

## LONDON NOTICE No. 2781

ISSUE DATE: 28 July 2006  
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### REVISION OF THE GRADING AND WAREHOUSEKEEPING PROCEDURES IN RESPECT OF COCOA AND ROBUSTA COFFEE FUTURES CONTRACTS

#### Executive Summary

This Notice informs members of the amendments to the Grading and Warehousekeeping Procedures in respect of Cocoa and Robusta Coffee Futures Contracts ("G&WPs") to support the implementation of enhanced Warehousekeeping arrangements, including the introduction of supervised sampling. References to the "Revised Cocoa Contract Terms" have also been removed from the G&WPs.

#### 1. Background

1.1 London Notice No. 2753, issued on 27 March 2006, informed members that following consultation with market users, in particular through the Commodity Advisory Groups (Cocoa) and (Coffee), the Exchange had determined to enhance its Warehousekeeping arrangements in respect of Cocoa and Robusta Coffee by the introduction of supervised sampling and by improving parcel identification and storage practices.

1.2 Details of these enhancements are set out in this Notice and in two versions of the G&WPs that are available on the Euronext website at:

[www.euronext.com/commodities/delivery](http://www.euronext.com/commodities/delivery)

One version of the G&WPs shows additions underlined and deletions struckthrough, while the other is a "clean" version which incorporates all of these changes.

1.3 All of these amendments have been fully endorsed by both the Cocoa and Robusta Coffee Commodity Advisory Groups and the European Warehousekeeper Federation.

Web site: [www.euronext.com/derivatives](http://www.euronext.com/derivatives)

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**Euronext NV, PO Box 19163, 1000 GD Amsterdam, The Netherlands**

## **2. Improved Storage Practices**

- 2.1 Most Warehousekeepers now store bagged goods on wooden pallets. In some warehouses a space saving practice has evolved whereby bags of one warrant are stored on the same pallet as those of the next warrant. For example, if the warrant and therefore the weight registered on the Grading and Tendering System (“GATS”) represents 154 bags and the Warehousekeeper normally stores 20 bags per pallet, the last pallet will contain 14 bags of one warrant and 6 bags of the adjacent warrant (this method of storage is commonly known as the “snake” system). It is therefore difficult to identify which physical bags belong to which warrant and therefore difficult to be able to confirm the true weight of each parcel.
- 2.2 **With effect from 1 August 2006**, in respect of Goods listed on GATS for the first time, all residual bags must be stored on a separate pallet on top of the stack containing bags belonging to the relevant warrant number. **For existing Goods listed on GATS, this requirement must be met by 1 August 2007.**

## **3. Improved Parcel Identification**

- 3.1 The most widely used system of identifying parcels is currently by attaching either a paper or cardboard label to the bag or pallet, usually by using a thin metal hook. Many Warehousekeepers only attach a single label at the head of a row listing warrant numbers stored in that block. This makes identification of exact warrants very difficult without the aid of the warehouse supervisor. Paper or cardboard labels so attached can easily be dislodged by people or forklift trucks, are not tamper proof and are susceptible to rodent attack.
- 3.2 **With effect from 1 August 2006**, all labels should be secured to the first pallet of each warrant (or bags thereon) by cable ties or an equivalent secure method. To deter tampering with labels, the warrant number is to be written in indelible ink on the lowest middle bag of each aisle-side pallet. Until 1 August 2007, when the storage requirements for existing Goods must be met, as outlined in paragraph 2.2 above, Goods stored in the “snake” system should also identify the point in the “snake” at which the warrant numbers change.
- 3.3 While the majority of Warehousekeepers already maintain Warehouse storage plans, **with effect from 1 August 2006** there will be a formal requirement that such plans are kept up to date and that a copy of them is available in the warehouse to which they relate.

## **4. Introduction of Supervised Sampling**

- 4.1 Warehousekeepers must currently give 24 hours notice of when they intend to start sampling to enable LIFFE warehouse inspectors the opportunity to supervise the sampling process. **With effect from 1 August 2006**, the Exchange intends to use independent supervisors to increase the amount of supervision of sampling, utilising a risk-based approach.
- 4.2 The Exchange has identified two supervision companies that employ individual supervisors who have experience of supervising movement of bagged goods. The Exchange has entered into commercial agreements with these companies to provide this service. Nominated individuals from these companies have now received training and will form a panel of “Exchange Nominated Sampling Supervisors”. The Exchange will, on occasion, also attend warehouses where supervised sampling is taking place in order to ensure that the correct supervision procedures are being maintained. The names of the supervision companies will be announced shortly.

- 4.3 Upon sampling notification from the Warehousekeeper, the Exchange **may** select a supervisor to attend sampling based on the Exchange's maintained risk profile.

**5. Removal of Two-Stage Sampling Process**

- 5.1 A number of Warehousekeepers have now adopted a two-stage process when drawing samples, whereby sample material is drawn into temporary paper bags marked with the relevant warrant numbers in the warehouse while at the same time labels are being ironed on to linen sampling bags in a sampling room. Once the samples are drawn, the unsealed paper bags are then transferred back to the sampling room, whereupon the contents are decanted into the labelled linen sample bags. This process has the risk of increasing human error and the inadvertent biasing of the sample by leaving residue/infestation in the bottom of the paper bag.
- 5.2 **With effect from 1 August 2006**, Warehousekeepers will be required to draw samples directly into the linen sample bag which will be delivered directly to the Grading Room.

**6. Removal of References to Revised Cocoa Contract Terms**

- 6.1 The Exchange has also taken the opportunity to remove references in the G&WPs to the "Revised Cocoa Contract Terms" following the change to multiple delivery units.

For further information in relation to this Notice, members should contact:

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|----------------|----------------------|--|
| Chris Herman   | +44 (0) 20 7379 2367 | <a href="mailto:chris.herman@liffe.com">chris.herman@liffe.com</a>     |
| David Brignull | +44 (0) 20 7379 2854 | <a href="mailto:david.brignull@liffe.com">david.brignull@liffe.com</a> |