

Robusta Coffee Futures Overview

ICO PSCB Meeting

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NYSE Liffe's Robusta Coffee Contract & Market Price Convergence (Futures Vs Physicals)

The Revised Liffe Robusta Coffee Contract

- Increased from 5 tonnes to 10 tonnes, better reflecting activity in the physical market and reducing costs for customers
- Provides for the delivery of Robusta Coffee from all origins
- Provides for the delivery of a broad range of Robusta Coffee qualities
- Enhancements to the grading process include:
 - measurements of defects and foreign matter by weight
 - introduction of a revised screen test
 - inclusion of an "olfactory" (smell) test
 - adoption of a single grading result combined with introduction of revised age discounts
 - introduction of "grouped lots" i.e. samples for up to 5 lots can be submitted for grading with the same result
- Option to deliver re-bagged bulk coffee as well as coffee in original bags
- Revised sampling procedures to include sampling of re-bagged bulk coffee

Liffe Robusta Coffee Futures Contract

Unit of trading	10 tonnes
Pricing basis	US \$ per tonne in an Exchange nominated warehouse in Europe or the U.S.A.
Quality basis	Class 1 Robusta Coffee deliverable at Contract price. Other qualities deliverable at set premiums and discounts
Other quality factors	Olfactory test for off-flavours
Packaging	Delivery in original jute bags or re-bagged bulk coffee in jute bags or FIBCs
Age allowance	13 – 48 months from the date of grading - \$5 pt per calendar month 49 months plus from the date of grading - \$10 pt per calendar month
Weight allowance	13 – 24 months from last date of weighing – 0.75% pt for any part of the period 25 – 36 months from last date of weighing – 0.0625% pt per calendar month
Grading samples	Samples may be submitted in groups of up to 5 lots (grouped lots)
Validity of grading results	Grading results valid for an unlimited time i.e. no re-grading permitted
Deliverable coffees	All Robusta Coffee from all origins
Delivery months	January, March, May, July, September, November (up to 10 delivery months listed)
Minimum price movement	\$1 per tonne (\$10 tick value)
Tender period	Any business day during the delivery month
Trading hours	09.00 to 17.30 (London time)

Packaging

Bagged Coffee

- Original jute bags maximum 80kg gross weight per bag

Bulk Coffee

- Re-bagged in jute bags
 - Maximum 80kg gross weight per bag
- Re-bagged in one tonne FIBCs (flexible intermediate bulk containers) defined as:
 - “sound FIBCs which must be sealed, are in external good order, are constructed using woven material such that they prevent condensation occurring during storage, are of sufficient strength to withstand transit and storage, are previously unused, clean and suitable for food contact use and meet such other criteria as may be prescribed by the Board from time to time...each FIBC shall have a Gross Weight of no less than 900 kilograms and no more than 1,100 kilograms”

Sampling

Based on ISO requirements

Sampling from bags

- minimum 30% sampling with approximately 30g incremental samples from each selected bag to give 1.5kg grading sample

Sampling from FIBCs (3 options)

- Sampling from the conveyor, minimum of 50 increments of 250g to give minimum 12.5kg bulk sample
- Sampling from the neck of each FIBC using a compartmentalised sampling iron, to give 12.5kg bulk sample
- Sampling using a long standard sampling iron, with a minimum of 5 samples taken from each FIBC, to give 12.5kg bulk sample

- 12.5kg bulk samples then quartered to 1.5kg grading sample

Grading Process – 300g Laboratory Sample

Olfactory test

- Checking for mould and other off-flavours (based on ISO 4149)

Visual examination

- Checking for botanical origin (based on ISO 4149)

Defects

- Checking for defects in coffee beans (based on ISO 4149), based on weight

Foreign Matter

- Checking for material other than coffee beans (based on ISO 4149) using the weight of the foreign matter

Screen test

- Checking size (based on ISO 4150)

Deliverable Classes

	Maximum defects by weight	Max foreign matter by weight	Screen per 300g	Allowance (per tonne)
Class P (Premium)	0.5%	0.2%	Min of 90% over screen 15 and min of 96% over screen 13	\$30 premium
Class 1	3.0%	0.5%	Min of 90% over screen 14 and min of 96% over screen 12	Contract Price
Class 2	5.0%	1.0%	Min of 90% over screen 13 and min of 96% over screen 12	\$30 discount
Class 3	7.5%	1.0%	Min of 90% over screen 13 and min of 96% over screen 12	\$60 discount
Class 4	8.0%	1.0%	Min of 90% over screen 12	\$90 discount

Defects and Foreign Matter Definitions

DEFECT CATEGORY	DEFINITION
Black Bean	means a coffee bean of which more than one-half of the external surface and interior is black (endosperm)
Bean Fragment	means a fragment of a coffee bean of volume less than half a bean
Cherry	means the fruit of the coffee plant
Mouldy Bean	means a coffee bean showing mould growth over half or more of the bean visible to the naked eye
Foreign Matter	means any object which is not a coffee bean or a cherry including but not limited to sticks, stones, soil and husks

Grouped Lots

- “Grouped Lot” means between two to five individual 10-tonne Lots coming from the same:
 - Origin
 - Vessel
 - Bill of Lading
 - and stored in the same Warehouse,
 - with all the individual Lots under the control of the same Warehousekeeper
- Samples from which may be graded together and the grading result applicable to those individual Lots

Market Regulation

Regulatory Policy in the UK

- NYSE Liffe's London contracts are operated and regulated in accordance with the requirements of the UK's Financial Service Authority (FSA). A key aim of the FSA, and in turn NYSE Liffe, is to ensure that markets are fair and orderly
- The UK regulatory regime does not require exchanges to impose "position limits" on their markets. Rather, all UK exchanges have incorporated broader "position management" powers into their rules
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- In order to ensure that business is conducted in a fair and orderly manner, the Exchange is in regular contact with the main open position holders to understand their intentions regarding the making or taking of delivery or whether positions will be rolled or liquidated
- The UK exchanges have authority to manage positions at any time throughout a contract's life cycle and to instruct a member to close or reduce a position, if that is necessary, to secure fair and orderly markets. If the member does not comply, the exchange has the power to close the position unilaterally
- A position management approach such as this is intended to take account of contract liquidity as well as the scale and nature of participants involved at any given point in time

NYSE Liffe's Commodity Regulatory Review

- The Exchange concluded a Regulatory Review in 2009. At that time, there was support from some market participants for the introduction of US-style position limits, however, there were also many views expressed against the introduction of such a policy
- Nevertheless, the Exchange is determined to ensure that its regulatory policy continues to evolve as appropriate, and intends to undertake further market consultation on this subject. In so doing, it will also be mindful of the proposals on Commodities market regulation due to be published by the European Commission later this month
- As a result of feedback during the Regulatory Review, the Exchange undertook to implement the publication of a report similar to that of the CFTC's "Commitments of Traders Report"
- The Exchange also determined that it would introduce an enhanced, automated daily position reporting regime to replace the current weekly position reporting policy

Introduction of Daily Position Reporting

- The Exchange will introduce standardised and routine daily position reporting for its London Commodity Contracts
- Clearing and non-Clearing members will be required to submit all client positions in excess of 100 lots on a daily basis in an electronic format
- Members will be required to identify clients by using existing client reference codes from their back office systems
- The Exchange will translate these codes into client names and aggregate positions
- Members will be required to provide details of new client accounts and reference codes upon request of the Exchange
- The Exchange will shortly commence testing the new position reporting system with Members' back-office system suppliers
- Further details in this regard together with a formal launch date will be published by London Notice in due course.

Introduction of “Commitments of Traders” Report

- The Exchange is preparing for publication of the breakdown of Open Interest across certain pre-defined categories - this report will be similar to the Disaggregated Short Format Commitments of Traders Report, as published in the U.S.
- There will be a trial period during which both Clearing Members and Non Clearing Members will be required to report all first-level client positions every Tuesday, on a bi-weekly basis
- Subject to findings during the trial period, classifications used by the Exchange during the trial period are expected to be similar to the CFTC definitions, i.e.:
Producer/Merchant//Processor/User; Swap Dealer; Money Manager; Other Reportables
- Contracts affected are Cocoa, Robusta Coffee and White Sugar Futures and Options
- Members must complete a form categorising each client and this should be the same as the categorisation given to the CFTC wherever possible
- No reports will be published to the market during the trial period - further information in respect of the timing of publication of reports to the market will be provided in due course

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