

A high-quality photograph of cocoa products. In the upper left, a wooden bowl is filled with cocoa beans. To its right, a wooden spoon holds a mound of fine cocoa powder. Scattered around these are more cocoa beans and several pieces of dark chocolate in the bottom right corner. The background is a textured, grey surface.

LONDON COCOA FUTURES

CONTRACT CHANGES EFFECTIVE FROM MAY 2017

TOBY BRANDON, DIRECTOR,
SOFT COMMODITIES, ICE FUTURES EUROPE

INTERCONTINENTAL EXCHANGE

THE LEADING MARKETPLACE FOR COMMODITIES TRADING



AGRICULTURAL COMMODITIES

ICE Formed



**KEY
ACQUISITIONS**

International
Petroleum
Exchange

New York Board of
Trade (NYBOT)

NYSE Euronext
(LIFFE)

WHY WERE CONTRACT CHANGES NEEDED?

- Post-LIFFE acquisition, ICE initiative to improve and update contract terms across Soft Commodities Products
- Increasing relevance of BDUs
- Re-calibrate allowances and discounts with current market

DESIGN: Extensive consultation with market participants

GOAL: To continue provide the cocoa industry with the most effective tools for price discovery and price risk management

KEY CONTRACT TERMS

- The London Cocoa futures contract has long been used as the global benchmark for the pricing of physical cocoa.
- It is actively traded by producers, exporters, trade houses, processors and chocolate manufacturers as well as by managed funds and both institutional and short-term investors.

DELIVERABLE ORIGINS	All Origins - subject to origin and quality allowances and discounts	
CONTRACT SIZE	Ten Tonnes	
DELIVERY UNITS	Standard Delivery Unit (SDU) – bagged cocoa in ten tonne units Large Delivery Unit (LDU) – bagged cocoa in 100 tonne units Bulk Delivery Unit (BDU) – loose cocoa in 1,000 tonne units	
TICK SIZE	£1 per Tonne (£10 per lot)	
CONTRACT MONTHS	March May July	September December
LAST TRADING DAY	Eleven business days immediately prior to the last business day of the delivery month at 12:00	
NOTICE DAY	The business day immediately following the last trading day	

DELIVERY PORT LIST



PORT	SDUs	LDUs	BDUs	Total MT
Amsterdam	1,793	398	47	104,730
Antwerp	10,489	168	10	131,690
Bremen	78	-	-	780
Hamburg	1,222	14	5	18,620
Le Havre	-	-	-	-
Liverpool	57	-	-	570
London	894	-	-	8,940
Rotterdam	203	6	-	2,630
Total Valid Stocks as at 4 th May 2017				267,960

DELIVERY UNITS

Standard Delivery Unit (SDU) – bagged cocoa in 10mt units

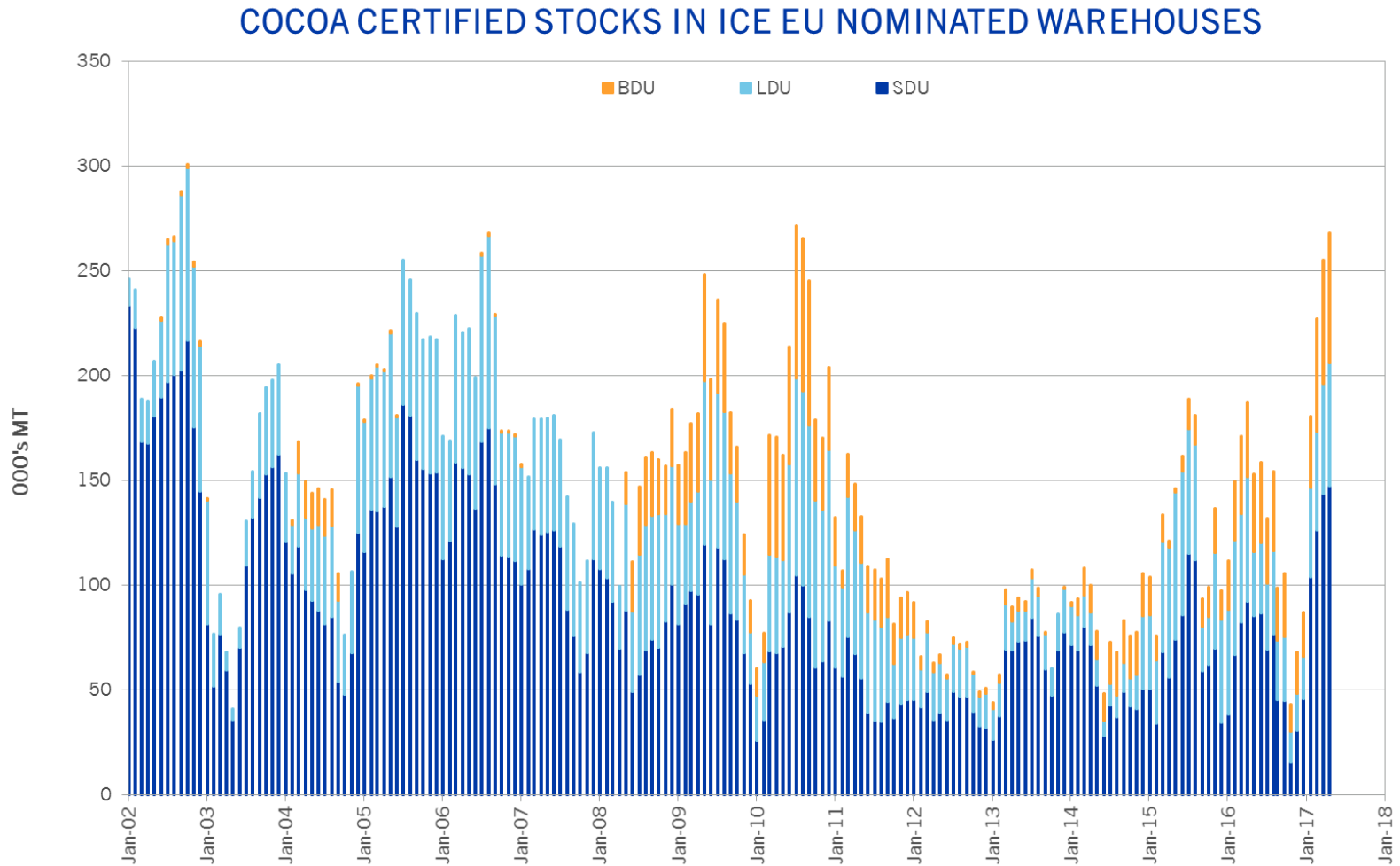
Large Delivery Unit (LDU) – bagged cocoa in 100mt units



Bulk Delivery Unit (BDU) – loose cocoa in 1000mt units



GROWTH IN BULK DELIVERY UNITS (BDU)



BULK DELIVERY UNIT CHANGES

	Up to March 2017	New Rules from May 2017																			
BULK DISCOUNT	£20/mt discount	No Discount																			
FFA TEST	No assessment	FFA test and discount; Maximum 3.5%	<table><tr><th>Maximum FFA</th><th>Allowance</th></tr><tr><td>>2</td><td>Par</td></tr><tr><td>2.25</td><td>0.5%</td></tr><tr><td>2.5</td><td>1.0%</td></tr><tr><td>2.75</td><td>2.0%</td></tr><tr><td>3</td><td>3.0%</td></tr><tr><td>3.25</td><td>4.5%</td></tr><tr><td>3.5</td><td>6.0%</td></tr><tr><td>Above 3.5</td><td>NT</td></tr></table>	Maximum FFA	Allowance	>2	Par	2.25	0.5%	2.5	1.0%	2.75	2.0%	3	3.0%	3.25	4.5%	3.5	6.0%	Above 3.5	NT
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3	3.0%																				
3.25	4.5%																				
3.5	6.0%																				
Above 3.5	NT																				
CERTIFICATE LENGTH	6 months	12 months																			
WEIGHT ALLOWANCE	BDUs re-weighed every 6 months (if re-graded) 0% weight loss assumed	<table><tr><th>TIME PASSED SINCE ORIGINAL WEIGH DATE</th><th>FULLY ACCRUED % ALLOWANCE (PER TONNE NET WEIGHT)</th></tr><tr><td>0 - 6 months</td><td>0.50%</td></tr><tr><td>7 - 18 months</td><td>0.50%</td></tr><tr><td>19 - 30 months</td><td>0.25%</td></tr></table>		TIME PASSED SINCE ORIGINAL WEIGH DATE	FULLY ACCRUED % ALLOWANCE (PER TONNE NET WEIGHT)	0 - 6 months	0.50%	7 - 18 months	0.50%	19 - 30 months	0.25%										
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0 - 6 months	0.50%																				
7 - 18 months	0.50%																				
19 - 30 months	0.25%																				

BAGGED DELIVERY UNIT CHANGES – SDU, LDU

	Up to March 2017	New Rules from May 2017		
BULK DISCOUNT	n/a	n/a		
FFA TEST	No assessment	No Assessment		
CERTIFICATE LENGTH	6 months	6 months after first grading 12 months for subsequent re-grades		
WEIGHT ALLOWANCE	Months	% Allowance	Days	% Allowance
	1-6	0.00%	0-183 days	Accrues daily up to 0.5%
	7-12	0.25%	184-548 days	Accrues daily additional 0.5%
	13-18	0.5%		
	19-24	0.75%	549-913 days	Accrues daily additional 0.25%
	25-30	1.00%		
	31-36	1.25%	MAXIMUM 1.25% AFTER 913 DAYS	

ALLOWANCES & DISCOUNTS

Category Description	Premium level	Allowance range (=discount)	Non-tenderable level (=failed grading)
Defects (per 100 beans)	0 – 5	6 – 15	➤ 15
Slate (per 100 beans)	No premiums	6 – 20	➤ 20
Bean Count (beans per 100g)	90 – 99	101 – 120	➤ 120
Standard Deviation Bean Count Calculation (beans per 2kg)	No premiums	26-40	➤ 40
Residue & Foreign Material (per 2kg sample)	No premiums	26g – 75g	➤ 75g ➤ 3.75%
Clusters	No premiums	52g	➤ 150g

All unchanged **EXCEPT** Residue and Foreign Matter

RESIDUE AND FOREIGN MATTER

Old rules pre-May 2017

Par up to 25g per 2 kg = 1.25%



Non-tenderable above 75g = 3.75%



SCALE Upper range Lower range	A £599 £0	B £999 £600	C £1,399 £1,000	D £1,799 £1,400	E £2,199 £1,800	F £2,599 £2,200	G £2,999 £2,600	H £3,399 £3,000
grammes per 2KG	POUNDS STERLING PER TONNE							
0-25	0	0	0	0	0	0	0	0
26-35	-1	-4	-6	-8	-10	-12	-14	-16
36-45	-3	-8	-12	-16	-20	-24	-28	-32
46-55	-4	-12	-18	-24	-30	-36	-42	-48
56-65	-6	-16	-24	-32	-40	-48	-56	-64
66-75	-7	-20	-30	-40	-50	-60	-70	-80



New rules from May 2017

Par up to 45 g per 2kg = 2.25%

Non-tenderable above 105g = 5.25%

SCALE Upper range Lower range	A £599 £0	B £999 £600	C £1,399 £1,000	D £1,799 £1,400	E £2,199 £1,800	F £2,599 £2,200	G £2,999 £2,600	H £3,399 £3,000
grammes per 2KG	POUNDS STERLING PER TONNE							
0-45	0	0	0	0	0	0	0	0
46-55	-1	-4	-6	-8	-10	-12	-14	-16
56-65	-3	-8	-12	-16	-20	-24	-28	-32
66-75	-4	-12	-18	-24	-30	-36	-42	-48
76-85	-6	-16	-24	-32	-40	-48	-56	-64
86-95	-7	-20	-30	-40	-50	-60	-70	-80
96-105	-8	-24	-36	-48	-60	-72	-84	-96

IMPACT: Residue and Foreign Matter discounts are less punitive by £0 to £24 per MT depending on the grading band

CHANGES TO ORIGIN GROUPS

Pre-May 2017

ORIGIN GROUP 1 - PAR (No Discount)

Cote d'Ivoire, DRC, Equatorial Guinea, Ghana, Nigeria, Cameroon, Sierra Leone
Grenada Fine Estates, Jamaica, Trinidad & Tobago, Western Samoa

ORIGIN GROUP 2 - £25 Discount

Sao Tome, Sri Lanka

ORIGIN GROUP 3 - £50 Discount

Brazil Bahia Superior, Ecuador, Papua New Guinea

ORIGIN GROUP 4 - £75 Discount

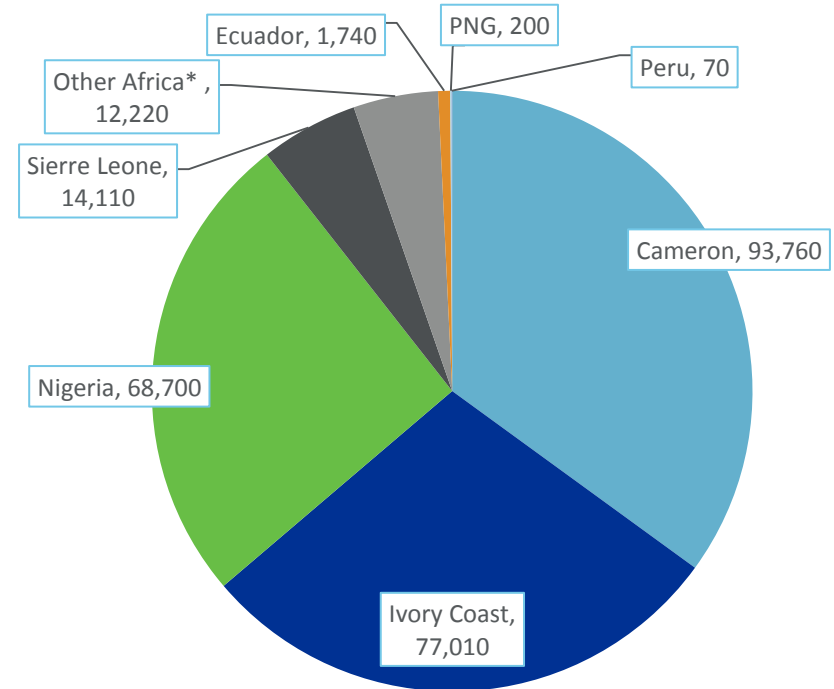
Malaysia

ORIGIN GROUP 5 - £100 Discount

Cocoa from any other origin

ICE Europe Valid Certified Stock

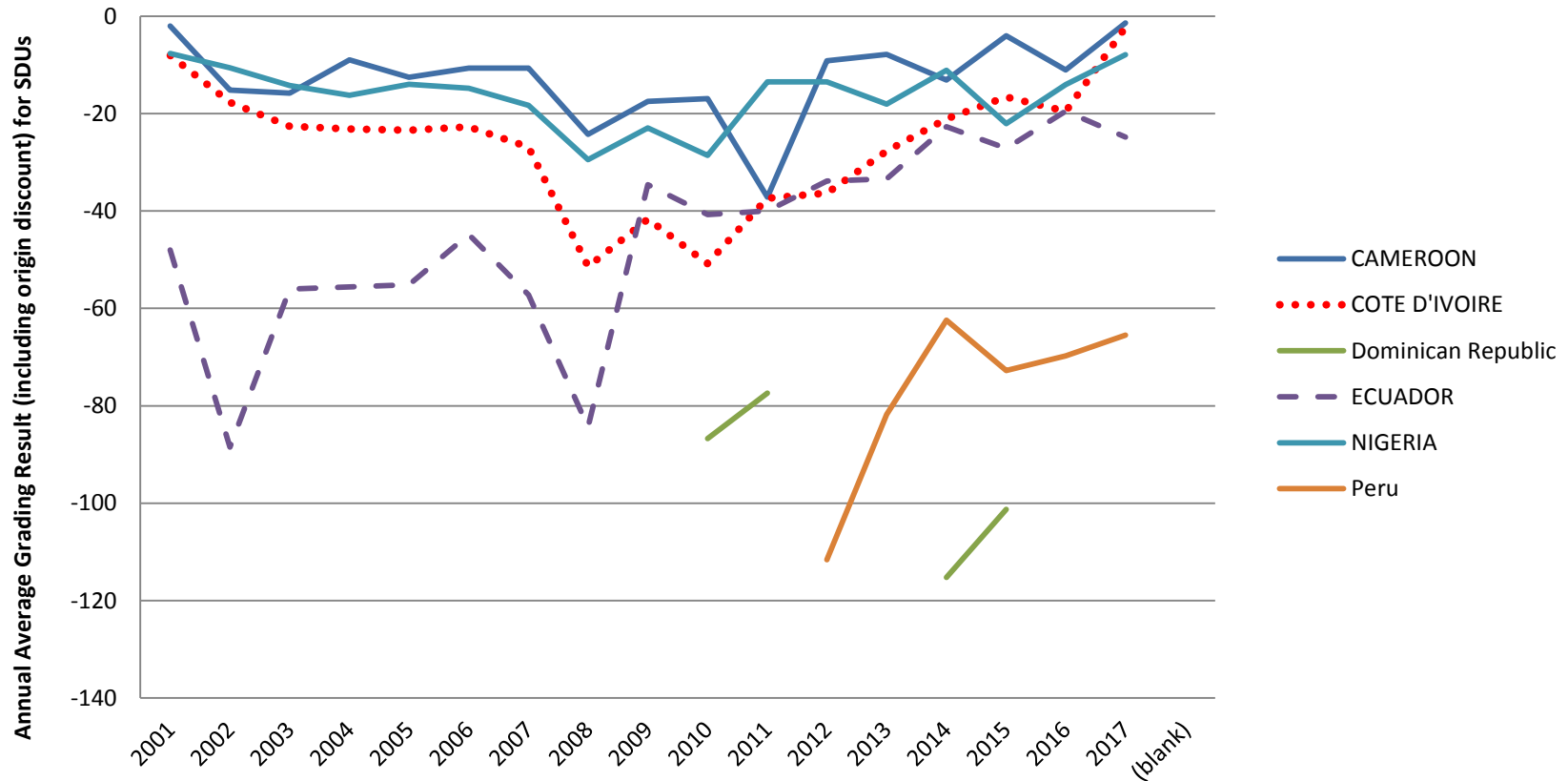
Total 268,050 MT



■ Cameron ■ Ivory Coast ■ Nigeria ■ Sierra Leone
■ Other Africa* ■ Ecuador ■ PNG ■ Peru

AVERAGE GRADING RESULTS COMPARED BY ORIGIN

WITHOUT THE ORIGIN DISCOUNT, ECUADOR GRADINGS WOULD ACHIEVE A PREMIUM



Origin Discounts are required to maintain West African cocoa as the primary source of Exchange certified stock

CHANGES TO ORIGIN GROUPS

Pre-May 2017

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Brazil Bahia Superior, Ecuador, Papua New Guinea

ORIGIN GROUP 4 - £75 Discount

Malaysia

ORIGIN GROUP 5 - £100 Discount

Cocoa from any other origin

NEW RULES Effective May 2017

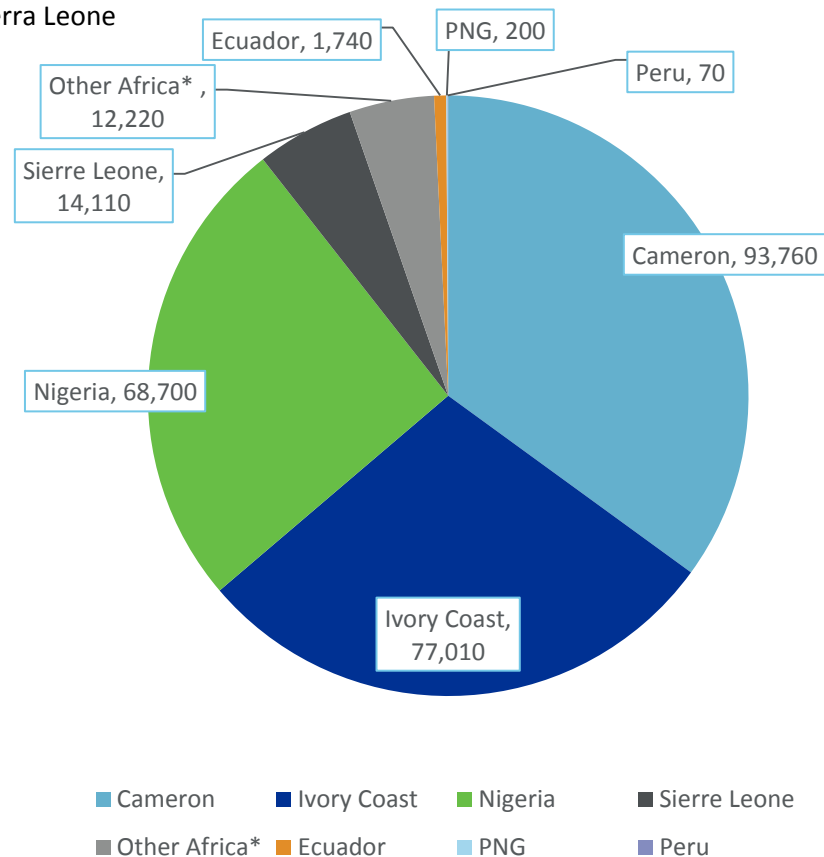
ORIGIN GROUP 1 - PAR (No Discount)

All African origins

ORIGIN GROUP 2 - £50 Discount

All other origins

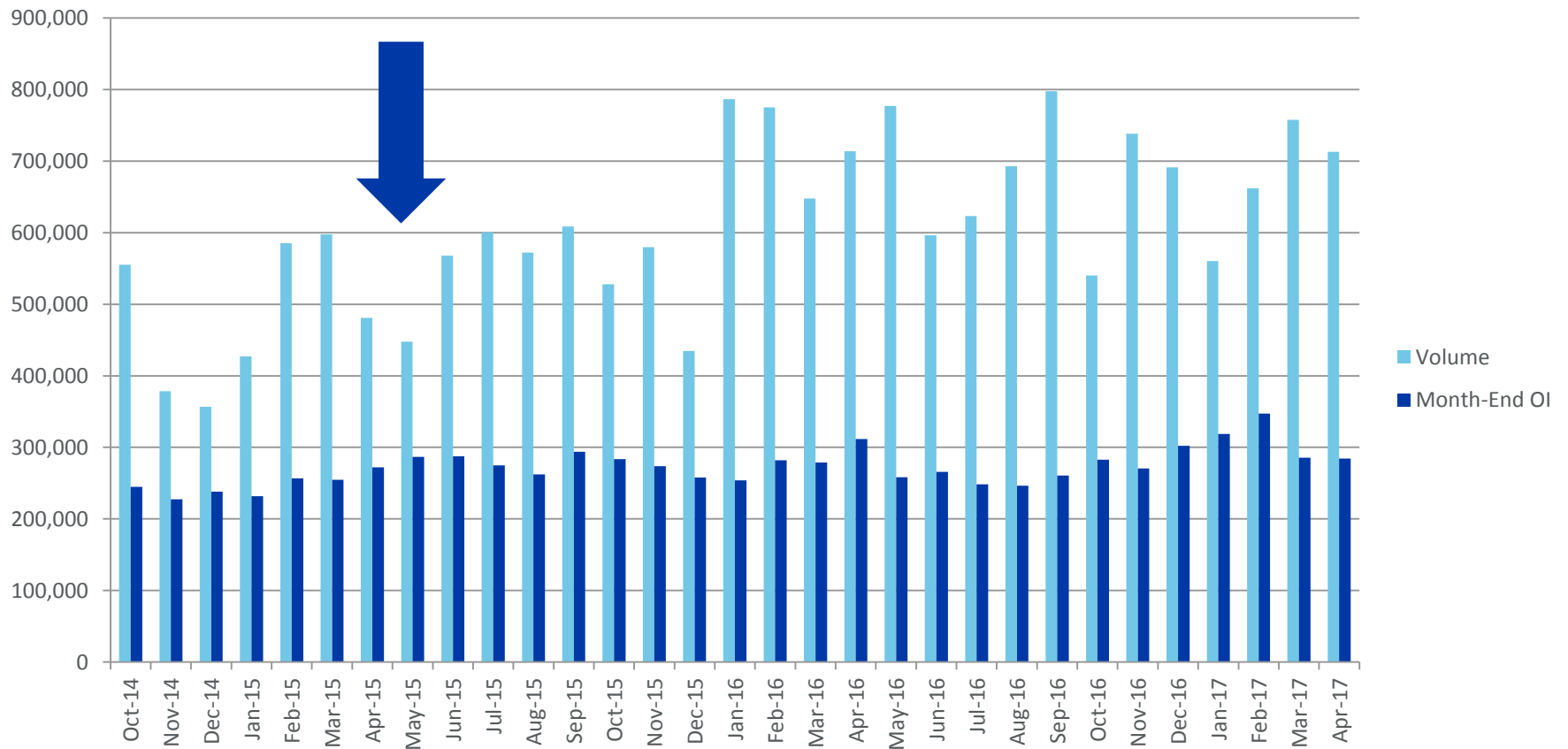
ICE Europe Valid Certified Stock
Total 268,050 MT



SIMPLE GROUP STRUCTURE, VALUE DRIVEN BY GOOD QUALITY WEST AFRICAN COCOA

IMPACT – OPEN INTEREST AND VOLUME

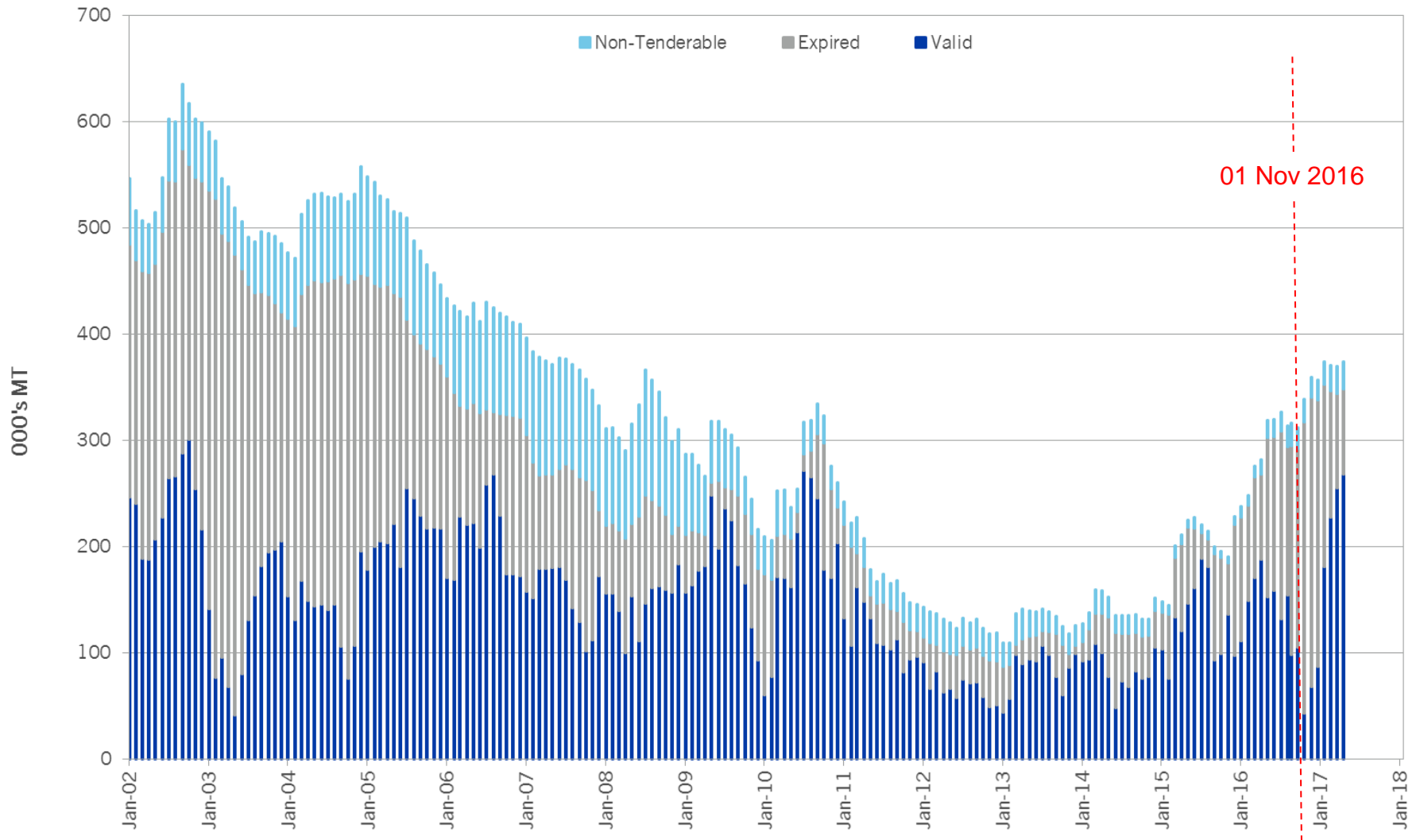
Rule changes announced May 2015



IMPACT

Gradings since 01 November 2016 have been affected by the new rules

COCOA CERTIFIED STOCKS IN ICE EU NOMINATED WAREHOUSES



SUMMARY OF CHANGES

Bulk Delivery Units

- Removal of -£20 discount
- Introduction of FFA testing
- Extended grading certificates from 6 to 12 months

Extended Certificates, Weight loss accrues daily over first 6 months

- Extended grading certificates from 6 to 12 months for re-grades of SDUs and LDUs
- Weight allowances now accrue daily, 0.5% in first 6 months

Allowances and Discounts

- Origin groups reduced from 5 to 2: PAR Africa and -£50 Non-Africa
- Residue & FM discounts relaxed by 1%

RESULT : Updated contract terms, re-aligned with market practice and experience

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