

Publication of winning prices

Public consultation paper, 10 July 2017



INTRODUCTION

1. Recent events have highlighted an aspect of the rules governing the publication of winning prices which can have unintended outcomes in certain circumstances.
2. This paper proposes to amend the GDT Trading Event Rules to widen the range of circumstances under which winning prices are published.
3. The GDT Events Oversight Board has reviewed the proposal and supports its publication for feedback from stakeholders.

CURRENT PRICE PUBLICATION RULES

4. Prior to 2014, GDT published all winning prices achieved at each Trading Event.
5. During 2014, several instances occurred where a seller's winning prices were identical across several contract periods, prompting a leading commentator to publicly speculate (correctly) that this could only have occurred if the seller had set identical starting prices and these prices had not increased.
6. This incident highlighted the antitrust sensitivity around disclosure of starting prices of sellers, and the risk of external parties misinterpreting every winning price as a clearing price.
7. GDT considered this risk as one that could result in misleading commentaries about current market prices, inappropriate comparisons of prices among sellers, non-GDT trades being referenced to those prices as if they were market clearing prices, and potential damage to GDT's credibility.
8. In response, we implemented a rule to prevent the publication of a winning price when it is equal to the product's corresponding starting price. Such outcomes are published as "n.p" not published (Rule C7.1b).

Issues arising from recent trading events

9. For the first time since the "n.p." rule was implemented, GDT Events experienced a sharp downturn in bidding demand in March that led to the winning prices for multiple large volume products not being published.
10. This occurred in Trading Event 183 held on 7 March 2017 where SMP and WMP had 10 and 6 non-published prices, respectively. Most of these non-published prices were for contract periods 2 and 3 where the offer quantity was highest.
11. For both SMP and WMP, the products were initially oversubscribed with demand exceeding supply in round 1. They subsequently became undersubscribed (demand below supply) in response to the higher announced price for round 2.
12. Hence, these products were subject to a price rollback where most of the offer quantity was sold at winning prices equal to their corresponding starting prices.
13. This outcome had a flow on impact on the GDT price indices, as the calculation of the GDT indices exclude non-published prices for consistency reasons.

PROPOSED RULE CHANGE

14. The review identified the price publication rule as the key issue, and assessed several options to eliminate or at least reduce the likelihood of similar outcomes occurring in the future, without undermining the GDT Price Index's credibility and/or giving rise to regulatory issues.
15. We reviewed whether the "n.p." rule could be eliminated with GDT reverting back to publishing all winning

prices. We have rejected this option as it would expose GDT to the issues that triggered instigation of the rule in 2014.

16. Instead, we have identified an opportunity to refine the "n.p." rule by distinguishing between winning prices that are market-determined (which could be published), versus those that are not market-determined (which would continue to be represented by "n.p.").
17. A winning price would be assessed as being market-determined where bidding demand was sufficient at some point during the Trading Event to cause the price for the product to increase above the starting price. This would occur either:
 - a. Where sustained demand resulted in a winning price that was higher than the starting price, in which case the winning price would be published as per current practice;
 - b. Where demand was sufficient to drive an increase from the starting price, but bidder demand subsequently dropped at the higher price, triggering a rollback such that at close of the Trading Event the winning price was the same as the starting price. In this case, the winning price is due to bidders' reaction to the higher price and therefore the winning price is clearly a market-determined price.
18. In contrast, if bidding demand was never sufficient to cause the product's price to increase above the starting price, then the winning price is not a market-determined price.
19. This would have prevented the outcomes that occurred in Trading Event 183 and would substantially reduce the risk of a similar issue occurring in the future.
 - a. Over the past two years, 2.7% of all offered product bidding opportunities resulted in "not published" prices. Of these, less than 0.3% represented large volume products with sold quantities above 1000 MT;
 - b. With the proposed rule change, more than 90% of these instances for large-volume products would have had published prices.

Proposed Rule Change

20. The proposed approach would require a change to Rule C7.1 as indicated by the mark up below. We would also propose adding an Explanatory Note as shown below.

7.1 Publication of results

Without limiting Rule C7.7, as soon as possible following the close of a Trading Event:

- (a) the Trading Manager will publish on the Bidding Website all Winning Prices;
- (b) GDT will publish free of charge on the Information Website:
 - (i) each Winning Price published on the Bidding Website provided the product's Announced Price during the Trading Event Winning Price exceeds its corresponding Starting Price. In the event of any inconsistency in data values between the two Websites, the Bidding Website will prevail;
 - (ii) the total Minimum Supply, total Maximum Supply, and total Winning MT (each aggregated across all Products and all Sellers); and
 - (iii) other summary information regarding the Trading Event provided such information does not refer to or identify an individual Participant's results;

Explanatory note: GDT publishes all winning prices which are assessed as being 'market determined'. A winning price is assessed as being market determined when bidding demand at any stage during the Trading Event is sufficient to cause the product's announced price to increase above its starting price, irrespective of whether that announced price becomes the winning price at the close of the Trading Event.

SUBMITTING FEEDBACK

21. GDT invites feedback from any interested party on these proposed changes.
22. Submissions must be emailed in writing to help@globaldairytrade.info with the subject line: Feedback on Publication of winning prices.
23. Submissions close on 28th July 2017.

24. Feedback received will be collated and represented to the GDT Events Oversight Board for final review prior to voting on the proposal.
25. If adopted, the new rules will become effective within three months of the vote at a date to be advised once relevant software developments have been completed.