

## GENERAL NOTICE NO: 1280

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### **COCOA FUTURES CONTRACT (EXCHANGE CONTRACT NO. 401)**

### **OPTIONS ON COMMODITY CONTRACTS (EXCHANGE CONTRACT NO. 501)**

### **COCOA CONTRACT REVIEW – LISTING OF MAY AND JULY 2000 DELIVERY AND ASSOCIATED OPTION EXPIRY MONTHS UNDER REVISED CONTRACT TERMS AND ADMINISTRATIVE PROCEDURES**

#### **1. Introduction**

1.1 General Notice Nos. 1191 and 1246 (issued on 7 May and 29 July 1998 respectively) advised members of the deferment of listing the May 2000 and July 2000 delivery months for the Cocoa Futures Contract (“the Contract”) and the associated option expiry months pending the outcome of a review of the Contract and, in particular, the possibility of enabling the delivery of cocoa in bulk under such terms.

1.2 This General Notice informs members of:

- (i) the outcome of the review; and
- (ii) the date for listing the May 2000 and July 2000 delivery months and options expiry months and the revised Contract Terms and Administrative Procedures.

#### **2. Review of the Contract**

2.1 The purpose of the review, conducted by the Exchange in conjunction with relevant working parties, was to consider developments in the underlying physical cocoa market and thereafter to make appropriate changes to the Contract Terms and Administrative Procedures. The revisions to the Contract fall into four main categories:

- (i) introduction of Standard (10 tonne), Large (100 tonne) and Bulk (1000 tonne) Delivery Units;
- (ii) changes to the Origin Groups and the Contract Allowances, including the introduction of a homogeneity (Standard Deviation of the Bean Count) test;

- (iii) introduction of conversion procedures in respect of converting Bulk Delivery Units to Large and/or Standard Delivery Units and conversion of Large Delivery Units to Standard Delivery Units; and
- (iv) amendments to the delivery timetable including the replacement of the current notice period with a single notice day.

2.2 The revisions to the Contract require consequential amendments to the allocation procedures of the London Clearing House (“LCH”), the Grading and Warehousekeeping Procedures (which now include the introduction of provisions to facilitate the transition to the revised Contract Terms), grading and tender fees and Contract Terms for Options on Commodity Contracts.

2.3 Further information on these issues is set out below and in the appendices to this General Notice. The revised Contract Terms for the Cocoa Futures Contract up to and including the March 2000 delivery month are attached. The Contract Terms for the May 2000 and subsequent delivery months are also attached.

### **3. Delivery Units**

3.1 The revised Contract is designed to maintain the flexibility afforded by the 10 tonne trading unit whilst also allowing the opportunity for sellers to deliver in larger quantities. Delivery Units are divided into three categories:

- (i) “Bulk Delivery Unit” means an amount of loose Cocoa conforming to Contract Term 3.04(b) and having a nominal net weight of 1,000 tonnes.
- (ii) “Large Delivery Unit” means an amount of bagged Cocoa conforming to Contract Term 3.04(a) and having a nominal net weight of 100 tonnes.
- (iii) “Standard Delivery Unit” means an amount of bagged Cocoa conforming to Contract Term 3.04(a) and having a nominal net weight of 10 tonnes.

3.2 It should be noted that a Bulk Delivery Unit delivered under a Contract shall be subject to a Bulk Delivery Unit discount of £20 per tonne to the Contract price as detailed in Contract Term 6.02 (b). Such discount is intended to represent partial recompense toward the cost of converting Bulk Delivery Units if so required by LCH in respect of its allocation procedures. It should be appreciated that the actual cost of such a conversion will vary according to location and may be higher than this figure.

### **4. Contract Allowances and Origin Groups**

4.1 The revised Contract includes changes to the allowances in respect of slaty beans, defective beans and bean count per 100g. In addition to these changes, the Contract includes the introduction of a homogeneity (Standard Deviation of the Bean Count) test and the introduction of specific allowances in respect of

residue and foreign matter. Details of the revised and new allowances, including further information on the homogeneity test, are set out in the appendices to this General Notice.

- 4.2 The applicable scale of grading allowances (price-range category) for any given delivery month under the revised Contract will be calculated on the following basis:

<b>Grading date:</b>	<b>Daily settlement price of:</b>	<b>Calculated on the last trading day of:</b>
1 January to 31 March	March	December
1 April to 31 May	May	March
1 June to 31 July	July	May
1 August to 30 September	September	July
1 October to 31 December	December	September

- 4.3 It should be noted that as a direct result of the changes to the allowances set out in the Contract, Papua New Guinea has been transferred from Origin Group 2 to Origin Group 3 in order to maintain an overall value, including grading allowances, which is similar to that under the existing Contract.

## **5. Conversion of Delivery Units**

- 5.1 Conversion of Bulk Delivery Units to Large and/or Standard Delivery Units, or Large Delivery Units to Standard Delivery Units, may take place at the instruction of LCH (as detailed in 6.1 below) or at the discretion of the owner of the goods. Conversion of Standard and/or Large Delivery Units to Large and/or Bulk Delivery Units respectively may take place at the discretion of the owner of the goods.
- 5.2 In the event that LCH instructs a member to arrange the conversion of a Delivery Unit, the warehousekeeper in whose warehouse the cocoa is stored will be required to re-pile the Delivery Unit in such a way as to ensure that the resulting Delivery Units are formed, as far as is practicable, from a reasonable cross-section of the cocoa making up the original Delivery Unit. Further consideration will be given by the Grading and Warehousekeeping Working Party (see section 7) as to the specific manner in which such re-piling must be conducted, as well as to the procedures which shall apply in the event of a conversion of a Delivery Unit undertaken at the discretion of the owner of the goods.

- 5.3 In any of the instances described above, the conversion, bagging, rebagging or debagging of Delivery Units will be required to be fully documented to avoid the loss of identity of any cocoa and to provide an effective audit trail.
- 5.4 It is not intended to require that cocoa forming part or all of a Delivery Unit has been stored in an Exchange nominated Warehouse from the time at which it was originally landed until such time as it is listed on the Grading and Tendering System (“GATS”). However, it should be noted that the Exchange will be entitled to call for evidence, such as copies of the Bills of Lading, that the cocoa forming a Delivery Unit complies with the Contract Terms.
- 5.5 It should be noted that the bags in which cocoa is bagged or rebagged will need to meet the criteria prescribed by the LIFFE Board from time to time. The prescribed criteria are as follows:

*“Bags woven from natural fibres and of sufficient strength to withstand transit and storage. In respect of Cocoa which is bagged or rebagged in Warehouse in accordance with the terms of the contract, the bags shall, at the time of any such bagging or rebagging, be previously unused, clean and suitable for food contact use.”*

## **6. Delivery timetable & LCH allocation procedures**

- 6.1 The revised Contract provides for a single notice day. Under the terms of the revised Contract, trading for a delivery month shall cease at the end of the morning trading session eleven business days prior to the last business day of that delivery month (the Last Trading Day). The notice day will be the business day immediately following the Last Trading Day.
- 6.2 On the notice day, LCH may direct a seller to convert:
- (i) a Bulk Delivery Unit into Large and/or Standard Delivery Units; and/or
  - (ii) a Large Delivery Unit into Standard Delivery Units.

Generally, LCH will make such direction to convert a Delivery Unit to facilitate the allocation and delivery of a Delivery Unit in accordance with the requirements of Buyers.

- 6.3 Allocation of Delivery Units is at the sole discretion of LCH. LCH will, however, endeavour to allocate on a random basis, sorting first by position size and available Delivery Units, and then by origin. It is also envisaged that LCH will endeavour, as far as is practicable, to:
- (i) require only that Bulk Delivery Units are converted into Large Delivery Units, and Large Delivery Units into Standard Delivery Units; and

- (ii) subsequently allocate the Bulk/Large Delivery Units in such a way as to reduce, as much as is practicable, the possibility of a warehousekeeper being required to conduct multiple conversions in any one delivery month.

## 7. Grading & Warehousekeeping Procedures

- 7.1 The introduction of the revised Contract has necessitated certain changes to the Grading and Warehousekeeping Procedures in Respect of Commodity Contracts (“G&W Procedures”), as well as the determination of certain additional procedures and transitional arrangements which can be found in the document entitled Grading and Warehousing Procedures in Respect of Commodity Contracts – Addendum in Respect of Cocoa (“G&W Addendum”). The attached G&W Procedures are effective as of 1 October 1998, and the provisions in the Addendum shall apply in respect of cocoa for delivery against the May 2000 and following delivery months.
- 7.2 It should also be noted that the contents of the Warehousing Code of Practice in respect of Fumigation of Cocoa, issued under General Notice No. 1111 dated 23 December 1997, has been subsumed into the revised G&W Procedures.
- 7.3 Members are advised that following the listing of the revised Contract, a Grading and Warehousekeeping Working Party (“G&WP Working Party”) will be formed to give further consideration to the more wide-ranging procedures required under the Contract. The G&WP Working Party will also give consideration to the more stringent financial and operational requirements which it is envisaged will apply to Dual Capacity Warehousekeepers (those nominated to handle bulk as well as bagged Delivery Units) than to Single Capacity Warehousekeepers.
- 7.4 **Nominated Warehousekeepers under the current Contract will be appointed as Single Capacity Warehousekeepers under the revised Contract. However, it should be noted that Dual Capacity Warehousekeepers will not be appointed under the revised Contract until more comprehensive G&W Procedures have been issued by the Exchange following the work conducted by the G&WP Working Party.**
- 7.5 For the guidance of members, in accordance with Administrative Procedure 10(a) in the current Contract and Contract Term 15.09(b) in the revised Contract, the table below shows the daily allowances for rent and fumigation charges for each of the ports/Delivery Areas listed under the respective Contracts which apply to both existing and new Contracts.

<b>PORT/DELIVERY AREA</b>	<b>RENT AND FUMIGATION ALLOWANCE (pence/tonne/day)</b>
Amsterdam	14
Antwerp	14
Bremen	14
Dunkirk	14
Hamburg	15
Rotterdam	14
UK (Brighton & Hove, Felixstowe, Humberside, Liverpool, London, Teesside)	16

## **8. Transition to the revised Contract Terms**

8.1 During the period 1 November 1999 until 31 March 2000 transitional arrangements shall apply in respect of applications for grading under the current or the revised Contract. In addition, the transitional arrangements include certain exemptions, for Standard Delivery Units, from the Standard Deviation of the Bean Count test until the end of September 2001. Details of these transitional arrangements can be found in the G&W Addendum.

## **9. Grading and tender fees**

9.1 LIFFE grading fees, grading appeal fees and LCH indicative tender fees applying respectively to Standard, Large and Bulk Delivery Units will be as follows:

<b>Grading Fees</b>	<b>SDU (Exempt)</b>	<b>SDU (Non-Exempt)</b>	<b>LDU</b>	<b>BDU</b>
No. of beans cut	300	300	300	500
No. of graders	3	4	4	4
<b>Total fee</b>	<b>£32</b>	<b>£48</b>	<b>£320</b>	<b>£2600</b>
<b>Fee per tonne</b>	<b>£3.20</b>	<b>£4.80</b>	<b>£3.20</b>	<b>£2.60</b>

<b>Grading Appeal Fees</b>	<b>SDU (Exempt)</b>	<b>SDU (Non-Exempt)</b>	<b>LDU</b>	<b>BDU</b>
No. of beans cut	450	450	450	750
No. of graders	3	4	4	4
<b>Total fee</b>	<b>£37</b>	<b>£55</b>	<b>£370</b>	<b>£2800</b>
<b>Fee per tonne</b>	<b>£3.70</b>	<b>£5.50</b>	<b>£3.70</b>	<b>£2.80</b>

<b>Indicative Tender Fees</b>	<b>SDU (Exempt)</b>	<b>SDU (Non-Exempt)</b>	<b>LDU</b>	<b>BDU</b>
<b>Total fee</b>	<b>£3.50</b>	<b>£3.50</b>	<b>£25</b>	<b>£200</b>

- 9.2 Members should be aware that the grading fees in respect of Large and Bulk Delivery Units include a provision which is intended to cover the cost to the Exchange of supervising the sampling of Bulk Delivery Units, or the conversion of Large or Bulk Delivery Units, where this is considered desirable in order to ensure the integrity of the Contract. The Exchange will conduct a review of such fees six months after the expiry of first delivery month to which the revised Contract Terms apply (i.e. the May 2000 Contract) and annually thereafter. In respect of grading appeal fees it should be noted that the applicant will not be reimbursed, regardless of the outcome of a grading appeal.

## **10. Options on Commodity Contracts**

- 10.1 As a consequence of moving the Last Trading Day under the revised Contract to 11 business days prior to the last business day of the delivery month, the Last Trading Day in respect of Cocoa Options has been moved to the last business day of the calendar month immediately prior to the relevant delivery month. This change has been made to maintain a time interval between the expiry of the option and the future which is broadly similar to that which exists under the current arrangements.
- 10.2 It should be noted that over and above this change, other drafting changes have been made to the Options on Commodity Contracts to improve clarity and to include revised provisions in respect of Economic and Monetary Union (EMU). These amendments are effective from 1 October 1998 and shall apply to existing as well as new Contracts. The revised Contract Terms for Options on Commodity Contracts are attached to this General Notice.

**11. Economic and Monetary Union (EMU)**

11.1 Revisions in respect of EMU have also been incorporated in the existing Cocoa Contract effective from 1 October 1998 and shall apply to existing as well as new Contracts.

11.2 Although the revised Contract will be listed in sterling, members should be aware that further consideration is being given to the impact of EMU including the viability of listing future delivery months in Euros.

**12. Listing of May 2000 and July 2000 delivery months and associated options expiry months under revised Contract Terms and Administrative Procedures**

12.1 The Board has determined that the revised Contract Terms and Administrative Procedures will be made available for trading with effect **from 1 October 1998**, in respect of the **May 2000 and July 2000** delivery and expiry months of, respectively, the Cocoa Futures Contract and the Option on the Cocoa Futures Contract.

**13. Further information**

13.1 Members requiring further information in relation to this General Notice should contact Peter Blogg (ext. 2689) or Ian Dudden (ext. 2691) at LIFFE.

BY ORDER OF THE BOARD

N E Carew Hunt  
Market Secretary