Minutes

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| HEADING: | COMMODITY ADVISORY COMMITTEE MEETING | |
| Date: | 06 July 2023 | |
| Time: | 13H00 – 15H00 | |
| Venue: | ZAR room, Hybrid | |

Johannesburg Stock Exchange
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Present:

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| Mr. K | Truter | ABSA |
| Mr. W | Lemmer | Agbiz Grain |
| Mr. R | Olwagen | BVG |
| Mr. P | Lovelace | CEOCO |
| Mr. T | Jacobsz | Farmwise |
| Dr. D | Strydom | GRAIN SA |
| Ms. Z | Dastile | JSE CDM |
| Mrs. A | Matutu | JSE CDM |
| Mr. V | Mpumza | JSE CDM |
| Mr. J | Rakumako | JSE IT |
| Mr. A | Comninos | JSE Risk |
| Mr. R | Koovarjee | JSE Risk |
| Ms. Y | Moshidi | JSE CDM |
| Mr. J | Theron | Polarstar |
| Mr. P | Jackson | RCL Foods |
| Mr. H | Raymond | RMB |
| Mr. S | Willem | RMB |
| Mr JP | Kotze | SACOTA |
| Dr. A | Van Der Vyver | SACOTA |
| Mr. V | Grobler | Senwes |
| Mr. B | De Klerk | TWK |

Apologies:

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| Mrs. V | Reddy | JSE Capital Markets |
| Mr. F | Bartsch | GWK |
| Mr. W | Martins | CJS Securities |
| Mr. P | Faure | CJS Securities |

## 1 WELCOME

The chairperson welcomed all attendees and thanked them for their participation.

**CONFIRMATION OF MINUTES**

Minutes of the previous meeting were accepted and approved.

## 2 FEEDBACK ON RECENT MARKET OUTAGES

### 2.1 Disconnects and Latency

Mr. J Rakumako presented the architecture of the JSE commodities trading platform Infrastructure as well as a historical sequence of incidents which led to market disruptions. A total of six issues were identified, and the root causes primarily associated with latency and disconnects. Mr. Rakumako further explained that the most reoccurring issues relate to excessive order rates. He explained that when order rates exceed a certain threshold, some users may experience latency in obtaining updates due to the volume of data flowing through the system.

The JSE is consequently investigating other system options with different architecture than current, with the goal of separating connection lines across various functions performed by the market, to avoid system overload.

### 2.2 Timeouts (Market Start Delay on 5 July 2023)

To address this incident, Mr. J Rakumako explained the JSE's daily market startup process. He went on to say that the timeouts on the day were caused by data activities performed in the upgrade environment, which stressed performance on the production system. Since then, the JSE has put in place controls to ensure that such data activities do not occur during the start of day process.

### 2.3 Deal Management Issue (Market Halt on 26 June)

Mr. J Rakumako outlined the process of generating exchange reference numbers for deal management trades and how it relates to the creation of suffix codes. On the day this process failed, and as a result, clients were unable to do deal management.

The underlying problem was a change made to automate the process of creating these codes, which was previously maintained by a separate semi-manual process. The automation process was retested and applied in the upgrade environment following this occurrence.

## 3 UPDATE ON STT TECHNICAL UPGRADE

### 3.1 Background and go-live date

Ms. Z Dastile provided context on what the upgrade entailed and what was expected from the market in terms of testing.

She highlighted that the changes would affect JSE back end and not the front end or API and emphasized that regression testing is essential. She also stressed that it is the obligation of clients that use API vendors to verify that the vendor tests a thorough list of their business-as-usual operations.

The go-live date was set for August 21st, with a contingency September date.

## 4 UPDATE ON MAXIMUM ORDER THRESHOLD

### 4.1 Phase I

Ms. Z Dastile stated that, in line with challenges described by Mr. Rakumako, this solution is being investigated to manage the order messages being submitted to the trading engine and also manage latency issues while a decision to update/ migrate systems is pending.

A limit of 500 messages per second would be enforced per dealer, on certain message types. This was not implemented on the most used order types, namely insert, edit active order, and resubmit order, because more testing was required. The full implementation planned to be completed for testing and deployment by the end of July.

## 5 UPDATE ON BASIS FUTURES

### 5.1 Feedback from JSE Legal

Ms. A Matutu reported that the JSE Legal team had provided feedback and had no objections to the concept. JSE Legal expressed worry about the selection criteria used for proposed silo included for the contract, describing the criteria as “loose: or “not well defined.”.

Ms. A Matutu indicated that the next steps would be to redefine the criteria and engage the technical advisory committee on the revision prior to final legal approval. Following that, discussions with the Silo Operators of the 10 locations will commence.

Dr. A Van der Vyver suggested setting rigorous turnaround times as delays have a large impact on physical commerce, especially with seasonal dependencies in the export market.

This suggestion was noted and the JSE committed to expedite the finalization of the contract specifications.

## 6 OPTIONS MARKET PERFORMANCE

### 6.1 Options Committee Forum

Mr. V. Mpumza engaged active players in the options market, with the aim to bring activity and liquidity back to the central orderbook.

Plans were underway to have 1st meeting on the 26th of July. The participants in this forum are expected to be absorbed in the Technical Advisory Committee.

## 7 PRICE LIMITS

### 7.1 Methodology & Decision

Ms. Y Moshidi expressed the JSE's decision to maintain price limits as volatility had stabilized and prices had reduced significantly following the spikes experienced in the previous year due to geopolitical crises. The next revision is scheduled for November 2023.

JSE Risk highlighted that margins are based on price return series which factor the impact of price limits in the returns' history, and therefore price limits implicitly limit margins. JSE Risk also addressed the subject of whether the JSE can reduce margins even while limits have been up. JSE Risk went on to say that margins are based on a historical simulation VaR (HVaR) model with a 1000-day lookback period comprised of a three-year rolling history and one-year period of stress observations i.e., the model uses historical data to assess the impact of market moves on a portfolio.

Dr. A Van der Vyver proposed that JSE Risk provide the market with an idea of what the margins will look like if the rolling lookback was reduced to, say, a 6-month period.

## 8 RISK MARGINING METHODOLOGY

### 8.1 Margin Management

Mr. A. Comninos illustrated the relationship between Clearing Members' exposures and how they affect margining depending on their Default Fund exposures. Margin Management at the JSE monitors default fund sufficiency based on cover 1 metrics (default of the largest Clearer) and cover 2 metrics (default of the two largest Clearers). Fund exposure add-ons (in addition to base margins) may be applied on Clearers with significant exposures.

### 8.2 Margin Methodology reviews

JSE Clear Risk proposes to enhance the initial margin methodology with the introduction of a more responsive yet stable margin model for the base IM requirement. Following formal approval through the risk governance processes, the intention is to phase the implementation of the new methodology, starting with the EDM and FXM markets first, and the CDM and IRD markets to follow in future.

There is a consideration to implement Portfolio VaR for the commodities derivative market (business case to be confirmed based on further detailed analysis). Portfolio VaR allows for significantly more flexible and efficient portfolio margin offset. Implementation is dependent on clearing architecture roadmap. This will be implemented as the systems roadmaps for the respective markets develop and enable portfolio VaR.

Currently the Liquidation period margin add-on (LiPAO) is levied on all positions determined to take longer than 2 days to liquidate and where the magnitude of the add-on exceeds the R50mn LiPAO threshold (add-on levied is the amount in excess of R50m). It is proposed as part of the new initial margin methodology that the LiPAO threshold be removed (i.e. set to R0m) to ensure an even, competitive playing field. Given the consideration to move CDM to Portfolio VaR, the removal of the LiPAO threshold may be implemented in tandem with Portfolio VaR (alternatively the threshold change could be implemented as a first step of the new methodology implementation - tbc). Methodology changes would be phased across markets considering that the various markets trade on distinct platforms.

## 9 STUDY ON STORAGE RATES

### 9.1 Independent Research

JSE has consulted with various storage operators and the general observations were that the cost of operations has escalated, particularly in finance and energy costs. As a result, the JSE is in the process of reviewing the maximum outstanding storage rates applied on JSE Certificates used in completion of a futures contract.

Mr. V Mpumza emphasized that the JSE does not have strict timelines on this, and the results of the research does not constitute any methodology changes. The market will be consulted, and final decision communicated.

Dr. A Van der Vyver suggested that performance guarantees must align with the maximum outstanding storage rates and requested that the JSE circulate the terms of reference of the study so the market can provide input. Vuyo acknowledged the concern raised and assured attendees that most JSE registered Silo Operators have made alternative investments in infrastructure to reduce the impact of the energy crisis on operations. He further cautioned that the diverse costing methodologies across the industry may distort output of the research.

Mr. T. Jacobsz requested the JSE to provide clarity and certainty around the requirements for out loading, in terms of charging or not charging clients for alternative energy sources. Ms. A Matutu emphasized that it is not an out loading requirement but falls under force-majeure condition in the rules. He also needed clarity on whether the JSE publishes details around which silos have alternative power and whether this is a requirement when the JSE conducts audits/ inspections at the silos. Mr. V. Mpumza acknowledged that the JSE has that detail and will consider publishing that list. Mr. J Theron emphasized the importance of the study to contextualize what the minimum requirement should be for a storage operator to demand that storage rate.

## 10 PROPOSED DATES FOR 2024

1. Thursday 14 March 2024
2. Thursday 18 July 2024
3. Thursday 21 November 2024