

Proposed rule changes for feedback

Public consultation paper, 18 October 2023



PURPOSE

1. This paper invites feedback from any interested party on seven proposed changes to the GDT Trading Event Rules relating to seller entry requirements, bidder and seller participation categories, and several miscellaneous rule changes.
2. The GDT Events Oversight Board discussed the proposed changes on 20 September 2023 and supports this consultation process being undertaken. The Oversight Board will consider any feedback received prior to deciding whether to adopt the proposed change.
3. The proposed rule changes are open for feedback from interested stakeholders for four weeks until close of business on **Wednesday 15 November 2023**.

SUMMARY

4. GDT's Strategic Plan focusses on building liquidity, attracting a larger and broader global supply volume to the platform, and enhancing the agility and efficiency of our operations and service development.
5. To attract new sellers we are progressively upscaling our sales & marketing resources and assessing opportunities to reduce entry barriers and enhance our value proposition.
6. The rule changes proposed in this paper are to ensure that the appropriate rules and seller incentives are in place to accommodate the various types and interests of new sellers expected to join GDT over the next few years.
7. Based on the observed behaviour of sellers and incremental costs and benefits, the paper puts forward two substantive proposals and several miscellaneous recommendations to tidy-up aspects of the rules.
8. The first main proposal is to remove the 5,000 MT minimum volume requirement and substitute in a more qualitative criterion for accepting a new seller to GDT. This will remove a rule that has a deterrent effect on some potential new sellers and replace it with a more qualitative rule that can provide guidance on what is expected of a new seller during their first 12 months of participation on the trading platform.
9. The second main proposal is to establish a new Inactive Participant category with reduced benefits available to an inactive seller (or bidder) compared to an active seller (or bidder). The proposal provides an important backstop for situations where a participant ceases to be active on GDT, while also better enabling GDT to retain customer relationships.
10. While the two proposals are complementary, each proposal can be decided and implemented independently.
11. Miscellaneous changes are also proposed regarding decisions on the contract periods available to participants, the measurement unit for weights, notification requirements, and responsibility regarding price index policy.

PROPOSAL ON MINIMUM VOLUME REQUIREMENT

12. The Rules currently require that to become a participant each applicant must demonstrate a bona fide intention and capability to comply with the Rules. A seller applicant must also:

- (a) commit to offer at least 5,000 MT annually of Product through the Trading Platform;
- (b) demonstrate to GDT that offering its Product through the Trading Platform has a reasonable chance of commercial success; and
- (c) provide such additional information requested by GDT relevant to consideration of the matters referred to in this Rule A1.8 and Rule A1.5.

Assessment of minimum volume requirement

- 13. The minimum volume requirement does not ensure incremental cost recovery. It is effective only at entry of a new seller and it focuses on offer quantity rather than sold quantity.
- 14. We have found that the minimum volume requirement has a deterrent effect on potential new entrants who want to test the waters by starting small on GDT, but who have potential to offer significantly higher volumes in future.
- 15. Further, an initially successful seller who subsequently falls below the minimum volume requirement for a period may have legitimate business reasons for offering less than their prior supply plan, such as an unforeseen disruption to their manufacturing or the supply chain.
- 16. For these reasons, we propose to remove the minimum volume requirement and introduce new provisions as discussed below.

Proposed new guideline

- 17. We consider that it would be helpful to GDT and prospective sellers for the Rules to provide guidance on what is expected of a new seller during their first 12 months of participation on the trading platform.
- 18. It is therefore proposed that the acceptance criteria for a prospective new seller include a requirement to demonstrate to GDT that it both has sufficient supply available for its nominated products and that it intends whenever commercially viable to offer the products on the trading platform on a regular basis during its first 12 months of participation.
- 19. The proposed amendments to Rule A1.8 are as follows:

1.8 Acceptance as Seller

To be accepted as a Seller, an applicant must:

- ~~commit to offer at least 5,000 MT annually of Product through the Trading Platform;~~
- (a) demonstrate to GDT that offering its Product through the Trading Platform has a reasonable chance of commercial success. Without limiting this general requirement, an applicant must demonstrate to GDT's reasonable satisfaction that it has sufficient supply available for the Products that it proposes to offer through the Trading Platform and that, when commercially viable, it intends to offer those Products at Trading Events on a regular basis during the first 12 months of its participation on the Trading Platform; and
- (b) provide such additional information requested by GDT relevant to consideration of the matters referred to in this Rule A1.8 and Rule A1.5.

PROPOSAL ON NEW 'INACTIVE PARTICIPANT' CATEGORY

20. The Rules provide that every participant is either registered with full access rights or is removed through termination or suspension of their Participation Agreement. Termination or suspension is permitted only if a participant has been either inactive for more than 18 months (refer Rule A5.2) or has breached the Rules or Participation Agreement.
21. Under these rules an inactive seller continues to benefit from ongoing access to the bidder list and global brand presence on the trading platform and/or public website. For some sellers, these benefits could influence them to continue to participate in Trading Events using product offers that are unlikely to result in transacted sales.
22. We propose to remedy this by establishing a new Inactive Participant category with the following features:
 - a. In the case of an inactive seller, the seller does not have access to the seller portal and bidder list, and the seller's name and branding is removed from public visibility (e.g. public website),
 - b. Similarly, in the case of an inactive bidder, the bidder does not have access to the bidder portal and their identity is removed from the bidder list accessed by sellers,
 - c. GDT may assign Inactive Participant status to any participant who either:
 - i. Has been "inactive" for a period of more than 18 months, or
 - ii. GDT otherwise considers no longer meets the acceptance criteria for new participants,
 - d. "Inactive" to be defined in the Rules as a situation where a participant was neither a Winning Bidder nor a Successful Seller, i.e. zero traded quantity as either bidder or seller,
 - e. GDT may reassign an inactive participant back to active status where, after consulting the participant, GDT reasonably considers the relevant acceptance criteria applicable for new participants are met.
23. The proposed approach is consistent with the close to zero incremental cost of an inactive seller and also provides a stronger basis for GDT to retain the customer relationship. Retaining customer relationships provides a better basis for growing future trading activity.
24. The proposed amendments to Rule A5 are as follows: (refer over page)

5 Termination, suspension, inactivity and disputes

5.1 Termination by Participant

A Participant may terminate its Participation Agreement at any time on 21 days' written notice to GDT.

5.2 Termination due to inactivity

GDT may terminate without notice the Participation Agreement of any Participant who has been inactive on the Trading Platform for a period of more than 18 months.

5.3 Reclassification by GDT due to inactivity or failure to satisfy acceptance criteria

Without limiting GDT's other rights and remedies under these Rules, GDT may choose to classify any Participant as an Inactive Participant where that Participant:

- (a) has been Inactive on the Trading Platform for a period of more than 18 months; or
- (b) no longer satisfies the acceptance criteria for new participants in GDT's reasonable opinion (for example, where GDT considers based on a pattern of trading activity (or inactivity) that a Seller no longer has reasonable chance of commercial success on the Trading Platform).

GDT may reinstate any Inactive Participant (and in doing so remove their classification as an Inactive Participant) where, following consultation with the Participant, GDT reasonably considers that the Participant will satisfy the relevant acceptance criteria going forward and such other terms and conditions of reinstatement reasonably imposed by GDT at the time.

5.4 Consequence of being classified an Inactive Participant

If and for so long as a Participant is classified by GDT as an Inactive Participant:

- (a) where that Inactive Participant is a Seller, that Seller's access to the Trading Platform will be suspended (including the Seller portal on the Trading Platform) and that Seller will no longer be entitled to receive a list of Bidders from GDT or to be identified by GDT as a Seller on the Trading Platform (whether on the Information Website or otherwise); and
- (b) where that Inactive Participant is a Bidder, that Bidder's access to the Trading Platform will be suspended (including the Bidder portal on the Trading Platform) and that Bidder will no longer be included on the list of Bidders provided to Sellers,

and these Rules will be read with all necessary modifications to reflect these consequences.

Definitions section:

Inactive means that a Participant was neither a winning bidder nor a successful seller on the Trading Platform over a particular period (i.e. zero traded quantities as a bidder or seller, as the case may be).

Inactive Participant has the meaning specified in Rule A5.3.

MISCELLANEOUS PROPOSALS

Contract periods

25. The Rules provide that the Contract Periods available at Trading Events are set by GDT and may be changed by notification on the Information Website.
26. A Contract Period is the month in which Products sold on the trading platform must be shipped by the seller. The Contract Periods currently available range from 1 – 6 months ahead, with the majority of Products sold on the trading platform being in Contract Periods 2 and 3.
27. As GDT attracts a greater diversity of buyers and sellers from more regions, it may become appropriate for contractual, regulatory or governance reasons to change the available Contract Periods and/or for certain categories of participant to have their access limited to a subset of the Contract Periods.
28. As part of future-proofing GDT against these possible requirements, we propose that the Rules be amended to clarify that changes of this nature can be made and that, going forward, GDT must advise the Oversight Board and Trading Manager of any proposed changes to the Contract Periods. Changes will then be notified by GDT on the Information Website, which is consistent with the current Rules.
29. The proposed amendments to Rules C1.2 and B4.6 are as follows:

1.2 Contract Periods

A **Contract Period** defines the period during which Products will be shipped by Sellers from the specified shipment locations. Contract Period 1 means the Product will be shipped during the first calendar month following the month the Trading Event was held, Contract Period 2 means the Product will be shipped during the second calendar month following the month the Trading Event was held, and so on, such that Contract Period x means the Product will be shipped during the xth calendar month following the month the Trading Event was held. The Contract Periods available at Trading Events will be set by GDT from time to time and may be changed by notification on the Information Website, including where GDT decides to restrict participation in one or more Contract Periods available at Trading Events to particular Participants (by region or otherwise).

4.6 Notifications to Oversight Board

GDT will advise members of the Oversight Board and the Trading Manager, as soon as practicable:

- (a) before it formulates any significant Rule change proposal (and in any event before commencing public consultation);
- (b) before new Product Groups are offered for sale on the Trading Platform;
- (c) of the compliance plans, confidential information protocols, or similar matters, adopted by GDT pursuant to Rule B4.3 and any material changes to such documentation;
- (d) of the appointment and terms of reference of the independent person pursuant to Rule B4.3 and any reports issued by such person;
- (e) prior to issuing any rulings;
- (f) of any proposed change to the Trading Manager;
- (g) of any proposed modifications to information disclosure developed under Rule B4.4;
- (h) subject to the remainder of this Rule B4.6, of any investigation, inquiry, request for information, complaint or proceeding from a regulatory or governmental agency in relation to any breach or alleged breach of any law in respect of the Trading Platform or the Rules; **and**
- (i) of any new Multi-Seller Pools that it proposes to establish; and
- (+)(j) of any changes it proposes to make to the Contract Periods under Rule C1.2.

Quantity units

30. The Rules currently provide for prices to be specified in currencies other than USD and for Inco terms other than Free Along Side (FAS) to be used, provided that such changes are specified on the trading platform.
31. As part of future-proofing GDT's ability to meet customers' possible future trading needs, we propose that the Rules be amended to similarly allow quantity units other than MT to be used, provided they are also specified on the trading platform.
32. A new Rule C1.8 is proposed as follows:

1.8 Quantities to be specified in MT

Unless otherwise specified on the Auction Website and the Information Website, all quantities are specified in MT. To the extent that GDT permits quantities to be specified in a unit of weight other than MT, the references in these Rules to MT will be read with all necessary modifications.

Notification requirement

33. GDT monitors whether each seller has entered their pre-auction supply data and proactively contacts any seller that misses the deadline. Sometimes a seller is grappling with an issue while other times they have simply decided to not offer any product.
34. To reduce the loss of valuable time spent checking with sellers who are not intending to offer, we propose that the Rules be amended to require each seller to notify GDT whenever they intend to either cease or restart offering volume on a product.
35. The proposed amendments to Rule C2.10 are as follows:

2.10 Sellers to provide Product supply information

No later than the date and time as notified by GDT from time to time prior to the Trading Event, each Seller will provide to the Trading Manager the following information:

(a) for each Product they wish to offer, the **Minimum Supply** quantity, **Maximum Supply** quantity, and Starting Price for each Contract Period;

(b) for each Sales Group and Milk Component Group specified by the Seller, the Minimum Supply quantity and the Maximum Supply quantity.

If a Seller wishes to cease offering Products at Trading Events for a period or, having previously ceased, wishes to recommence offering Products at Trading Events, it must notify GDT as soon as reasonably practicable and in any event no later than the date and time prescribed by GDT from time to time prior to the Trading Event.

Price index responsibility

36. GDT recently amended the policy on the calculation and publication of regional average prices. In doing so, we interpreted the current rules as providing GDT with discretion to make such changes and consulted the Oversight Board on this basis.
37. We propose that the Rules be amended to expressly state that GDT does have the right to determine the policy, method and inputs for calculating a price index published by GDT, provided we publish such policies, methods and the input sources on the public website.
38. The proposed amendments to Rule C7.1(b) are as follows:

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 Auction 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

(and in accordance with any policy, method and inputs for calculating price indices published by GDT, in its sole discretion, on the Information Website from time to time);

Definitions section:

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: (1) 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; and (2) where a Volume-Weighted Average Price is being calculated by reference to one or more Pricing Regions, GDT may decide to exclude certain Winning Prices from such calculation in accordance with the policy, method and inputs for calculating price indices published by GDT, in its sole discretion, on the Information Website from time to time.

SUBMITTING FEEDBACK

- 39. GDT invites feedback from any interested party on the proposed rule changes discussed above by the close of business **Wednesday 15 November 2023**.
- 40. Please send your submission by email to help@globaldairytrade.info with the subject header: "Feedback on Proposed Rule Changes 2023".
- 41. If the consultation process results in only minor changes, the Oversight Board will vote on the proposed changes by written resolution, with the revised rules taking effect before 31 December 2023.
- 42. If substantive submissions are received, the Oversight Board will meet to discuss the submissions to determine the best course of action.