

## MARKET NOTICE

**Number:** 411/2023

**Relates to:**

- Equity Market
- Equity Derivatives Market
- Commodity Derivatives Market
- Currency Derivatives Market
- Interest Rate Derivatives Market
- Bond Market
- Bond ETP Market

**Date:** 04 December 2023

**SUBJECT:** ACCESS TO COMMODITIES STORED IN TERMS OF JSE SILO RECEIPTS – FEEDBACK AND CONCLUSION ON THE WAY FORWARD

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**Designation:** Head - Commodities

Dear Market Participant,

1. We refer to the manner in which and time frames applicable to the delivery of commodities stored to the holders of JSE silo receipts. The JSE has been in the process of collating information and has been involved in extensive discussions and deliberations with market participants after the JSE became aware of issues relating to the access to commodities in 2020 when the country's carryout stock levels for maize were low. This issue was also extensively discussed during meetings of the JSE's Technical Advisory Committee.
2. The JSE has amended section 9 of its the Detailed Agricultural Contract Specifications to further clarify and record the rights and obligations of storage operators and holders of silo receipts such as the out loading conditions and procedures for access stock obtained via JSE silo receipts.
3. Subsequent to these amendments the JSE received further proposals and submissions which it carefully considered, and which was also discussed during meetings of the e Technical Advisory Committee. The JSE received many divergent and, in some

instances, diametrically opposite suggestions and proposals which is understandable if regard is had to the different and competing interests of market participants.

4. Some of these proposals included the following:

- i. Introducing a fixed limit on the number of tons that may be issued on JSE silo receipts per JSE registered delivery point.
- ii. Restricting the quantity of tons that a client can deliver in any one site during the JSE physical delivery month.
- iii. Increasing the minimum 500 tons per 8 hours outload criteria of JSE registered delivery points.
- iv. Impose an obligation on storage operators to outload stock on JSE silo receipts within a defined committed time period. This would imply establishing a precise time frame, for example 30 or 60 days.
- v. JSE silo receipts are only valid for a specific time after which they expire and convert to a folio account.
- vi. Introduce a penalty to physical deliveries tendered in the last 10 days leading up to last delivery day to encourage earlier delivery.

5. The JSE carefully considered all the facts and information at its disposal including the submissions and proposals received from market participants to ensure that its intended course of action strikes a fair balance between the competing and divergent commercial and other interests of market participants. For example, some market participants expect immediate access to stock after taking delivery from the JSE, while others recognize the practical aspects of booking slots and the fact that delivery points can become congested at times. Financiers also requested that the JSE physical delivery procedure remain accessible to as many delivery points as possible, allowing structured financing to stay as competitive as possible.

6. Throughout the process, the JSE has communicated with long position holders who have taken delivery to better understand their objectives for accessing stock and whether they experienced real impediments in accessing their stock. Over the last ten months, there have been very few real constraints identified, and those that have been reported have been rapidly resolved between the storage operator and the grain owner.

7. The JSE also consulted with Agbiz Grain Members who provided the JSE with their views and input. They acknowledged some of the concerns raised about stock availability while also providing practical insights into stock management operations and the realities of the impact of load shedding. Other operational hindrances highlighted include trucks not arriving for scheduled slots. The JSE approved storage operators continue to provide detailed booking slot information during the inspection process which has also provided the JSE with invaluable insights into the real activity flow of commodity at each site.

8. The JSE also collaborated with a major storage operator, and closely studied the accuracy of the delivery data published by the JSE versus actual stock held in storage. While the JSE delivery data shared with the market is accurate, there may be a misalignment between the JSE's published data and the actual stock in storage due to the fact that the same stock can be delivered multiple times. JSE silo receipts and redeliveries are only tracked to a unique silo receipt number, the tonnages delivered on the JSE statistics will be reported as higher than actual tonnages in the site.

9. After careful consideration of all the facts and information at the disposal of the JSE, the JSE has decided to implement the following measures and procedures to monitor and mitigate constraints to access to stock held on JSE silo receipts:
- i. To ensure the integrity of the JSE silo receipt is constantly preserved, the comprehensive monthly audit process will be continued to assure compliance by JSE approved storage operators. We remind the holders of JSE silo receipts of their right to immediately report any problems or access issues that JSE silo receipt holders may encounter.
  - ii. The monthly audits provide invaluable insights in the demand pressures and booking slot activities, which the JSE will continue to analyze in order to monitor out loading capabilities.
  - iii. Based on feedback from stakeholders, it is clear that the contract specification amendment related to section 9 of Appendix C, which allows JSE receipt holders priority access to 25% of out loading slots, is not utilized sufficiently. The JSE will continue to promote awareness of this commitment by JSE Storage Operators and monitor its use as a means for long position holders to secure access to stock during the main hedging months.
  - iv. Should the priority access of 25% be fully utilized in the future and there are clear constraints on access to stock held on JSE silo receipts, the JSE will work collaboratively with silo operators to investigate the revision of the percentage allocation.
  - v. JSE will continue to oversee and enforce compliance on approved JSE Storage Operators. The JSE will take the necessary and appropriate action if a Storage Operator fails to comply with its obligations as recorded in the Contract Specifications.
10. The JSE silo receipt's integrity in representing the quality and quantity of stock as specified on its face is critical to the proper operation, fairness, efficiency and transparency of the JSE commodity derivatives market. The JSE is available to market participants involved in the physical delivery process to handle any issues and ensure that all market participants comply with their obligations as recorded in the Detailed Agricultural Contract Specifications.

The JSE would like to express its sincere gratitude to all market participants, the members of the Technical Advisory Committee who offered extensive hours debating the various proposals, as well as to the many Agbiz Grain Members who were open and constructive in their discussions, and finally to the agricultural financiers who articulated the value of having access to JSE delivery points and how this unlocks finance in this sector.

For any further queries about the three primary focal points feel free to contact Vuyo Mpumza or Anelisa Matutu. Thank you for your support of South Africa's commodity derivatives market. The JSE acknowledges that the opportunity to improve is always a given and is grateful for the support from the agricultural market to ensure South Africa continues to have access to a vibrant and robust commodity derivatives platform.

Should you have any queries regarding this Market Notice, please e-mail: [commodities@jse.co.za](mailto:commodities@jse.co.za)

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