

# Member Update

UPDATE 16 of 18 • 29 June 2018

**TOPIC: Review of the GTA Contract No. 2 – Circle Trade Settlement Date**

**DISTRIBUTION: GTA Members – primary contact list. Please circulate to all appropriate internal parties.**

## 1. Purpose

*The purpose of this Member update is to seek feedback from Members via Industry Submissions on the Review of the GTA Contract No. 2 – Circle Trade Settlement Date.*

## 2. Background

- GTA's Commerce Technical Committee received a Submission from a GTA Member relating specifically to GTA Contract No. 2 and the financial settlement of Circle Trades.
- Circle Trades result when it is established a Seller involved within a String Sale has sold and then subsequently has re-purchased the same goods, or part thereof from another participant. When a Circle Trade is established the participants agree to settle the trade through a 'Paper' financial settlement rather than physically transferring the grain.
- The request raised in the Member Submission is to limit exposure and the risk of counterparty insolvency of a participant in a Circle Trade. It was proposed the terms of settlement in GTA Contract No. 2 for the settlement of the 'paper' Circle Trade are changed to the commencement date of the contract as opposed to the current 'mean date' of the contractual period.
- This request has been discussed by the Commerce Committee. The Committee, whilst generally supportive of the change resolved to put this to GTA Members for input and consultation via this Member Update No. 16 of 18.

## 3. Discussion

### 3.1 Circle Trades Contractual Process

The following bullet points **summarise** the process as outlined in GTA Contract No. 2 and describes the financial settlement process as the 'mean date' of the shipment period.

#### **"19. CIRCLE:**

**19.1.** Where a Sellers re-purchase the same parcel of grain, or part thereof, that they previously contracted to sell to a Buyer then a Circle Trade shall be considered to exist.

**19.2.** All Sellers and Buyers that are known to be involved in the Circle Trade shall give every assistance to help ascertain the circle. Once a Circle Trade is determined the settlement of the Trade by 'paper' is binding on all parties to the circle.

**19.3.** Once the Circle is agreed financial settlement occurs without any physical transfer of grain. Settlement by all parties in the circle is calculated:

- on the mean contract quantity; and shall be settled:
  - over the agreed market price on the first day for contractual shipment; and
  - invoices shall be settled between each Buyer and his Seller in the circle by payment of the differences between the agreed market price and the relative contract price.

**19.4. The Circle Trade settlement date becomes the mean date of the contract delivery or contract shipment period. If the Circle is ascertained past this date then the settlement date becomes the last day of the contract delivery or shipment period, but no later than 30 days after the Circle is ascertained.**

**19.5.** If any party in the Circle becomes insolvent prior to the due date of payment, then this flows through to all Circle participants triggering washout settlements as per GTA Trade Rule.

### 3.2 Issues Raised

The following issue was raised in the Submission for consideration:

1. There is additional counterparty risk in a circle due to:
  - a. Any credit insurance becomes voided in the event a trade becomes a non-physical (Circle Trade).
2. This exposure can be reduced through the proposed change in the financial settlement date to the commencement of the contractual period.

Some of the benefits and disadvantages that were considered by the Commerce Committee are provided in the following Table 1. Settlement Options.

**Table 1. Settlement Options**

Options	Benefit	Disadvantage
<b>Mean Date</b>	Balanced position from a trade finance perspective as funds are settled in the middle of the delivery period.	Places delay in settlement if the Circle is ascertained early and exposes parties to counterparty risk as Insurance cover is void in a 'paper' trade.
<b>Start Date</b>	Beneficiaries of the settlement will receive payment early.  Exposure to counterparty risk, from a timing perspective is reduced.	Out of the money participants will be required to settle earlier than forecast if the physical delivery process occurred.

## 4. Calling for Submissions

As stated, the GTA Commerce Committee is seeking to consult further and receive feedback from Members via Industry Submissions on:

1. A proposed change of the financial settlement date from the 'mean date' of the contractual period to the 'start date' of the contractual period

Submissions should be received by **COB Friday, 13 July 2018**. Lodge your submissions by emailing [submissions@graintrade.org.au](mailto:submissions@graintrade.org.au) and title your email – Review of GTA Contract No. 2 – Circle Trade Settlement Date.

A pro-forma for lodging submissions is located on the GTA website at: <http://www.graintrade.org.au/committees>. Unless marked "confidential" and appropriate supporting reasons are provided, all submissions will be placed on the GTA website for industry review.