from Agbiz Grain to establish a separate technical committee to discuss the intricacies of the wheat contract, this was not supported but rather to limit changes to derivative contract

specifications as far as possible to provide participants with the necessary certainty of the contract specifications.

#### 4 TRADING AND SETTLEMENT ITEMS:

##### 4.1 Update on JSE actions taken to reduce the number of operational issues experienced

Mr. Matsena from Trading and Marketing Service (TMS) division reported that the JSE is currently busy trying to automate most of the admin tasks to reduce the risk of human error, an example would be adjusting price limits. The TMS team has started sending out a report where Members can go onto the JSE website to see all the price limits applicable for the next trading session. A reminder of changes is also distributed via the announcement functionality in the morning.

The main issue at hand is the Report-Only Transactions. This is not a simple change because of rules as they currently stand however JSE is considering updated rules to allow members to capture the report only transactions like EFP/EFR themselves and JSE would then ensure compliance of the rules.

TMS is also working towards automating a systems check before the market open to ensure early detection of any issues. This remains work in progress together with STT.

Mr. Fourie raised a concern that in the past if there were IT issues, they would call someone in the JSE dedicated to this and he wanted to know if they could still rely on such service from the JSE. Mr Matsena confirmed this was still possible through the JSE's central client support service area. Mr Matsena again assured committee members of the JSE's commitment to improve its service to clients through the CSC.

On his part, Mr. Kotze sincerely apologised on behalf of the JSE for issues that related to physical deliveries and silo receipts where service was compromised in the recent past. He further indicated that systems and human capacity was being improved and assured members that his team remains dedicated and willing to help.

##### 4.2 Proposal to disclose commodity member ranking numbers

Mr. Sturgess asked members of the committee if they would be comfortable with JSE publishing member rankings as a % total volume and value traded in a particular month. After some discussion there was very little support for this and members preferred that the JSE publish member statistics only to members and in the same format as the Interest Rates and Currencies department. The Commodities Team undertook to deliver this.

##### 4.3 Error trade

Mr. Sturgess indicated the JSE has implemented specific error trade rules. An opportunity to receive feedback from the committee was extended.

Mr. Lambrechts indicated he felt that rules are time consuming on the part of market regulation. He suggested that JSE setup a dedicated telephone number to ensure these error trades were handled with the urgency they deserved.

Mr. Shayi reported the experience from Market Regulation point of view and confirmed that there are bottlenecks in their systems with regard to reporting error trades. He was of the opinion that traders were not familiar with the rules regarding error trades despite having consulted widely. As a result this takes a lot of time when trying to determine the root cause of the problem. A template is being designed by the JSE to assist traders in reporting error trades and thereby improve on turnaround times.

#### 4.4 Proposal of Price limits amendments

Mr. Sturgess indicated with recent movement of grain prices all deliverable commodities required an update to their price limits and proposed the following:

	WMAZ		YMAZ		WEAT		SUNS		SOYA		SORG/SGBT	
	Proposed	Previous	Proposed	Previous	Proposed	Previous	Proposed	Previous	Proposed	Previous	Proposed	Previous
Daily Limits	100	80	100	80	130	100	150	100	150	130	70	50
Extended	150	120	150	120	195	150	225	150	225	195	105	75

It was resolved to approve this proposal with the provision that these limits be implemented only in early March and that they be monitored on a quarterly basis however adjustments should only be made when there was a R10 or more deviation.

## 5 GENERAL:

### 5.1 Marble Hall

JSE confirmed the site remained suspended for wheat only due to the additional obligations put in place by DAFF and the need for permits. Afgri, the approved storage operator, was working with the industry to secure the necessary permits to out load the stock. The site would remain suspended until such time all the wheat was removed and DAFF no longer required the specific reporting conditions.

### 5.2 Open order period

Raised by CJS Securities, Mr. Sturgess enquired whether members of the committee still saw value in the functionality provided through the open order period. Members of the committee confirmed they still supported this functionality. Mr Sturgess did indicate this functionality has not been accommodated for in the ITAC programme and so would be discontinued in future. The functionality was very unique to the South African market and the JSE would possible look to an opening auction in the future.

### 5.3 Changes to the option closeout process

Mr. Sturgess proposed a change to the option mtm period specifically for option closeout. Due to JSE system constraints calculating the mtm fast enough on closeout day, the suggestion was to move this process earlier to take place from 11:00 to 11:15 and then aim to still publish the mtm by 11:30. The remainder of the option activities would remain unchanged.

After some discussion, the above change was adopted however it did spark a discussion around the JSE either extending or providing an afternoon trading session for the grain products.

Members of the committee expressed mixed feedback with some members expressing concern that trading in the afternoon would interfere with the physical grain sales. Others saw this as an opportunity to be available for the Chicago trading session and suggested that perhaps we open the market later. Ms Oosthuysen mentioned that the Equity Derivatives Advisory was also consulted around further extending their trading hours and most members did support a longer session. The JSE undertook to further consult market participants regarding the possibility of changing or extending the grains trading hours

### 5.4 Risk

- Mr. Saayman from JSE Risk team shared latest developments in the risk space at the JSE. He alluded to a few initial margin corrections that happened recently and apologised for that, he added that they have implemented further checks but at the end of the day they relied on the market to provide relevant pricing to avoid these types of issues.
- Risk Committee discussed the use of non-cash collateral for margin obligations. Rules were proposed that would be the framework under which the Risk team will be able to accept securities collateral for margin obligations. He did confirm that JSE silo receipts were not included in the first phase.
- Liquidation period initial margin – whereby market participants have a particular position that would take longer than the assumed closeout period to liquidate if they defaulted. This is currently applied in the Single Stock Derivatives Market. However this is not applied to Commodity Derivatives Market at the moment but something the Risk team would consider if positions got to that size. Risk Team will be working with Mr Sturgess and then come up with a methodology of which will be put on paper and sent out to the various committees. Members of the committee to please engage when this paper is released.
- Large Exposure (Initial margin for large exposure) – whereby a market participant has a portfolio which when stressed under the 14 scenarios would stress the size of the default fund. He confirmed there was no one in the commodities market that would be currently affected by this particular initial margin.

## 6 **NEXT MEETING:**

The next meeting dates were set as follows:

12<sup>th</sup> May 2016

1<sup>st</sup> September 2016

17<sup>th</sup> November 2016

Mr Sturgess thanked the committee for their input and called the meeting to a close.