

# Proposed rule changes to publishing winning prices and product restrictions

Public consultation paper, June 2018



## INTRODUCTION

---

1. This paper invites feedback from any interested parties on proposed changes to the GDT Trading Event Rules relating to the publication of winning prices and information available to a bidder who is restricted from bidding on a product.
2. The proposed changes were presented to the GDT Events Oversight Board on 16 May 2018, when the Board approved Global Dairy Trade undertaking public consultation on the changes. The Board will consider the feedback received prior to deciding whether to adopt the proposed changes.

## BACKGROUND

---

3. Currently, GDT publishes individual winning prices and weighted-average prices, as follows:
  - a. Each winning price where bidding demand during the Trading Event was sufficient to achieve a 'market-determined' price is published;
  - b. A quantity-weighted average winning price is published for each product group, for each contract period, and in some cases by supply region.
4. GDT's market research with prospective sellers identified that our current requirement to publish each seller's individual prices deters some potential sellers from joining GDT Events. This has limited GDT's ability to provide price transparency for core dairy ingredients supplied from important dairy exporting regions such as Europe and the US.
5. In late 2017, we sought to overcome these limitations by launching a multi-seller pooling approach. Multiple sellers contributed volumes to an aggregated pool, resulting in a single winning price being published for each standard product specification sold by the pool.
6. The Oversight Board supported the pooling approach on the basis that the provision of credible, market-based reference prices does not require the publication of individual seller prices, and that aggregated prices are often more relevant to market participants.
7. The US Lactose pool was launched in December 2017 on this basis. It was temporarily suspended in May 2018 due to insufficient bidder interest. GDT intends to relaunch US Lactose in the coming months, allowing each seller to offer product individually but to continue publishing a single winning price for each product specification.

## AVERAGE WINNING PRICE PROPOSAL

---

8. We propose to modify the GDT Trading Event Rules to enable an average winning price to be published as a substitute, or in addition, to publication of each seller's individual winning prices.
9. GDT would be required to publish a quantity-weighted average winning price for each product type for one or more geographical regions, where:
  - a. The product type may include a range of similar product specifications offered by different sellers, as determined by GDT;
  - b. The geographical region may be a country, a sub-region of a country (e.g. US Central vs US West), or a defined grouping of countries (e.g. Western Europe), as determined by GDT;
  - c. If a product type is only offered by a single seller, the rule would result in the winning price being published without the seller's name being associated with it (unless the seller has opted otherwise, per below);

- d. The rule would allow GDT the option to publish additional information such as the range of prices making up the average and other statistical measures as determined by GDT;
  - e. A seller may give notice of not less than two months requiring that the winning price for specified individual products that it offers on the platform be separately published and identified with the seller's name (in the case where the prices currently are not published); or cease to be separately published and identified with the seller's name (in the case where the prices currently are published).
10. The current sellers Amul, Arla, Arla Foods Ingredients and Fonterra have confirmed that they would continue to publish their individual product winning prices if this proposed change is introduced.
11. A seller who has consented to their winning price being used to settle financial instruments will continue to be bound by the six-month notice period per Rule C1.16.
12. By addressing a key factor that deters some prospective sellers from joining GDT Events, we consider that the proposed change will enable GDT to bring the benefits of price transparency to a wider range of core dairy ingredients and more supply regions, such as Europe and the US.
13. This proposal will also enable GDT to relaunch US Lactose without needing to pool supply.

## **BIDDER PRODUCT RESTRICTION PROPOSAL**

---

- 14. The GDT Trading Event Rules enable a seller to give eligibility to a bidder while also restricting the bidder from bidding on one or more of its products.
- 15. The Bidding Website implements this rule by omitting the product from all screens accessible to the relevant bidder.
- 16. This approach avoids the potential for bidder confusion and reduces anti-trust risk as it enables a bidder who produces and/or trades the same type of product outside of GDT to be prevented from accessing sensitive information.
- 17. Currently there is a loophole where a restricted bidder can still view the product's offer quantity and starting price in the private log-in section of the Information Website.
- 18. GDT proposes to modify the rule that requires GDT to provide product supply data to bidders, by clarifying that the rule excludes data relating to products that the bidder is restricted from bidding on.
- 19. Pre-event data is not displayed on the public section of the Information Website, and so the proposed change will have no impact on public transparency.

## **PROPOSED CHANGES TO THE TRADING EVENT RULES**

---

20. The proposed rule changes to give effect to these changes are as follows:

### **New Rule C1.16 to enable sellers to decide whether their prices are published**

#### **1.16 Seller may decide whether its Winning Prices are published on the Information Website**

A Seller may decide whether its Winning Prices for Products sold at Trading Events are or can be published by GDT on the Information Website alongside the Seller's name (or recognised indicator) by providing not less than two months' written notice to GDT:

- (a) requiring or consenting to its Winning Prices being published by GDT on the Information Website, where those prices are not currently being published on the Information Website; or
- (b) requiring GDT to cease publishing its Winning Prices on the Information Website, where those prices are currently being published on the Information Website, provided the Seller's Winning Prices are not being used to settle financial instruments under Rule C1.17.

and in each case such change will take effect on and from the conclusion of the notice period and will not apply to any retrospective publications unless otherwise agreed with GDT.

#### **1.16.1.7 Seller may consent to its Winning Prices being used to settle financial instruments**

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. Where such consent is provided, that Seller:

- (a) 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; and
- (b) does not breach this Rule C1.17 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.

## Changes to Rule C7.1 to ensure GDT has right to publish average prices

### 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) certain Volume-Weighted Average Prices by Contract Period and for each Product Type and for one or more Pricing Regions (and such other aggregated statistical measures reasonably determined by GDT), as specified on the Information Website.
  - (ii) each Winning Price published on the Bidding Website, provided:
    - (A) the Product's highest Announced Price achieved during the Trading Event exceeds its corresponding Starting Price; and
    - (B) the Seller has not required GDT to cease publishing its Winning Prices on the Information Website in accordance with Rule C1.16.
  - and on the basis that, in the event of any inconsistency in data values between the two Websites, the Bidding Website will prevail;
  - (iii) the total Minimum Supply, total Maximum Supply, and total Winning MT (each aggregated across all Products and all Sellers); and
  - (iv) other summary information regarding the Trading Event provided such information does not refer to or identify an individual Participant's results.]
- (c) Subject to Rule B4.3, GDT may make the following information available to any interested party either by publishing free of charge or through a data subscription service:
  - (i) the total Winning MT for each Sales Group and Milk Component Group;
  - (ii) the distribution of total Winning MT by Bidder region (aggregated across selected Product Groups and Bidder regions as determined by GDT);
  - (iii) the distribution of participating Bidders by Bidder region; and
  - (iv) such other information relating to the Trading Event that GDT determines, with the approval of the Oversight Board.

*Explanatory note: GDT publishes all A Winning Prices except those which are is assessed as being 'non-market determined' is ineligible to be published or used in the calculation of Volume-Weighted Average Prices. A Winning Price is assessed as being non-market determined in any circumstance where bidding demand during the Trading Event was insufficient to cause the Product's Announced Price to increase above its Starting Price. Conversely, a Winning Price is assessed as being 'market determined' in any circumstance where bidding demand was sufficient to cause an increase in Announced Price, irrespective of whether bidding demand was or was not sufficient to result in the Announced Price becoming the Winning Price at the close of the Trading Event.*

## New definitions in Part E

**Pricing Location** in respect of a Multi-Seller Pool means a physical location in that Multi-Seller Pool's territory for which prices may be determined.

**Pricing Region** means the country, sub-regions of a country, group of countries or continent determined by GDT and used for the purpose of determining the set of Winning Prices to be included in the calculation of a Volume-Weighted Average Price (as published on the Information Website).

**Product** means any one of the dairy products listed on the Information Website as being for sale through the Trading Platform.

**Product Group** comprises all the Products and Sales Groups reported on the Information Website as belonging to the same group of products.

**Product Type** means the Product or group of Products reported on the Information Website as being included in the calculation of a Volume-Weighted Average Price, as updated by GDT from time to time.

**Volume-Weighted Average Price** is the weighted average of the set of Winning Prices from a Trading Event relating to a specific Contract Period, Product Type and one or more Pricing Regions, where the volume weighting is determined by the corresponding Winning MT for each Winning Price used in the calculation. For the purpose of determining a Volume-Weighted Average Price, the set of Winning Prices will only include those Winning Prices in respect of a Product where its highest Announced Price achieved during the relevant Trading Event exceeded its corresponding Starting Price.

## **Changes to Rule C2.11 to close the loophole relating to Bidder Product Restrictions**

### **2.11 Product supply information to be published to Bidders**

Prior to the Trading Event, GDT will make available to each Bidders will be provided:

- (a) the information received from Sellers under Rule C2.10 and, if provided, under Rule C2.5 and C2.6, except in respect of a particular Bidder, for any information received from a Seller in relation to Products, Sales Groups and Milk Component Groups where that Bidder is subject to a Bidder Product Restriction in respect of that Seller under Rule C1.5; and
- (b) a statement to the effect that Bidders must not provide such information to any other person.

## **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](mailto:help@globaldairytrade.info) with the subject line: "Feedback on proposed rule changes June 2018".
23. Submissions close on 20 June 2018.
24. Feedback received will be collated and presented to the GDT Events Oversight Board for their review prior to voting on whether to adopt the proposed rule changes.