Grain SA/Graan SA
PO Box/Posbus 74087
Lynnwood Ridge/Lynnwoodrif 0040
Tel: +27 086 004 7246, Fax/Faks +27 (12) 807-3166

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25 May 2012

Ms Labuschagne
Financial Markets and Competitiveness
Tax and Financial Sector Policy
National Treasury
Republic of South Africa

Email: Natalie.labuschagne@treasury.gov.za
Financial.policy@treasury.gov.za

Dear Ms Labuschagne

INPUTS FOR THE CONCEPT FINANCIAL MARKETS BILL

I refer to your email dated 9 May 2012

1. Commitment of Traders Report on Agricultural Commodity Derivates
   We take note that Treasury views the FMB as a principle-based approach to legislation. That it enables a framework for further regulation around OTC derivatives and that is therefore not necessary to specifically legislate around a Commitment of Traders Report. We take note that this concern can be adequately dealt with by Ministerial regulations (S 109 of the Bill) or through FSB directives for unlisted securities (S 77). Also that speculative spot limits are set on trading certain agricultural products which should mitigate volatility on terms of listed derivatives and JSE rules (rule 10.40).

   Please take note that a Commitment of Traders Report on agricultural commodities is not made available by the JSE. We are of opinion it should be made available to market participants including producers as it will support decisions to hedge efficiently.

   We look forward to your comments / suggestions how to further the publication of a Commitment of Traders Report given that the regulations for this purpose are sufficient.

2. Impact of high frequency/ algorithm traders on Agricultural Commodity Derivatives
   In your email dated 9 May 2012, you mentioned that Treasury is aware of the concerns around speculative trading and price volatility. We understand that Treasury is already engaging with the regulators of the industry and market participants on the likely impact of high frequency trading, especially as it relates to the South African markets, and how to best manage the volatility associated with the impact of excess speculative behavior.

Grain SA is concerned that producers may find themselves at a real disadvantage to the ever more powerful high-frequency traders. Producers will not be able to digest information and formulate a strategy to better hedge their crops as the split second reaction of the "algorithm" traders and high-tech crowd will have already jumped the trade. No longer will producers be able to field calls from their advisors and develop a game plan or strategy in regards to the market numbers as it will be too late.

There is a global outcry that speculation is ruining our commodity markets and unfairly manipulating prices. We understand that currently there are still no high frequency / algorithm traders active on the agricultural futures market yet. However, there may be some participation on the agricultural options market already.

It is necessary for government to determine what is best for the producer that these exchanges were originally designed to help protect. The purpose of exchanges should be to create more direct market access, liquidity and less volatility for producers. Instead it seems that competing for market share, exchange fees and higher volumes became the objective of exchanges. Care should be taken to serve the hedger and to consider the potential negative impact these trades may have on production and food security.

It is our recommendation that the Financial Markets Bill make sufficient provision to curb the activities of high frequency trades if need be in future.

Thank you for your time and consideration

Kind regards

WESSEL LEMMER
SENIOR ECONOMIST: MARKET RESEARCH