Governance Principles

3 November 2021 (Version 2)

INTRODUCTION

1. This paper lists the GDT Governance Principles that Oversight Board uses to monitor GDT's compliance with governance practices relevant to the operation of the GDT Events trading platform.

2. The principles are modelled on the IOSCO principles (published in *Principles for Financial Benchmarks,* International Organization of Securities Commissions, July 2013).

3. Three key features of the IOSCO principles are:

a. Given the large and diverse universe of financial benchmarks, the IOSCO principles are high level and comprehensive so as to be applicable to any benchmark;

b. Implementation of the IOSCO principles should be proportional to the size and risks posed by the particular financial benchmark: A one-size-fits-all method of implementation is not intended;

c. The IOSCO principles are not mandated by law, and if adopted, are intended to be adopted on a voluntary basis.

4. In October 2016 the Oversight Board adopted and modified the IOSCO principles as it considered relevant to GDT Events as a global auction platform, and subsequently adopted several amendments as at 3 November 2021.

GDT GOVERNANCE PRINCIPLES

The GDT Governance Principles adopted by the Oversight Board are as outlined below:

Principle 1: Overall Responsibility of the Administrator

1.1 GDT to retain primary responsibility for all aspects of the process by which winning prices are discovered, including:

a. *Development:*
The written rules and procedures according to which the winning prices are discovered;

b. *Dissemination:*
Accurate and timely publication of the winning prices;

c. *Operation:*
(i) Ensure appropriate transparency over significant decisions affecting the discovery of winning prices; (ii) Ensure contingency measures are in place in the event that insufficient or incorrect data, market stress or disruption, failure of critical infrastructure, or other relevant factors mean that one or more winning prices cannot be discovered or cannot be published; and

d. *Governance:*
Establishing credible and transparent governance, oversight and reporting, certification and/or review procedures for how winning prices are discovered.

Principle 2: External Oversight

2.1 GDT to maintain an oversight board with a published charter to review and provide oversight over all aspects of how winning prices are discovered.

2.2 The oversight board to include a balanced representation of a range of stakeholders which is chosen to counterbalance any relevant potential conflicts of interest.

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2.3 The charter to include:

a. The terms of reference of the oversight board;

b. Criteria to select members of the oversight board;

c. Processes for election, nomination or removal and replacement of board members.

2.4 The responsibilities of the oversight board to include:

a. Reviewing any changes to the Summary of Price Discovery Process as documented under Governance Principle 5;

b. Ensuring the integrity of price discovery and control framework.

Principle 3: Conflicts of Interest

3.1 GDT to document, implement and enforce policies and procedures to identify, disclose, manage, mitigate or avoid conflicts of interest, including ensuring:

a. Existing or potential conflicts of interest do not inappropriately influence either the design of the algorithms and software for discovering winning prices or the actual discovery of winning prices in a trading event;

b. Personal interests and connections or business connections do not compromise GDT's or the Trading Manager's performance of their functions;

c. Segregation of reporting lines within each of GDT and the Trading Manager, where appropriate, to clearly define responsibilities and prevent unnecessary or undisclosed conflicts of interest or the perception of such conflicts;

d. Adequate review and sign-off by authorised or qualified employees of GDT or the Trading Manager for the systems under their respective control prior to releasing into production any changes to the software systems relating to price discovery, data transfer and publishing of winning prices;

e. The confidentiality of data submitted by participants, subject to the obligation to ensure information symmetry for relevant financial markets (such as dairy derivatives);

f. Effective procedures to control the exchange of information between staff engaged in activities involving a risk of conflicts of interest or between staff and third parties, where that information may reasonably affect the discovery of winning prices; and

g. GDT, the Trading Manager and their staff are not rewarded or incentivised based on the level of the winning prices.

Principle 4: Oversight of Trading Manager

4.1 GDT to maintain appropriate oversight of the Trading Manager and other third parties in implementing the price discovery process using the agreed rules and procedures and in publishing the winning prices, including:

a. A written arrangement that defines the roles and obligations of the Trading Manager in implementing the price discovery process using the agreed rules and procedures, and the standards the Trading Manager is expected to comply with;

b. Monitor the Trading Manager's compliance with the standards set out by GDT;

c. Publish the identity and role of the Trading Manager in implementing the price discovery process using the agreed rules and procedures; and

d. Take reasonable steps, including contingency plans, to avoid undue operational risk related to the Trading Manager being responsible for implementing the price discovery process using the agreed rules and procedures

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Principle 5: Price Discovery Process

5.1 GDT and the Trading Manager to maintain jointly agreed documentation of the methodology and procedures by which winning prices are discovered, including:

a. Documentation of the price increment algorithm in sufficient detail to enable GDT to validate that the Trading Manager's software conforms to the algorithm;

b. Records maintained of the parameter values applied in the software;

c. Documentation of policies for the use of expert judgement in circumstances where the exercise of such judgement involves altering one or more price increments for use in a subsequent auction round, and the information that must be recorded in such cases pursuant to Governance Principle 11.3b ("Expert Judgement Policy").

5.2 GDT to publish a non-technical summary of the price discovery process on the GDT Information Website ("Summary of Price Discovery Process").

Principle 6: Internal Control Framework

6.1 GDT to maintain an appropriate control framework for the process of discovering and distributing winning prices, addressing the following areas:

a. Integrity and quality of the winning prices:

I. Arrangements to ensure that the quality and integrity of the Trading Manager's algorithms and software and use of expert judgement is maintained;

II. Arrangements to ensure adequate reporting and certification in respect of key activities and appropriate complaints mechanisms are effective; and

III. Providing robust infrastructure, policies and procedures for the management of risk, including operational risk.

b. Effective whistleblowing mechanisms within GDT to facilitate early awareness of any potential misconduct or irregularities that may arise, including external reporting where appropriate.

c. Expertise:

I. Ensuring the GDT roles are carried out by personnel who possess the relevant levels of expertise; and

II. Staff training, including ethics and conflicts of interest training, and continuity and succession planning for personnel.

Principle 7: Market Surveillance

7.1 GDT to maintain an appropriate monitoring regime to provide assurance that relevant GDT Trading Event Rules are complied with, and that reasonable methods to mitigate the risk of seller or bidder collusion are in place.

7.2 GDT to provide summary report annually of its market surveillance conclusions to the GDT Oversight Board.

Principle 8: Price Credibility Reviews

8.1 GDT to review on an as required basis to confirm that:

a. Structural changes in the dairy industry do not require changes to the price discovery process;

b. The relevant dairy trade continues to operate with sufficient volume for the winning prices to function as credible reference prices for the products traded.

8.2 GDT to publish a summary of each completed review

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Principle 9: Anti-Trust Reviews

9.1 GDT to document, implement and enforce policies and procedures to comply with applicable anti-trust requirements, primarily relating to information flows.

9.2 GDT to periodically review whether any changes to competition/ anti-trust laws in the relevant jurisdictions warrant a change in GDT's information protocols or other operational policies and procedures.

Principle 10: Cessation

10.1 GDT to publish written policies on the notice periods that will apply if the trading platform is terminated, or a product temporarily or permanently ceases to be offered or its specification is changed, or any other condition which prevents the continued publication of winning prices.

10.2 GDT to encourage stakeholders who have financial instruments that reference GDT winning prices to take steps to make sure that:

a. Contracts or other financial instruments that reference GDT winning prices, have robust fall-back provisions in the event of changes to, or cessation of, the referenced winning price; and

b. Stakeholders are aware of the possibility that various factors, including external factors beyond the control of GDT, might necessitate changes to how winning prices are discovered as documented under Governance Principle 5.

Principle 11: Audits and Complaints

11.1 *Complaints*:

GDT to maintain a written procedure and independent rulings body for GDT participants, or GDT itself, to submit a complaint in relation to a participant's alleged breach of the GDT Trading Event Rules.

11.2 *Audits*:

a. GDT to appoint an independent external auditor with appropriate experience and capability to periodically review and report on GDT's adherence to the governance principles;

b. Selection of the auditor and terms of reference for the audit to be agreed with the chair of GDT Oversight Board.

11.3 *Audit Trail*:

Records to be retained by GDT and the Trading Manager for at least five years on:

a. All data inputs, software parameter values and other information sources relied upon in operating trading events;

b. The exercise of expert judgment made by the Trading Manager in overriding software-generated price increments;

c. Other changes in or deviations from standard procedures and methodologies, including those made during periods of market stress or disruption;

d. The names of the Trading Manager's staff with leading roles in the trading event; and

e. Any queries and responses relating to data inputs.

11.4 *Cooperation with Regulatory Authorities*:

Relevant documents subject to these principles to be made available to the relevant regulatory authorities in carrying out their regulatory or supervisory duties (including valid and lawful requests for information and documentation).

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