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Dr. Dirk Strydom
Manager Grain Economy and Marketing
Grain SA
Lynnwood Ridge
0040

Dear Dr. Strydom

IMPLEMENTATION OF SOYA LOCATION DIFFERENTIALS AND THE REQUEST FROM GRAIN SA

1. We refer to the extensive and comprehensive consultative process embarked on by the JSE to enable it to consider whether it should include a location differential in the contract specifications of listed derivative securities with soya as the underlying commodity.
2. In addition to the JSE's efforts in gathering all the facts and information to enable it to make an informed decision, the JSE also appointed an international expert, Professor Mat Roberts, to provide the JSE and all market participants with his expert views and guidance about this important matter. All the relevant facts and opinions (including Professor Robert's recommendations) were discussed during the various meetings and consultative workshops arranged by the JSE.
3. The JSE is appreciative of Grain SA's continued support of the JSE's agricultural derivatives markets and for its detailed submissions and representations made in respect of this issue. The JSE has carefully considered the recommendations of Professor Roberts and all other facts and information at its disposal, including Grain SA's submission of the 4th of September 2019. The representations made by Grain SA and all other interested parties have enabled the JSE to make an informed decision in accordance with its functions and duties as a licensed exchange.

Executive Directors: Dr L Fourie (Group CEO), A Takoordeen (CFO)
Non-Executive Directors: N Nyembezi (Chairman), ZBM Bassa, MS Cleary, F Daniels, VN Fakude, Dr M Jordaan, Dr SP Kana, FN Khanyile, BJ Kruger, DM Lawrence, Dr MA Matoane
Group Company Secretary: GA Brookes

4. The JSE is a licensed exchange in terms of the provisions of the Financial Markets Act of 2012 (“FMA”). The JSE’s functions and duties are circumscribed by the provisions of this statute and the JSE may only act within the ambit of the FMA. The agricultural derivatives market is one of the markets operated by the JSE. The JSE is, in terms of section 11(8) of the FMA, obliged to keep a “list” of the securities traded on its exchange. The various futures, and options on futures contracts, with certain agricultural products as the underlying commodity are included in the JSE’s list of securities.
5. The standardisation of listed derivative securities is a foundational cornerstone of any futures market. This means that the rights and obligations of parties to these listed instruments are the same for all market participants. The terms and conditions of these listed securities are also standardised by quantity, quality, date of delivery and (except for the soya contract) location.
6. It is an accepted fact that the large number of geographically dispersed silos as delivery points is an anomaly in any listed derivatives contract. It has the result that an important determining factor of the value of a commodity, its location, is unknown and has not been standardised. This uncertainty is anathema to a fair and efficient market in the listed derivatives securities traded on the JSE and it also negatively impacts accurate price formation in these derivative securities listed and traded on the JSE’s market.
7. We thought it may be helpful to briefly deal with certain other issues to provide you with further context for the JSE’s position:
 - i. We understand the concerns of all market participants that the cash market in commodities (with specific reference to Soya) is inefficient and not sufficiently competitive. The JSE’s powers are however narrowly circumscribed and the JSE is not empowered to involve itself in the cash market nor is the JSE in a position to change or improve the dynamics of these markets;
 - ii. The redelivery differential was proposed and should be considered as an enhancement (and not a substitute) of the location differential recorded in the JSE’s contract specifications and;

- iii. The JSE is of the view that the immediate implementation of Grain SA's proposals in the derivatives market will not deal with nor address the issues and problems with the listed Soya contract that were the subject of extensive consultation and Professor Robert's report. The JSE will continue to work closely with Grain SA and its current and future research and trials and the outcome hereof may well in future enhance the market in the JSE's listed derivatives market.
8. After careful consideration of all the facts and information at its disposal and in accordance with the JSE's regulatory responsibilities, the JSE has decided to introduce a location differential into the contract specifications of listed derivative securities with Soya as the underlying commodity with effect from 1 March 2021. In order to facilitate an orderly implementation of this proposal, the JSE will consider a phased-in approach in terms of which 25% of the actual LD values will be introduced in the first year, 50% in the second year, 75% in the third year, and then the full amount in the fourth year. We will use the 2020-21 Maize location differentials to provide indicative values of these location differentials to enable market participants to commence trading in the listed Soya derivatives contracts with 2021 expiries.
9. In closing, thanks again for your time in engaging with us on this matter. The JSE trusts that we will put this matter to rest as we continue to build a better derivatives market for all.

Yours sincerely,



Raphael N. Karuaihe

Head: Commodities

JSE Limited