

Cessation notification requirements

Public consultation paper, 10 July 2017



INTRODUCTION

1. This paper proposes to amend the GDT Trading Event Rules to expand the scope and length of notifications required when either GDT or a relevant seller decides to cease trading.
2. The GDT Events Oversight Board has reviewed the proposal and supports its publication for feedback from stakeholders.
3. This paper outlines the proposed changes and seeks submissions from interested parties.

BACKGROUND

4. GDT recognises that buyers, financial markets and the wider dairy industry need confidence that they can rely on GDT to continue publishing dairy prices, and that any material change to price publication will be notified with sufficient notice.
5. This is especially relevant for financial markets where a GDT Events seller has agreed for their prices to be used in the settlement of financial instruments, as for example occurs with NZX's settlement of dairy futures contracts using Fonterra's prices for WMP, SMP, AMF and Butter.
6. Since establishing the Oversight Board in December 2015, GDT has worked with the Board to implement robust Governance Principles broadly based on the IOSCO "Principles for Financial Benchmarks".
7. The governance framework includes Principle 10 on Cessation which states:
 - 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.

PROPOSED RULE CHANGE

8. The current Trading Event Rules require GDT to provide only 21 days' notice if we elect to discontinue the GDT Events trading platform.
9. We propose to extend this notice period to six months by amending Rule A5.3 as follows:

5.3 Termination by GDT due to discontinuation

GDT may terminate the Participation Agreements of each Participant on ~~21 days~~ six months' written notice to the Participant if GDT elects to discontinue the Trading Platform. In such circumstances, GDT will publish the fact that it is discontinuing the Trading Platform and the date on which the Trading Platform will be discontinued promptly on the Information Website.
10. We also propose to introduce a new rule for sellers whereby a seller who has consented for their GDT prices to be used in financial instruments must give notice of at least six months prior to withdrawing the relevant

products from GDT Events, except for force majeure circumstances.

11. The new rule with explanatory note applying to sellers is proposed as follows:

1.16 Seller may consent to its Winning Prices being used to settle financial instruments

- (a) A Seller may (but is not obliged to) provide consent to GDT to its Winning Prices for Products sold at Trading Events to be used to settle financial instruments offered by recognised financial markets.
- (b) Where such consent is provided, that Seller must not cease to offer any such Products for sale at two or more consecutive Trading Events without providing not less than six months' written notice to GDT and the relevant recognised financial markets (with such notice to state whether the Seller intends to temporarily or permanently cease to offer any such Products for sale at Trading Events). A Seller is not entitled to terminate its Participation Agreement during such notice period.
- (c) A Seller does not breach this Rule C1.16 where it ceases to offer any Products for sale at two or more consecutive Trading Events due to an event or circumstance beyond that Seller's reasonable control.

Explanatory Note: It is expected that a seller who gives notice to cease offering a product will continue during the notice period to set its supply parameters consistent with its historical practice for the product.

12. GDT believes the increased transparency and certainty deriving from the above rule change proposal is of benefit to all dairy and related financial market participants.

SUBMITTING FEEDBACK

- 11. GDT invites feedback from any interested party on these proposed changes.
- 12. Submissions must be emailed in writing to help@globaldairytrade.info with the subject line: Feedback on Cessation notification requirements.
- 13. Submissions close on 28th July 2017.
- 14. Feedback received will be collated and represented to the GDT Events Oversight Board for their review prior to voting on the proposal.
- 15. If adopted, the new rules will become effective within 7 days of the vote.