

Minutes of GDT Events Oversight Board Meeting

18 October 2016, Airport Hotel, Paris



MEMBERS IN ATTENDENCE

Chairman	Bill Shields
Company	Representative
Arla Foods AMBA	Thomas Carstensen
DairyAmerica, Inc.	David Brewer
Fonterra Co-operative Group Limited	Josh Sigmund
Fromageries Bel SA	Didier Messein
Gujarat Co-operative Milk Marketing Federation Ltd	Kishore Jhala
INTL FCStone Inc	Charlie Hyland
NZX Limited	Kathryn Jaggard (by phone)
Olam International Ltd	Anthony Pavlovic
OM Financial Limited	Nigel Brunel (by phone)

OPERATIONAL ATTENDEES

Company	Representative
CRA International Inc.	Brad Miller
GlobalDairyTrade Holdings Limited (representing the owner of GDT)	Eric Hansen

Note: Under Rule 4.4 of the GlobalDairyTrade Oversight Board Charter, GDT and CRA are not formal members of the Oversight Board, but are present to provide specific comment or information regarding their respective functions and roles in respect of the auction platform.

SECRETARY

Florence Ninane (Allen & Overy LLP)

MEETING OPENED AT 11:35AM CDT 18 October 2016

Chairman Bill Shields opened the meeting and welcomed members.

ITEM 1: APOLOGIES AND ANTI-TRUST BRIEFING

- a. Apologies were received from Gloria SA and The Kuwaiti Danish Dairy Company KCSC.
- b. Anti-trust briefing provided by external legal advisor Florence Ninane (Allen & Overy LLP).

ITEM 2: MINUTES OF PREVIOUS MEETING

Chairman noted the minutes from the previous meeting had been signed off as final and provided to the Oversight Board Members.

ITEM 3: DIRECTOR'S REPORT

Chairman referred members to the paper "Director's Report", which was circulated in advance of the meeting, taken as read and opened for questions and discussion.

Matters discussed included:

- Consider how GDT can provide a more regular flow of updates to members: agreed that there will be regular updates throughout the year between physical meetings.
- Continued perception from some bidders that they prefer to limit their demand on the platform because they think that this could influence the price: the degree of concentration shown in paragraphs 45 and 46 of the Director's Report reveals that this is probably more a question of perception than reality. Nevertheless, it was agreed that this issue of perception needs to be worked on and that bidders need further education, rather than being constrained in their participation.
- GDT to consider whether to monitor the concentration indices by trading event and investigate the extent to which bidders could be exacerbating the issue by bidding sporadically rather than spreading their demand across trading events.

ITEM 4: GOVERNANCE PRINCIPLES

Chairman referred members to the paper "Governance Principles" which was circulated in advance of the meeting and taken as read. GDT representative Eric Hansen provided a brief review of the paper's content and opened for discussion. The Annex to these Minutes lists the GDT Governance Principles as approved below.

A draft paper called "Summary of Price Discovery process" was also circulated and summarised during the meeting and sent by e-mail to those attending by phone, then opened for questions and discussions.

Matters discussed included:

- Two deviations from the general IOSCO principles for principle 5 (Price discovery) and 11 (Audits and complaints)
- Changes in Principles 4 (Oversight of trading manager), 5 (Price discovery process), 6 (Internal control framework) and 8 (Price credibility reviews), which have been reworked since the last Oversight Board Meeting
- Approval of Principle 1 (Overall responsibility of the administrator)
- Approval of Principle 2 (External oversight)
- Approval of Principle 3 (Conflicts of interest)

- Approval of Principle 4 (Oversight of trading manager)
- Approval of Principle 5 (Price discovery process): review and summary of the draft paper “Summary of Price Discovery process” (high level description of how price discovery works on the GTD Events Platform). Members commented on the paper and noted the need to complement the paper with simpler explanations of how various aspects of GDT Events work, for example simple videos of how the price increments, rollbacks, and cream group work. However, all attendees acknowledged that the adoption of Principle 5 does not require the Board to adopt this paper during the Board meeting. All Board members approved Principle 5, noting that the Expert Judgment Policy (discretion policy of the trading manager) still needs to be developed and agreed between GDT and the Trading Manager.
- Approval of Principle 6 (Internal control framework)
- Approval of Principle 7 (Market surveillance)
- Approval of Principle 8 (Price credibility reviews)
- Approval of Principle 9 (Anti-trust reviews) – all members noted that GDT Events is currently in the process of completing a jurisdictional review, which will be made available to all Board members
- Approval of Principle 10 (Cessation)
- Approval of Principle 11 (Audits and complaints)

RESOLVED:

All members and Josh Sigmund representing Fonterra as owner of GDT therefore agreed with the recommendations listed in paragraph 25 of the “Governance Principles” paper as follows:

- a) NOTE that the wording of the proposed GDT Governance Principles has been reviewed and updated since the April 2016 meeting;
- b) NOTE that GDT Governance Principles 5 and 11 apply a modified approach that differs from the underlying IOSCO principles;
- c) NOTE that GDT will undertake further work in conjunction with the Trading Manager to determine appropriate compliance methodology;
- d) ADOPT the GDT Governance Principles as presented in Annex 1 of this paper.

ITEM 5: GENERAL BUSINESS

Chairman referred members to the paper “General Business” which was circulated in advance of the meeting and taken as read.

Matters discussed included:

- Item 3 – Annual review of compliance with anti-trust procedures: noted that the on-going anti-trust review will go to GDT’s internal compliance committee for sign-off.
- Items 6 to 8 – Provision of data to recognised financial markets: noted that the purpose is to ensure the financial markets have equal access to key price sensitive information.
- Items 14 to 22 – Seller Forecast Statements: noted that a seller can make commitments on its forecasts. There was general agreement by members that the seller forecast guidance regime is working effectively as a helpful safeguard as to how the platform communicates with the market, including the financial market. The specific Explanatory Notes could be complemented with a more general overview/historical perspective describing the reasons why sellers could change their forecasts.. Members discussed whether it would be worthwhile categorising such changes into minor, medium or major changes. However, it was agreed that this could raise consistency issues and that it is for the market participants to make such categorisations.
- Items 23 and 24 – Annual Report proposal: members agreed this would be a useful part of the educational process

NEXT MEETING:

Next Meeting: Sunday 23 April 2017 at the ADPI conference venue in Chicago.

Members suggested that the November or February Dubai food conferences would be more convenient than the ADPI Chicago conference. GDT noted that February 2017 would be too early for the next meeting but agreed to give preference to the Dubai venue in future after April 2017.

Meeting Closed at 1:05pm CDT.

Followed by lunch and workshop group on platform enhancement, attended by external counsel Florence Ninane (Allen & Overy LLP)

ANNEX: GDT Governance Principles

The GDT Governance Principles adopted by the Oversight Board are as follows:

Principle 1: Overall Responsibility of the Administrator

- 1.1 GDT to retain primary responsibility for all aspects of the process by which winning prices are discovered, including:
 - a. *Development:*
The written rules and procedures according to which the winning prices are discovered;
 - b. *Dissemination:*
Accurate and timely publication of the winning prices;
 - c. *Operation:*
Ensuring appropriate transparency over significant decisions affecting the discovery of winning prices, including contingency measures in the event that insufficient or incorrect data, market stress or disruption, failure of critical infrastructure, or other relevant factors mean that one or more winning prices cannot be discovered or cannot be published; and
 - d. *Governance:*
Establishing credible and transparent governance, oversight and reporting, certification and/or review procedures for how winning prices are discovered.

Principle 2: External Oversight

- 2.1 GDT to maintain an oversight board with a published charter to review and provide oversight over all aspects of how winning prices are discovered.
- 2.2 The oversight board to include a balanced representation of a range of stakeholders which is chosen to counterbalance any relevant potential conflicts of interest.
- 2.3 The charter to include:
 - a. The terms of reference of the oversight board;
 - b. Criteria to select members of the oversight board;
 - c. Processes for election, nomination or removal and replacement of board members.
- 2.4 The responsibilities of the oversight board to include:
 - a. Reviewing any changes to the Summary of Price Discovery Process as documented under Governance Principle 5;
 - b. Ensuring the integrity of price discovery and control framework.

Principle 3: Conflicts of Interest

- 3.1 GDT to document, implement and enforce policies and procedures to identify, disclose, manage, mitigate or avoid conflicts of interest, including ensuring:
 - a. Existing or potential conflicts of interest do not inappropriately influence either the design of the algorithms and software for discovering winning prices or the actual discovery of winning prices in a trading event;
 - b. Personal interests and connections or business connections do not compromise GDT's or the Trading Manager's performance of their functions;
 - c. Segregation of reporting lines within each of GDT and the Trading Manager, where appropriate, to clearly define responsibilities and prevent unnecessary or undisclosed conflicts of interest or the perception of such conflicts;
 - d. Adequate review and sign-off by authorised or qualified employees of the Trading Manager prior to releasing into production any changes to the software systems relating to price discovery, data

- transfer and publishing of winning prices;
- e. The confidentiality of data submitted by participants, subject to the obligation to ensure information symmetry for relevant financial markets (such as dairy derivatives);
 - f. Effective procedures to control the exchange of information between staff engaged in activities involving a risk of conflicts of interest or between staff and third parties, where that information may reasonably affect the discovery of winning prices; and
 - g. GDT, the Trading Manager and their staff are not rewarded or incentivised based on the level of the winning prices.

Principle 4: Oversight of Trading Manager

- 4.1 GDT to maintain appropriate oversight of the Trading Manager and other third parties in implementing the price discovery process using the agreed rules and procedures and in publishing the winning prices, including:
- a. A written arrangement that defines the roles and obligations of the Trading Manager in implementing the price discovery process using the agreed rules and procedures, and the standards the Trading Manager is expected to comply with;
 - b. Monitor the Trading Manager's compliance with the standards set out by GDT;
 - c. Publish the identity and role of the Trading Manager in implementing the price discovery process using the agreed rules and procedures; and
 - d. Take reasonable steps, including contingency plans, to avoid undue operational risk related to the Trading Manager being responsible for implementing the price discovery process using the agreed rules and procedures

Principle 5: Price Discovery Process

- 5.1 GDT and the Trading Manager to maintain jointly agreed documentation of the methodology and procedures by which winning prices are discovered, including:
- a. Documentation of the price increment algorithm in sufficient detail to enable GDT to validate that the Trading Manager's software conforms to the algorithm;
 - b. Records maintained of the parameter values applied in the software;
 - c. Documentation of policies for the use of expert judgement in circumstances where the exercise of such judgement involves altering one or more price increments for use in a subsequent auction round, and the information that must be recorded in such cases pursuant to Governance Principle 11.3 ("Expert Judgement Policy").
- 5.2 GDT to publish a non-technical summary of the price discovery process on the GDT Information Website ("Summary of Price Discovery Process").

Principle 6: Internal Control Framework

- 6.1 GDT to maintain an appropriate control framework for the process of discovering and distributing winning prices, addressing the following areas:
- a. Integrity and quality of the winning prices:
 - I. Arrangements to ensure that the quality and integrity of the Trading Manager's algorithms and software and use of expert judgement is maintained;
 - II. Arrangements to ensure adequate reporting and certification in respect of key activities and appropriate complaints mechanisms are effective; and
 - III. Providing robust infrastructure, policies and procedures for the management of risk, including operational risk.
 - b. Effective whistleblowing mechanisms within GDT to facilitate early awareness of any potential

misconduct or irregularities that may arise, including external reporting where appropriate.

- c. Expertise:
 - I. Ensuring the GDT roles are carried out by personnel who possess the relevant levels of expertise; and
 - II. Staff training, including ethics and conflicts of interest training, and continuity and succession planning for personnel.

Principle 7: Market Surveillance

- 7.1 GDT to maintain an appropriate monitoring regime to provide assurance that relevant GDT Trading Event Rules are complied with, and that reasonable methods to mitigate the risk of seller or bidder collusion are in place.
- 7.2 GDT to provide summary report annually of its market surveillance conclusions to the GDT Oversight Board.

Principle 8: Price Credibility Reviews

- 8.1 GDT to review on an as required basis to confirm that:
 - a. Structural changes in the dairy industry do not require changes to the price discovery process;
 - b. The relevant dairy trade continues to operate with sufficient volume for the winning prices to function as credible reference prices for the products traded.
- 8.2 GDT to publish a summary of each completed review

Principle 9: Anti-Trust Reviews

- 9.1 GDT to document, implement and enforce policies and procedures to comply with applicable anti-trust requirements, primarily relating to information flows.
- 9.2 GDT to periodically review whether any changes to competition/ anti-trust laws in the relevant jurisdictions warrant a change in GDT's information protocols or other operational policies and procedures.

Principle 10: Cessation

- 10.1 GDT to publish written policies on the notice periods that will apply if the trading platform is terminated, or a product temporarily or permanently ceases to be offered or its specification is changed, or any other condition which prevents the continued publication of winning prices.
- 10.2 GDT to encourage stakeholders who have financial instruments that reference GDT winning prices to take steps to make sure that:
 - a. Contracts or other financial instruments that reference GDT winning prices, have robust fall-back provisions in the event of changes to, or cessation of, the referenced winning price; and
 - b. Stakeholders are aware of the possibility that various factors, including external factors beyond the control of GDT, might necessitate changes to how winning prices are discovered as documented under Governance Principle 5.

Principle 11: Audits and Complaints

- 11.1 *Complaints:*

GDT to maintain a written procedure and independent rulings body for GDT participants, or GDT itself, to submit a complaint in relation to a participant's alleged breach of the GDT Trading Event Rules.
- 11.2 *Audits:*
 - a. GDT to appoint an independent external auditor with appropriate experience and capability to periodically review and report on GDT's adherence to the governance principles;
 - b. Selection of the auditor and terms of reference for the audit to be agreed with the chair of GDT

Oversight Board.

11.3 *Audit Trail:*

Records to be retained by GDT and the Trading Manager for at least five years on:

- a. All data inputs, software parameter values and other information sources relied upon in operating trading events;
- b. The exercise of expert judgment made by the Trading Manager in overriding software-generated price increments;
- c. Other changes in or deviations from standard procedures and methodologies, including those made during periods of market stress or disruption;
- d. The names of the Trading Manager's staff with leading roles in the trading event; and
- e. Any queries and responses relating to data inputs.

11.4 *Cooperation with Regulatory Authorities:*

Relevant documents subject to these principles to be made available to the relevant regulatory authorities in carrying out their regulatory or supervisory duties (including valid and lawful requests for information and documentation).