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Dear Dougal

**Re: ASX Grain Futures & Options Industry Consultation**

Grain Trade Australia (GTA) welcomes the opportunity to make a submission to help ensure the Grain Market appeals to the broadest possible audience and thereby encourage greater liquidity and more efficient price discovery.

Please contact Grain Trade Australia should you require further information.

Yours sincerely

Sean Flanery



Operations Manager – Grain Trade Australia

## 1.0 Background Information

### 1.1 Grain Futures Industry Working Group

#### 1.1.1 Introduction

In April 2012, Grain Trade Australia (GTA) formed an Industry Working Group focussed on the further development of the grain futures and options market for the benefit of the Australian grain industry.

Grain Trade Australia, (GTA) was formed in 1991 to provide a standardised grain trading platform to enable the efficient facilitation of trade across the Australian grain industry supply chain.


These provisions include such industry good functions as the homogenisation of grain standards, trade rules, industry contracts, contract dispute resolution services, Australian Grain Industry Code of Conduct and Professional Development programs.

GTA represents over 250 member organisations ranging from regional family businesses to large national and international trading, storage and handling companies.

GTA's members are responsible for over 95% of all grain storage and handling within Australia annually and more than 90% of all grain contracts refer to GTA's Grain Standards and/or Trade Rules.

On 25 May 2012 the Grain Futures Industry Working Group (the Group) met to provide feedback to the ASX on the 'ASX Grain Futures & Options Industry Consultation paper.

The Group agreed to focus on the ASX proposals rather than the points for discussion. ASX noted that they would address the points for discussion by individually meeting with the major trading houses.



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## 3.0 Australian Grain Industry Structure

### 3.1 Stock reporting for Australian grain and oilseed

The continued growth and development of a liquid Australian grain futures market is, in part, dependent on the existence of a robust, independent, accurate and timely data reporting regime for crop estimates and available stocks on hand. Improved data supply would ensure that all market participants have equal access to information to enable efficient pricing in a deregulated market.

ASX supports the following recommendation made by The Senate Rural and Regional Affairs and Transport References Committee Report "Operational Issues in export grain networks" that was released in April 2012.

*"Recommendation 2 - 8.28 - The committee recommends that a mechanism for making wheat stockpile information available in an equitable manner to all participants in the bulk wheat export industry be further considered in the inquiry into the Wheat Export Marketing Amendment Bill 2012."*

As the provider of the futures market for Australian grain and oilseed, ASX supports any measures that the Commonwealth Government may consider improving the quality of data reporting for all major commodities, not only wheat. As such, ASX has made submissions to both the House of Representatives and Senate Inquiries concerning this issue as part of the review of the Wheat Export Marketing Amendment Bill 2012.

#### *Committee Response:*

*The Group agreed to focus on the ASX proposals rather than the points for discussion. ASX noted that they would address the points for discussion by individually meeting with the major trading houses.*

*Two members noted that they did not support providing any more information regarding their wheat stockpile than they are currently providing.*

*One member supported the ASX position on this matter.*

## 4.0 ASX Market Structure

### 4.1 Proposals

#### 4.1.1 Pre-negotiated Trades

<b>Proposal</b>	<b>To remove the ability for trades in futures contracts to be pre-negotiated.</b>
<b>Rational</b>	Supports on-screen market activity. Pre-negotiated orders for trades involved with option strategies proposed to remain as they can be more complex and may require pre-negotiated capabilities.
<b>Proposed timing</b>	Pending market feedback, this change may be introduced in 2012.
<b>Response</b>	<i>The Group unanimously agreed on this proposal.</i>

#### 4.1.2 Block Trade Minimum Size

<b>Proposal</b>	<b>To retain the current minimum size for Block Trades at 500 for futures and 200 for options.</b>
<b>Rational</b>	Block trade activity since the migration to ASX 24 does not warrant any upward revision.
<b>Response</b>	<ol style="list-style-type: none"><li><i>Support was noted by one member for Block Trades at 500, although it was added that they would like to see more flexibility in relation to options. Given that there is currently a pre negotiation, in some form, required to execute option spreads and combinations, suggesting there may be room to aggregate the 200 limit on options. Furthermore, it would be good to see some consideration of the delta in this proposal.</i></li><li><i>No issues with the 500 minimum futures. Although questioned the aggregation of the 200 minimum, ensuring the flexibility remained for the execution capability between the buyer and seller.</i></li><li><i>Supported the ASX proposal for both Options and Futures minimum blocks of 200 and 500 respectively.</i></li></ol>

## 5.0 NSW Wheat (VW)

### 5.1 Proposals

#### 5.1.1 Protein Increments

Proposal	To change the basis of the protein increment payment to be based on the minimum receival standard as stated by the applicable receival standards and administered by the Approved Bulk Handler. This would replace the current practise of protein payment being made basis the grower receival stack average. For example, if the minimum protein for binning grade APW1 is 10.5% - the protein payment made will be basis the 10.5%, irrespective of what the grower receival stack average might be.
Rational	1. Stack Averages are not guaranteed by bulk handlers; however any stock outturn must meet the minimum standards as defined by the applicable Receival Standard. 2. The physical market has, in the most part, evolved to a flat price structure. Given ASX contracts are listed out three years, flat pricing is not viable in the event that binning grades and minimum specifications were to change. 3. Operational efficiency for all parties involved simplifying the settlement process. 4. Prerequisite for Proposal 5.2 which improves the seller's ability to deliver.
Issues to consider	Protein Increments: would remain at 60 cents per protein point and the base grade would remain at 10%. Should the cap on protein remain at 11.4% and continue to apply for deliveries of harder wheat? Should the protein payment be only for the minimum binning grade and no premium paid for harder wheat?
Response	1. <i>In favour of a flat fee with no protein increments.</i>  2. <i>Although, raised concern that the cash market could or may change the minimum protein where as ASX does not have that flexibility.</i>  3. <i>ASX should accurately reflect the protein Grade parameter set in the cash market even if it takes longer to adopt through ASIC.</i>

#### 5.1.2 Season

Proposal	To remove the requirement that the delivered grain must be "new or current season"
Rational	Improves the seller's ability to deliver and assists the market trade the November contract which has historically traded small quantities due to this constraint.
Issues to consider	Proposal 5.1.1 is a pre-requisite. This change will have implications for the cost of carry.
Response	<i>The issue with this proposal is the extended storage cost, variable pick up location and the deteriorated milling quality of old season grain.</i>  <i>The importance of trading old stock out of the market was noted, and this could be achieved by the ASX making November the delivery period for both old and new stock deliveries. This could add liquidity to November Market and address the issue.</i>  <i>The Group supported the implementation of November as a 'new and old crop' delivery period.</i>

## 6.0 WA Wheat (WK)

### 6.1 Proposals

#### 6.1.1 Protein Increments

Proposal	To change the basis of the protein increment payment to the minimum receival standard as stated by the applicable receival standards as administered by the Approved Bulk Handler. This would replace the payment made basis the grower receival stack average which has been applied to date. For example, if the minimum protein for binning grade APW1 is 10.5% - the protein payment made will be basis the 10.5%, irrespective of what the grower receival stack average might be.
Rational	1. Stack Averages are not guaranteed by bulk handlers; however any stock outturn must meet the minimum standards as defined by the applicable Receival Standard. 2. The physical market has, in the most part, evolved to a flat price structure. Given ASX contracts are listed out three years, flat pricing is not viable in case binning grades and minimum specifications were to change. 3. Operational efficiency for all parties involved and simplifies the delivery process. 4. Prerequisite for Proposal 6.2 which improves the seller's ability to deliver.
Issues to consider	Protein Increments: would remain at 60 cents per protein point and the base grade would remain at 10%. The cap on protein would remain at 11.4% for deliveries of harder wheat.
Response	<i>The Groups views for 6.1.1 were the same as 5.1.1.</i>

*Comment: it was raised that a variation of the ASX east and west coast protein parameters could attract international speculative marketers.*

*This was not supported unanimously as APW is considered a good representative of both milling and feed grades with no parameters against delivering high protein grades such as H1.*

*The quality parameters of APW are low enough to capture most grades of wheat giving comfort to the market that all grades will be deliverable against an ASX contract.*

#### 6.1.2 Season

Proposal	To remove the requirement that the delivered grain must be "new or current season"
Rational	Improves the seller's ability to deliver and assists the market trade contracts such as September and November which have historically traded small quantities because of this constraint.
Issues to consider	Opening season means there will need to be a change to the basis on which protein increments are paid (refer to 6.1.1) and will have implications for the cost of carry.
Response	<i>The Groups views were the same as those expressed in 5.1.2</i>

## 8.0 Eastern Australia Canola (VC)

### 8.1 Proposal

#### 8.1.1 Underlying Commodity

<b>Proposal</b>	<b>To change the grade for Underlying Commodity to CSO 1-a.</b>
<b>Rational</b>	1. When the change to CSO 1 was made it was expected by industry that the uptake in GM Canola would replicate the Canadian experience and GM Canola would account for close to 80% of the canola seed produced within 5 years. This has not as yet occurred. 2. Market feedback received to date suggests there would be more interest in trading a CSO 1- a contract rather than the current CSO 1 contract.
<b>Issues to consider</b>	Should CSO 1 become the dominant traded grade, then this decision could be reviewed in due course.
<b>Response</b>	<i>All agreed with the proposal put forward by ASX.</i>

## 9.0 Australian Sorghum

### 9.1 Proposal

#### 9.1.1 Natural Terminal Port

<b>Proposal</b>	<b>Proposal to change the definition of delivery locations for Australian Sorghum to Natural Terminal Port Brisbane and Natural Terminal Port Newcastle.</b>
<b>Rational</b>	To clarify delivery locations are rail based and within Brisbane and Newcastle zones.
<b>Proposed timing for change to become effective.</b>	Pending market feedback and taking into consideration Open Interest, ASX proposes this change could be introduced as soon as possible.
<b>Response</b>	<i>The Group was divided with some support and others requiring more time to consider the implications.</i>

## 11.0 Settling deliveries across multiple port zones

Currently, ASX contracts covering multiple port zones have operated on the basis of port of least value when delivery ultimately occurs. That is, there has not been any premium or discount applied based on Port Zone delivered.

Delivery occurs within the zone deemed by the market to be of least value.

The major challenge with expanding a delivery zone (if that is what industry consensus suggests) is striking the right balance between providing participants with: price certainty that preserves the origins of the pricing point; but also a robust settlement system that provides the seller with alternatives that do not come to the detriment of the buyer.

Listed below are three options for consideration, this is not an exhaustive list but serves as a starting point for discussion.

Attributes	Option One Status Quo	Option Two Fixed Port Zone Premiums and Discounts	Option Three Variable Port Zone Premiums and Discounts based on market pricing before each Delivery Period
Pros	Already in place.	Know with certainty what the Premiums and Discounts are.	Preserve the original pricing origin of the contract.
Cons	Difficult to price contract efficiently and defaults to the port of least value.	Delivery locations may vary depending on market fluctuations.	Complicates the execution of cash and carry trades for deliveries outside Par Region.
Potential Methodology	No change.	Fixed and not reviewed.  Or  Reviewed and set on an annual basis.	Poll industry participants leading into each delivery period similar to the bond pricing method currently applied by ASX 24. Port Zone P&D then set for the entirety of the Delivery Period.

**Response:**

- *Option one, compared to options two and three, option one is known to work*
- *The wider the delivery range the greater the chance of best and worst case scenario or risk. This is witnessed in the barley market where liquidity is difficult due to the lack of delivery points restricted to Vic and NSW.*
- *The same liquidity issue is a risk if the delivery zones are spread too far.*
- *Option two 'fixed port zone discounts and premiums' is the markets role (basis).*
- *Option three 'variable port zone premium discounts' is also the role of the market.*

*The Group was not in favour of expansion.*