

## Market Notice

**Number:** A 1731A  
**Date:** 4 December 2012

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### **Minister of Finance has granted approval to the JSE to expand its price risk management instruments to include USD traded and cleared Zambian grain contracts**

The JSE is delighted to confirm that it has received approval from the South African Reserve Bank to extend its current product range to include Zambian grain derivative contracts in foreign currency. This will enable the Commodity Derivatives market to extend its existing trading and clearing platform to the Zambian grain market thereby not only providing a tool for price discovery and price risk management, but also providing liquidity to the existing Zambian market participants since South African and Common Monetary Area (CMA) qualifying corporate entities involved in the agricultural grain industry will also have easy access to the USD traded and cleared products.

In a time where there is an ever increasing demand for commodities, we trust by providing price risk management tools in a country that has recently begun producing surplus grain, the ability to hedge for both producers and end users will be most appealing. We have been working with ZAMACE Limited (the Zambia Commodities Exchange), for a number of years now and believe together we in a position to compliment each other's business model with the purpose of providing Zambia with an efficient price discovery platform and ultimately access to tools that will encourage price risk management. Access to finance will also be improved with financial institutions able to extend products on the back of available derivative instruments.

The JSE is already in discussions, together with ZAMACE, with various industry role players in Zambia and South Africa to finalize the standardised contract specifications for white maize, wheat and soya beans including partnering with potential storage operators that will provide guaranteed quality and quantity of grain. Aware of exchange control requirements in Zambia, this new product will see the day to day trading and clearing activities taking place in USD however the contracts that do go to physical delivery will comply with Zambian exchange control regulations.

The SARB approval is subject to the following conditions that the JSE will adhere to:

- South African and CMA corporate entities require the approval of both the JSE and SARB Financial Surveillance Department in order to participate. This requirement will apply to grain traders, silo operators and end users who are active in the agricultural grain industry;
- In terms of qualifying CMA entities, they must obtain written approval from their respective authorities prior to approaching the JSE and submitting their application;
- To facilitate the trading and clearing in foreign currency, a USD ring-fenced account will be utilized and for SA and CMA eligible entities this will be linked to a Rand account. No funds will be transferred or withdrawn from the USD ring-fenced account for any other purpose except to meet trading obligations of the Zambian derivative contracts;



- Initial and maintenance margins may be placed into this account to meet the obligations to the JSE, prior to taking out a trading position provided activity is undertaken within the 30 business day period;
- Maintenance margin may not exceed 90 per cent of the nominal position of the position held;
- Should no open position be held for 30 business days by a SA and CMA eligible client, all USD funds in the USD ring-fenced account must be returned to the clients Rand account;
- The JSE will provide all the necessary reporting to the SARB on all transactions and flows applicable to the Zambian derivative contracts,
- Non residents will have unlimited access to the Zambian derivative contracts and be able to move funds in and out of the USD accounts as they prefer and;
- The approval is granted for a two year pilot project and will be monitored and reviewed on an ongoing basis by the SARB.

The applicable Exchange Control Circular from the SARB is also attached to this market notice.

Members are kindly requested to inform the JSE of all registered clients that are South African and CMA corporate entities involved in the agricultural grain industry and who would be interested in participating in this new contract in order to start the registration process with the SARB, please email a list of the registered client codes to [commodities@jse.co.za](mailto:commodities@jse.co.za).

This approval provides a huge opportunity for not only the region to work more closely together strengthening our agricultural production base, but also an opportunity for Zambia to benefit from all the experiences South Africa has undergone establishing its own derivatives market. The success of this program will rely on the commitment of key stakeholders both in Zambia and South Africa. The JSE is committed to working with these stakeholders to provide a platform to Zambia that adds value and ultimately, with the local spot exchange ZAMACE, can further evolve the commodity markets of the two countries trading in a secure and guaranteed manner.

It is envisaged following successful discussions with market participants including commodity clearing members that the contracts will be available for trading by the end of Quarter 1 of 2013. Information around the contract specifications and settlement process will be released as it becomes available with a workshop to be held early in 2013 for all interested parties to attend. If there are any further questions regarding this, please feel free to contact me directly or the rest of the Commodities Team.

We embrace this opportunity and look forward to your support.



**Chris Sturgess**

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