
MARKET NOTICEJohannesburg
Stock ExchangeTel: +27 11 520 7000
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Relates to:

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

Date: 30 March 2021**SUBJECT:** AMENDED DETAILED AGRICULTURAL CONTRACT SPECIFICATIONS FOR FINAL COMMENT**Name and Surname:** Raphael Karuaihe**Designation:** Head - Commodities

Dear Stakeholder,

Following extensive consultation during the course of last year with a number of industry representatives, the JSE is in a position to publish a draft of the Detailed Amended Agricultural Contract Specifications for final comment. Please provide your feedback by no later than close of business on Friday, 9 April 2021 to commodities@jse.co.za.

The JSE has amended and added more detailed requirements particularly in respect of Appendices C and D relating to storage operators and registered delivery points. The JSE is of the view that these amended requirements further enhance the integrity, efficiency and transparency of the physical delivery process if a short position holder elects to deliver a commodity in fulfillment of its obligations as set out in JSE listed futures contracts.

Herewith a very brief summary of some of the most important principles that are recorded in the JSE Contract Specifications:

- No JSE silo receipt may be issued if the required quantity AND quality of product is not available at the delivery point recorded and indicated on the face of the electronic receipt;
- As clearly indicated on the face of the receipt and in the detailed contract specifications, a JSE silo receipt may not be issued if there is any lien or encumbrance on the stock except for the storage operator's common law lien for payment of outstanding storage. Apart from this lien, the storage operator does not have any other right or title to the product;

- Section 4.2 of Appendix C records the various remedies that the JSE may invoke if a JSE approved storage operator fails to comply with any of its obligations and/or responsibilities as set out in the applicable Contract Specifications which includes the deregistration of the storage operator and all of its delivery points;
- The JSE has adopted and implemented various measures to augment its procedures in monitoring storage operators' compliance with the applicable requirements. The JSE has significantly increased the number of individual audit inspections performed on registered storage entities and has also instituted a number of processes to identify and select registered storage sites for auditing;
- Throughout this review process, the concept of making good delivery has been discussed extensively. The obligation of a short position holder (seller) to transfer possession to the buyer (good delivery) is a foundational cornerstone of the South African law of purchase and sale of goods and has been applied uniformly since Roman times. The requirements of good delivery as encapsulated in the Contract Specifications are no more than a recordal of these well-established legal principles and remain of critical importance to ensure that a seller's obligations are clearly set out and is an important element of a fair, efficient and transparent market in the securities listed and traded on the JSE;
- If a short position holder is unable to make "good delivery" due to a storage operator's inability or failure to comply with its obligations as set out in the Contract Specifications, the short position holder will have a claim against a storage operator to recover any and all damages that it may have suffered as a result of the storage operator's non-compliance. We have, during a previous review process, significantly improved the dispute resolution process that is available to any holder of a JSE silo receipt in the event of such a claim against a storage operator. In addition to the usual contractual remedies, the holder of a silo receipt also has a claim for a cash payment which includes a further penalty payment to compensate the holder of a JSE silo receipt if it was unable to secure delivery of the physical product. This said, there has only been one instance (in 2008) of a storage operator that has failed to comply with its obligations as approved storage operator and this entity was deregistered forthwith;
- Participants are reminded the JSE now publishes on its webpage a list of all sites it has independently audited together with confirmation of the annual review process of each JSE registered storage operator.

The JSE is acutely aware of its responsibilities to ensure the integrity of the physical delivery process and the potential impact on pricing if this is not managed accordingly. The JSE appreciates all the effort and commitment made by market participants to achieve these updated contract specifications. Although we are of the view that the proposed amendments are necessary and appropriate, we do understand, as a result of the many and divergent interests of market participants, that not all stakeholders will necessarily support every aspect of the proposed amendments and additions. The JSE remains fully committed to continue to work with all stakeholders to ensure that the JSE Commodity Derivatives Market remains the preferred destination for price risk management in South Africa.

Should you have any questions or suggestions regarding the above, please do not hesitate to contact the Commodities Team at 011 520 7039 or email commodities@jse.co.za

This Market Notice will be available on the website at <https://www.jse.co.za/redirects/market-notice-and-circulars>