



PIX Pulp Europe Price Indices

Latest Findings And Developments

UTIPULP / EUROPULP Seminar

Barcelona 17.9.2015

Agenda

- **FOEX in short and latest developments**
- **Other news**
- **The new reporting guidelines for pulp indices**
 - **Summary of test-audit findings**
 - **Planned revisions to the present guidelines**
 - **Next steps to be taken**

FOEX Indexes Ltd - Key Principles

Anti-trust clearance in Europe by EU/DG IV (1997)

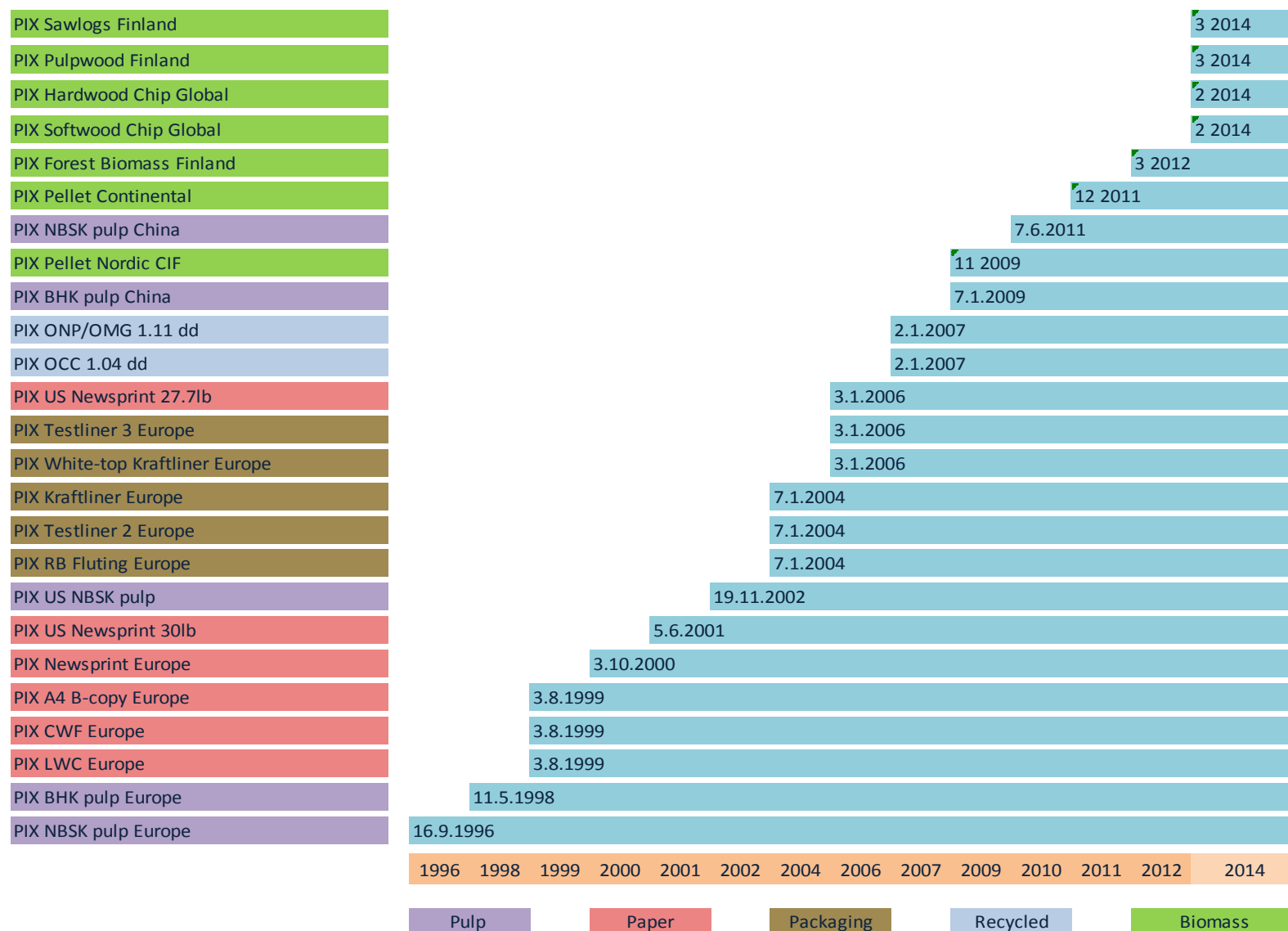
Issues agreed upon:

- *FOEX is not allowed to do price forecasting*
- *Participation to the index formation process must be voluntary and free of charge*
- *Participants must be allowed to remain anonymous*
- *Indexes must be available publicly, on the FOEX web-site but also published by an international information provider*

FOEX Indexes Ltd - History

- **1996 - First PIX index launched, by Finnish Options Exchange (FOEX): PIX trade-marked, pulp futures and options traded**
- **1999 - FOEX ceases to be an Exchange and is privatized owned by private individuals. Name changed to FOEX Indexes Ltd. New FOEX continues as a specialized index provider**
- **2014 – Axio Data Group acquires FOEX**

FOEX Indexes Ltd - Current PIX Indices (25)



First Specification Change in FOEX History + News

- **Why:**
 - Improves reliability among the various stake-holders and reacts to the changes which have taken place in trading practices
 - Clarifies the reporting procedure to the price data providers
 - Helps FOEX pulp indices to meet the risen requirements from the financial legislation and regulators
- Does not impact the benchmark level as but aims to make sure that index movements are reported correctly under any circumstances
- Follow-up of the changes during 2015

First Specification Change in FOEX History + News

- Includes totally new elements, such as auditing (and, for many companies, written data provider agreements)
- Changes and various suggestions tested
- Even if changes appear small, this has been a major project. FOEX is grateful for the support. Our special thanks go to the working group
- We also want to thank others for their comments & improvement ideas and each and every one of the price providers
- Those not reporting today are welcome to discuss, privately, their entry into the system

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- **NOREXECO: Offers Exchange-based trading, based on PIX NBSK Europe and PIX BHK Europe since Tuesday, September 15th**

PIX Index process – Pulp and Paper

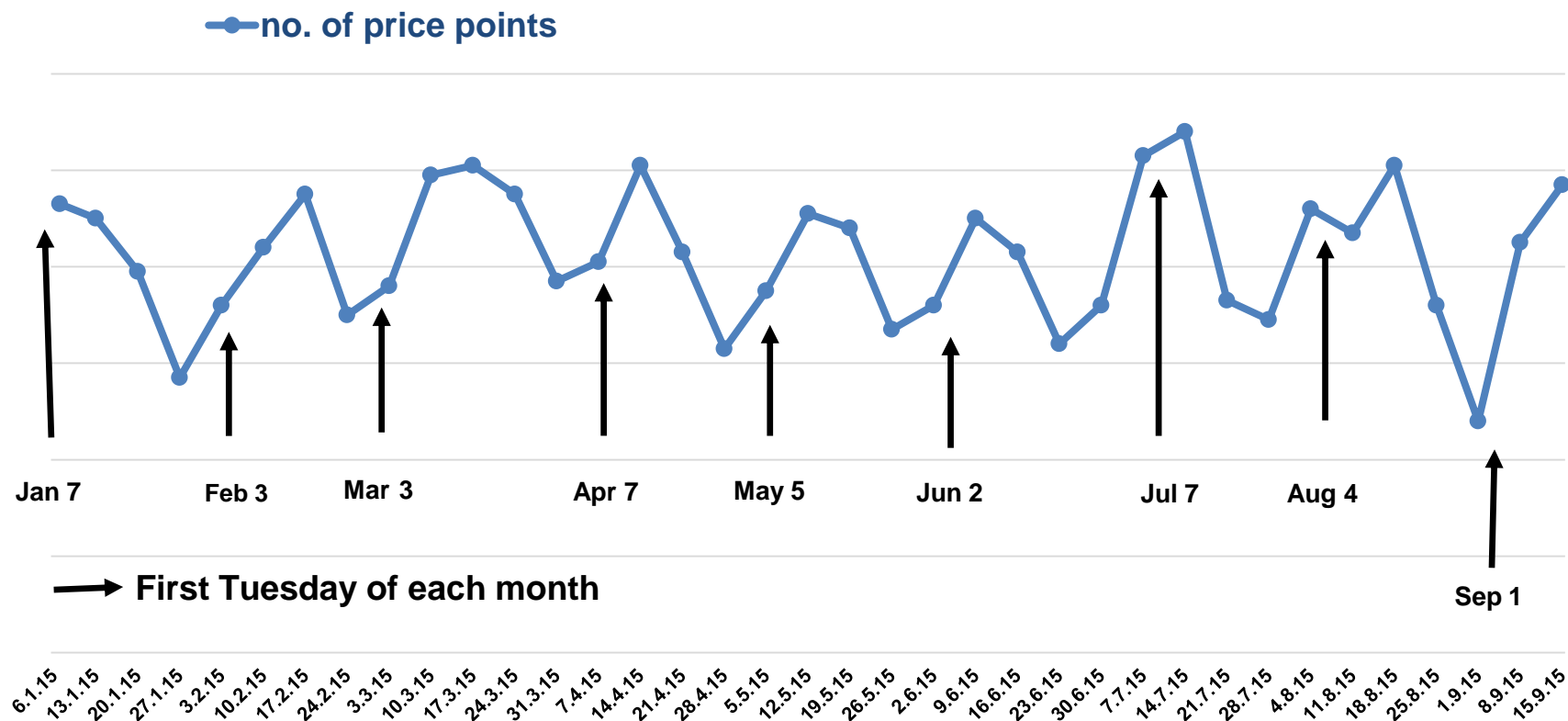
- *Price data contributors represent both buyers and sellers - about 50/50 split*
- *Price and grade parameters are defined in PIX Index specifications for each index as a guideline for the price providers*
- *Contributors report price data weekly or monthly, by e-mail, by phone*
- *Lowest and highest 10% of price points are eliminated before calculating the PIX index*
- *Rough, preset weighting of number of price points – reflecting company size regarding grade in question*
- *PIX indexes are published on Tuesdays. China: 9 a.m. / Europe: 12 a.m. / USA: 4 p.m. – Finnish time on www.foex.fi and by Bloomberg*

Major changes from the old reporting rules PIX Pulp Europe indices, valid from 1 January 2015

1. Shall include all eligible prices not “the most common” or “the most representative”
2. No prices with B/C or similar with end-of-month price agreement, only finally agreed
3. Use of previous month's market price limited
4. Minimum volume in BHKP 200 tons (NBSKP still 100 tons)
5. Standard delivery and payment terms
6. Weighting of price points formalized
7. Data provision agreement
8. Auditing of price reporters

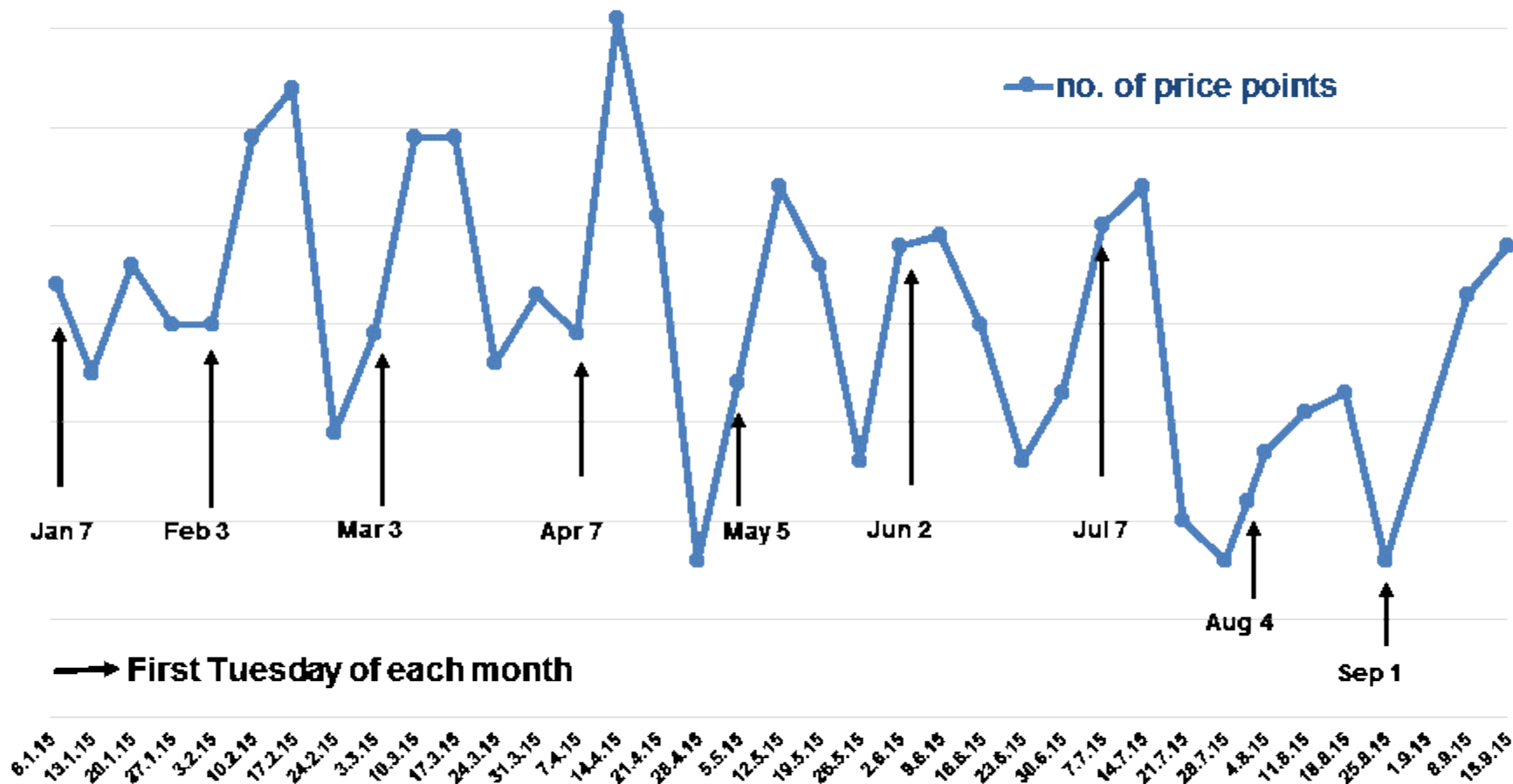
PIX NBSKP Europe - no. of Price Points

Chart describes how the no. of price points has varied in Jan – Sep 2015



PIX BHKP Europe - No. of Price Points

Chart describes how the no. of price points has varied in Jan – Sep 2015



The no. of price points has been the highest in the 2nd or 3rd week

Average balance of price points between buyers and sellers

January – September 2015

USD/ton



Test audits of price providers by Ernst & Young

Background and objectives of the audit

- to review the price reporting process
- to assess whether FOEX reporting guidelines are followed
- to ensure that the index consistently reflects the actual gross market price as closely as possible

But not within scope of the audit

- if ALL prices eligible for the index were reported

Realization of the pilot audits

- 4 companies (2 pulp buyers, 2 pulp sellers)
- 2 audits on site, 2 over the phone
- Based on the interviews and documents reviewed, compliance to the reporting rules was assessed.
- Unclear areas of the reporting guidelines were highlighted
- Full written report was given to FOEX and company-specific written reports to each audited company

Summary of the Ernst&Young's Test Audits

Key Risk Factors - No major risks were found!

1. The reporting process **relies on a few people** and their knowledge
2. Reporting includes **manual steps** that lack system support
3. Reporting is **complicated** due to several different pricing models, price changes, exceptions
4. FOEX guidelines have room for **interpretations**

Identified Good Practices

1. Robust **reporting tools**
2. Extracting data **straight from systems**
3. Control meetings, **co-operation** in reporting
4. Clear **guidelines for reporting** and access to tools and templates

Revisions to the new reporting guidelines

4.3 What price data providers submit

Each week, data providers submit prices reflecting all eligible transactions,

to the extent possible with reasonable efforts,

taking into account the practical challenges in the weekly reporting

“Transaction” is defined as either of the following: Final agreement on price and each delivery against that agreement.

To secure the accuracy of price movements every week, price providers are encouraged to:

both the price when it is agreed and

the price of every delivery or

invoice against that price agreement.

Revisions to the new reporting guidelines

4.3 ...What price data providers submit

Options to submit prices in one of two ways:

1. Separate prices + the share (tonnage or %) of the total volume in that week
2. Single weighted average price

 This weighted average can be calculated based on

- actual weekly volumes,
- an average weekly volume based on the annual contract,
- an estimated volume

 The method should however be used consistently from week to week, to the extent possible with reasonable efforts.

Revisions to the new reporting guidelines

6.2 Weighting

- Achieved by assigning more price points to larger buyers/sellers than to smaller ones.
- Each provider is weighted by the annual volume of sales or purchases of market pulp in each main index grade (BSKP excl. fluff, BHKP).
- Market pulp includes integrated exports but not company internal volumes within the country of production.
- Weight is kept constant through the year, if no major changes occur in production or purchasing volumes.
- Volumes are checked annually for defining the weighting for the following year.

6.2 Weighting


Categories based on annual production or consumption of all BSKP /BHKP grades during 2014

N B S K	S E L L E R S		Price points			B H K P	S E L L E R S		Price points
over	1 125 000	tons	10			over	1 125 000	tons	10
up to	1 125 000		8			up to	1 125 000		9
up to	925 000		7			up to	850 000		8
up to	675 000		6			up to	650 000		7
up to	475 000		5			up to	475 000		6
up to	325 000		4			up to	325 000		5
up to	200 000		3			up to	200 000		4
up to	100 000		2			up to	100 000		3
up to	50 000		1			up to	50 000		2
						up to	25 000		1
N B S K	B U Y E R S		Price points			B H K P	B U Y E R S		Price points
over	500 000	tons	10			over	600 000	tons	10
up to	500 000		9			up to	600 000		9
up to	350 000		8			up to	400 000		8
up to	250 000		7			up to	325 000		7
up to	175 000		6			up to	250 000		6
up to	125 000		5			up to	200 000		5
up to	85 000		4			up to	150 000		4
up to	55 000		3			up to	100 000		3
up to	32 500		2			up to	50 000		2
up to	15 000		1			up to	25 000		1

Revisions to the new reporting guidelines

6.2 Weighting

 While input to the index is generally evenly split between buyers and sellers, the share can vary from week to week.

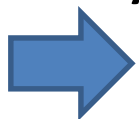
 To eliminate any volatility caused by a shift in the share of buyer/seller data, FOEX ensures that buyer and seller data each represent 50% of the index.

This balancing is done to the price data by adding the average prices of buyers or sellers to arrive to 50% each.

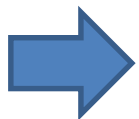
Revisions to the new reporting guidelines

4.2.3 Auditing

Objective is to evaluate that the pulp price information submitted to FOEX by the data provider complies with the methodology & specifications



Can also be carried out by evaluating that the price provider's weekly reporting process is repeated the same way from week to week with reasonable efforts.



Price providers are encouraged to draw up a written price reporting process description against which the weekly reporting can be evaluated.



The auditing can be done:

- onsite at the price provider or
- remotely

Next Steps

- 1. FOEX publishes the revised price reporting guidelines in November 2015**
- 2. Revised guidelines are taken in use when published, latest on January 1 , 2016**

Thank you!



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