

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 11 May 2016
Time: 13h00
Venue: Serengeti

Johannesburg
Stock Exchange

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Present:

Mr. C Sturgess	- Chairman
Mr. R Heine	- RMB representing Clearing Members
Dr. K Keyser	- Brisen representing AFMA
Mr. J du Toit	- RMB
Mr. R Jansen van Vuuren	- RMD
Dr. D Strydom	- Grain SA
Mr. T Ferreira	- Grain SA
Mr. J Maritz	- NWK representing Agbiz
Mr. J Moss	- CJS Securities
Mr. W Martens	- CJS Securities
Mr. W Lambrechts	- Vanguard Derivatives
Mr. B Kotze	- JSE PTIS
Mr. T Saayman	- JSE Risk
Mr. P Lovelace	- CEOCO representing SAOPO
Mr. P Jackson	- National Chamber of Milling
Mr. C Joubert	- NAMC
Mr. J Theron	- Polarstar Fund Management
Mr. P Mphanama	- FSB
Mr. M Kabai	- FSB
Mr. J Shayi	- JSE Market Regulation
Dr. R Karuaihe	- JSE Capital Markets
Mr. V Mpumza	- JSE Capital Markets - minute taker

Apologies:

Mr. J de Villiers	- GrainSA
Mr. C Schoonwinkel	- GrainSA
Ms. D Oosthuysen	- JSE Capital Markets
Mr. T Jacobsz	- Farmwise Grains
Mr. D Mathews	- Private Producer
Mr. AR Moosa	- SAOPO
Ms. M Purnell	- AGBIZ Grain
Mr. D Fourie	- RMD
Mr. TJ Matsena	- JSE TMS
Mr. K Baragwanath	- RMB
Mr. P Faure	- CJS Securities
Mr. M Randall	- JSE PTIS

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 Feedback on benchmark analysis around “commitment of traders” reporting

Mr Sturgess made reference to the document distributed earlier where Vuyo was requested to do a benchmark analysis on commitment of traders report across a select number of international exchanges. In the case of the JSE, we had initially set the benchmark at a minimum of 10000 tons or a maize equivalent of 100 contracts, and 15 or more participants per category.

Mr. Jackson wanted to know how the JSE arrived at 15 participants He further said that if the CME Group with such a huge market has a minimum requirement of 20 participants then why the JSE consider 4 or 5 participants instead of 15? Mr Sturgess responded by indicating now that the benchmark analysis was complete this was an opportunity for the criteria to be amended should the participants support this. Mr. Jackson was comfortable with the proposed criteria for maize but reiterated the minimum requirements for Wheat and Oilseeds should be lower.

Mr. Lambrechts questioned whether the process would really add value. Mr. Lambrechts further added that members will only pass a template onto a client to complete without validating any information thereby still running the risk that inaccurate information is received. The JSE or FSB will be required to validate the information.

Mr Sturgess responded to progress this exercise the JSE will test the concept using white maize position information. He further added JSE will stay in contact with FSB and JSE internal teams going forward on this process to ensure we aligned regards the proposed collection and validation of information process. The JSE will go ahead with the report and conduct a sample just on white maize with 10 000 tons with no minimum number of participants per category. The JSE will reach out to clients through their member firms and will report back at the next advisory on the number of participants per category.

The Committee supported this action item.

3.2 Update of the audits undertaken on storage operators in 2016 and sight of the audit process to date

Dr. Karuaihe referred to the distributed document and updated Committee members on what the JSE does when reaching out to storage operators and following up on the random inspections conducted. Sites visits

to different Silos from year-to-date have been 13. Dr. Karuaihe further added that, to date, no major anomalies have been picked up during these audits.

Mr. Sturgess asked Committee members if there were any suggestions that should be considered as additions to the audit process. Dr. Keyser mentioned that AFMA is happy with this audit procedure as documented. Dr. Keyser further added that a storage operator he interacts frequently requested if the JSE could inspect his facilities to get a sense of the inspection process first hand. Dr Keyser would indicate who this operator is outside of the meeting.

Mr. Kotze asked if this can be circulated to the Clearing members as well as this has been raised in various advisory committee meetings. Mr. Sturgess saw no issues with circulating this to Clearing members and thanked Dr. Karuaihe for the update.

3.3 Review of cancelation ranges for error trades

Mr. Sturgess updated Committee members around the error trade policy. He emphasised that Mr. Shayi and his team have applied the policy and appreciated both positive nuances and challenges associated with the current policy. The JSE has been receiving direct feedback from a number of industry participants and the JSE has taken the feedback seriously. Mr. Sturgess further added that there will be an interactive workshop on the 24th May, where we will invite Commodity and Equity Derivatives members to discuss the sentiments around the policy.

Mr. Sturgess highlighted that the JSE was revisiting the following areas:

- JSE cost for cancelling a trade
- Considering the possibility that, before a trade is actually cancelled by the JSE, the counterparties can communicate with each other to resolve the issue without JSE intervening.
- Minimum loss and the quantum being received by the JSE at the moment

Mr Sturgess made reference to the below table and requested feedback from the Committee. Members of the committee expressed mixed feedback. There was no overwhelming support either for the existing or new figures. It was agreed to refer any suggested limits to the workshop for discussion.

		Current Futures - Rand value or % of reference price	Current Options – volatility %	Proposed Futures - Rand value or % of reference price	Proposed Options – volatility %
White Maize & Yellow Maize		R 60	4%	R 30	3%
Sunflower		R 75	4%	R 45	3%
Wheat		R 75	4%	R 39	3%
Soya		R 98	4%	R 45	3%
Sorghum		R 38	4%	R 21	3%
Foreign Commodity Derivatives		4%	4%	1%	3%
Can Do		10%	10%		

4 TRADING AND SETTLEMENT ITEMS:

4.1 Futures and Options automation project – update on progress made and planned implementation

Mr. Sturgess reported Mr. Randall apologised for not being present at the meeting. Mr. Randall wanted to personally extend his sincere apologies for the number of instances where the incorrect mark-to-markets values were published through the early valuations. Mr. Sturgess further added that Mr. Randall and team have rewritten and were busy testing a new automated MTM system. The result would be a more robust and accurate process resulting in fewer corrections. The implementation date targeted is end of May or beginning of June.

Mr. Sturgess updated Committee members that the next step would be to MTM all foreign referenced commodities directly from their reference market and not consider any bids and offers on our South African platform. This would then remove the possibility of stale prices but rather ensure the international reference market was considered on a daily basis. Committee members fully supported this.

4.2 Wheat import tariff- meetings with ITAC and National Treasury

Mr. Sturgess gave feedback on the meeting with National Treasury and ITAC. He mentioned that both National Treasury and ITAC undertook to consistently apply the current methodologies until end of this year. Mr. Sturgess further added he has gone back to ITAC who will now drive the consultation process and he would stress the urgency to ensure we receive clarity around the procedure for 2017 as any delay would further restrict trading for the 2017 expiries.

5 GENERAL:

5.1 Marketing initiatives: Nampo 2016, Red Meat Producer AGM'S held in North West & Northern Cape, Red Meat Abattoir Association AGM

Mr. Sturgess updated Committee members of upcoming events. He mentioned Nampo 2016 and told members they are more than welcome to visit the JSE Nampo stand. He further added that the JSE is doing a lot of work marketing the Beef contract and continued conducting presentations. Furthermore, should members need the JSE to partner around education on the Beef contract to please let us know.

5.2 Discussion with Malawi's Agricultural Commodity Exchange (ACE) to advance a WFP procurement initiative

The JSE has held discussions with ACE to explore how amongst South Africa, Malawi and Zambia, we could aim to connect the regional trade more efficiently. This would particularly assist regional players like WFP with their sourcing commitments. ACE had prepared a funding paper to approach donor organisations to see whether further funding could be secured to promote this concept. The JSE's initial interaction could involve more proactively publishing the ACE auction information thereby trying to encourage participation in the auction from more local traders.

5.3 Electronic Silo Receipts

Dr. Keyser raised the issue of paper silo certificates and requested that we migrate to electronic silo certificates for delivery. Mr Sturgess updated Committee members that the JSE is finalising a spec with STT to move to 100% electronic. Once the JSE had upgraded its systems, we would move quickly to removing paper receipts from the delivery process.

5.4 Operational issues at Outloading

Dr. Keyser raised a concern that some storage operators utilise the spot basis window to ask for a premium when the storage location is under fumigation. Mr Sturgess reported the JSE will have to engage more with storage operators to publish fumigation schedules or simply to find a way in which the JSE can publish in a more transparent and easily accessible manner out loading constraints. Mr Sturgess committed the JSE will set up time with Agbiz Grain members on this and aim to find a solution.

5.6 Crop Estimates Committee

Mr Jansen van Vuuren queried if there was support from the Advisory Committee members for a more granular crop estimates breakdown particularly for the Freestate and North West Province. He indicated his firm was particularly interested in a breakdown between Eastern and Western Freestate. Dr. Keyser mentioned that there was a Crop Estimates Liaison Committee meeting scheduled for the following day where this request could be raised. The committee supported that this request be raised at the meeting and Mr Sturgess and Dr Keyser undertook to do this.

5.7 Marble Hall

Mr. Sturgess reported on the Karnal Bunt situation at Marble Hall silo and said that the JSE has been in contact with participants who held stock at this site on JSE receipts. AFGRI was willing to buy back this stock or had negotiated terms with owners of the stock. Participants expressed their utmost concern around the issue and some felt that they had not received a suitable solution to the issue at hand. It was requested the JSE consider this issue with the utmost care to ensure there is a clearly defined process that will guide the process should this occur in future. All market participants will then rely on this to resolve issues specific to stock held on JSE silo receipts. Mr Sturgess undertook to continue focusing on this.

5.8 Basis Futures

Dr Strydom wanted to know the latest progress on the proposed basis futures contracts and if the JSE was able to progress this, Mr Sturgess reported that the system is ready but we need historical basis premium data to assess the risk and thereby determine the initial margin requirements. Mr Saayman further added that for the JSE to list this product, the Risk team has to be comfortable they covering the various settlement risks associated with this product. Dr Strydom undertook to try assist with gather further support from the industry players who could provide this historical data.

6 NEXT MEETING:

The next meeting dates were set as follows:

1st September 2016

17th November 2016

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