



PIX Pulp Europe Indexes

Meeting at Frankfurt Airport on August 25, 2015

- PILOT AUDITS OF PIX PRICE REPORTING
- CONCLUSION, NEEDS FOR REVISIONS
- Q/A & FREE DISCUSSION

Agenda

- Pilot audits of price providers
 - Introduction and methodology
 - Detailed findings, risks and recommendations
(Extracts from Ernst&Young audit report)
- Degree of implementation from week to week in Jan-Aug 2015
 - No. of companies reporting
 - Balance of price points between sellers and buyers
- Conclusions, needs for adjustments or revisions
- Next steps

Extracts from Ernst&Young Audit Report

Pilot audits of selective price providers

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) audited by Ernst&Young during June 2015
- 2 audits on site, 2 “light” audits over the phone and through review of delivered material
- 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

Extracts from Ernst&Young Audit Report

Detailed findings, risks and recommendations

1. FOEX Indexes Methodology and specifications

Finding	Possible risk / consequence	Recommendation
<p>1.1. Which volumes are used to calculate the the weighted average price?</p> <p>FOEX' guidelines on how volumes should be used are interpreted differently and price providers report:</p> <ul style="list-style-type: none"> - estimated monthly volume per week or - estimated average weekly volume or - actual delivery volumes or invoiced volumes of volumes of a week <p>→ It is unclear to the price providers which methods are correct.</p>	<p>Uncertainty regarding guidelines will lead to reporting errors</p> <p>However, consistent use of the the same method may not distort the reported price</p> <p>L O W</p>	<p>FOEX clarifies the guidelines</p> <ul style="list-style-type: none"> - which volume should be be reported for each pricing method. - in addition to considering the credibility and timeliness of the index, index, we recommend that the living nature of of the business and the the administrative burden caused by reporting prices be taken taken into account.

Extracts from Ernst&Young Audit Report

Detailed findings, risks and recommendations

1. FOEX Indexes Methodology and specifications

Finding	Possible risk / consequence	Recommendation
<p>1.2. FOEX' guidelines on when to report prices are interpreted in different ways and reporting practices vary:</p> <ul style="list-style-type: none"> - when they are invoiced or - at the delivery or - when final price is agreed ? 	<p>The credibility of the index may decrease if the price information is not consistently reported in a timely manner.</p> <p>Consequences of requiring reporting to take place according to actual delivery volumes may lead to certain price providers no longer being able to report to FOEX</p> <p>Reporting according to invoicing, if it takes place much later than when the price is agreed, will make the the index lag behind actual market price.</p>	<p>We recommend that FOEX clarifies the guidelines in terms terms the timing of reporting prices, taking into account both both the credibility and timeliness of the price index, as as well as the dynamic nature nature of the business and the the administrative burden caused by reporting prices.</p> <p>We recommend that FOEX specifies what the trigger is for for reporting price based on the the different pricing mechanisms (e.g. previous month's pricing, current month month pricing or retroactive pricing clause).</p>

Extracts from Ernst&Young Audit Report

Detailed findings, risks and recommendations

2. XX

Finding	Possible risk / consequence	Recommendation
<p>2.1. The price reporting process relies on a team with interchangeable roles.</p> <p>Guidelines for the reporting process exist, but exist, but reporting still relies much on inherent knowledge of the reporting team.</p> <ul style="list-style-type: none"> - one extracts the data from IT system - one supports this process when needed - one is aware of the final decisions on prices prices (might differ from the entries in IT systems) <p>There are clearly documented guidelines for the the data extraction process on how to report the the data to FOEX.</p> <p>Some knowledge of the sales is required to know know where to find certain information or the relevant sales persons to be contacted.</p>	<p>There is a key person risk as the reporting process relies on a on a few people only and on their inherent knowledge of the the company, pricing and reporting practice.</p> <p>There is a risk that in case of sudden unavailability, the reporting to FOEX cannot be done.</p> <p>There is also a risk that e.g. the the summer replacement will make errors / be unable to find find the correct information from the company, leading to wrong prices being reported to to the index / missing price points.</p> <p>L O W</p>	<p>We recommend that the sales team be involved in the reporting process to a greater degree to make information of changes in price agreements available available for reporting.</p> <p>We recommend that deputies for the holiday season be named and introduced to the process of of reporting in advance of the holiday season.</p>

Extracts from Ernst&Young Audit Report

Detailed findings, risks and recommendations

2. XX

Finding	Possible risk / consequence	Recommendation
<p>2.2. The reporting process does not have system support, and manual follow-up is required.</p> <p>Getting information on changes and exceptions seems to be an informal process.</p> <p>The pricing information used for price reporting is extracted from IT system/ from invoicing system. There is a large amount of varying pricing methods. The system does not differentiate between prices with</p> <ul style="list-style-type: none"> - a retroactive pricing clause (to be adjusted at the end of the month, Baisse Clause) and - transactions using previous month's market price. <p>Price adjustments to Baisse Clause invoices must be followed up manually, checked and updated. Changes in pricing agreements with clients can occur during the contract period. Changes in pricing arrangements may not always be recorded.</p>	<p>Mistakes will be made due to human error, as changes and exceptions need to be checked and changed manually.</p> <p>Much information is held by only a few people, who must be able to recollect it when needed.</p> <p>L O W</p>	<p>To decrease the time required for price reporting, we recommend that changes in pricing arrangements be recorded into the systems in a timely manner as they occur, to make them available for the price reporting process.</p>

Extracts from Ernst&Young Audit Report

Detailed findings, risks and recommendations

2. XX

Finding	Possible risk / consequence	Recommendation
<p>2.3. The reported transactions are invoices, invoices, not physical deliveries or the agreement of final price.</p> <p>Transactions are reported to FOEX based on invoices, as opposed to actual deliveries or final price agreement as defined in FOEX Indices Methodology and Specifications point 4.3 “What price data providers submit”. (See also finding 1.1.)</p>	<p>Reporting of prices does not follow FOEX reporting guidelines.</p> <p>This may decrease the credibility of the index, even if it does not have material consequences on the Index.</p> <p>L O W</p> <p>Using invoices as the trigger for reporting may also affect the timeliness of the index.</p> <p>Should invoices be sent much much later than when the goods are delivered or the final price is agreed, the Index Index may lag behind the actual market price.</p>	<p>We recommend that the reporting practice be discussed with FOEX, and the effects on timeliness of the index price be considered also in the future.</p>

Extracts from Ernst&Young Audit Report

Detailed findings, risks and recommendations

2. XX

Finding	Possible risk / consequence	Recommendation
<p>2.4 The collection of the information on which reporting is based is a purely manual manual process.</p> <p>The information is inserted into the macro Excel Excel manually.</p>	<p>N O I M P L I C A T I O N S</p> <p>Risk for human error, as the the collection of information information and calculations calculations rely on manual manual input.</p>	<p>We recommend that possibilities of using the IT IT system information information directly be investigated.</p>

Extracts from Ernst&Young Audit Report

Detailed findings, risks and recommendations

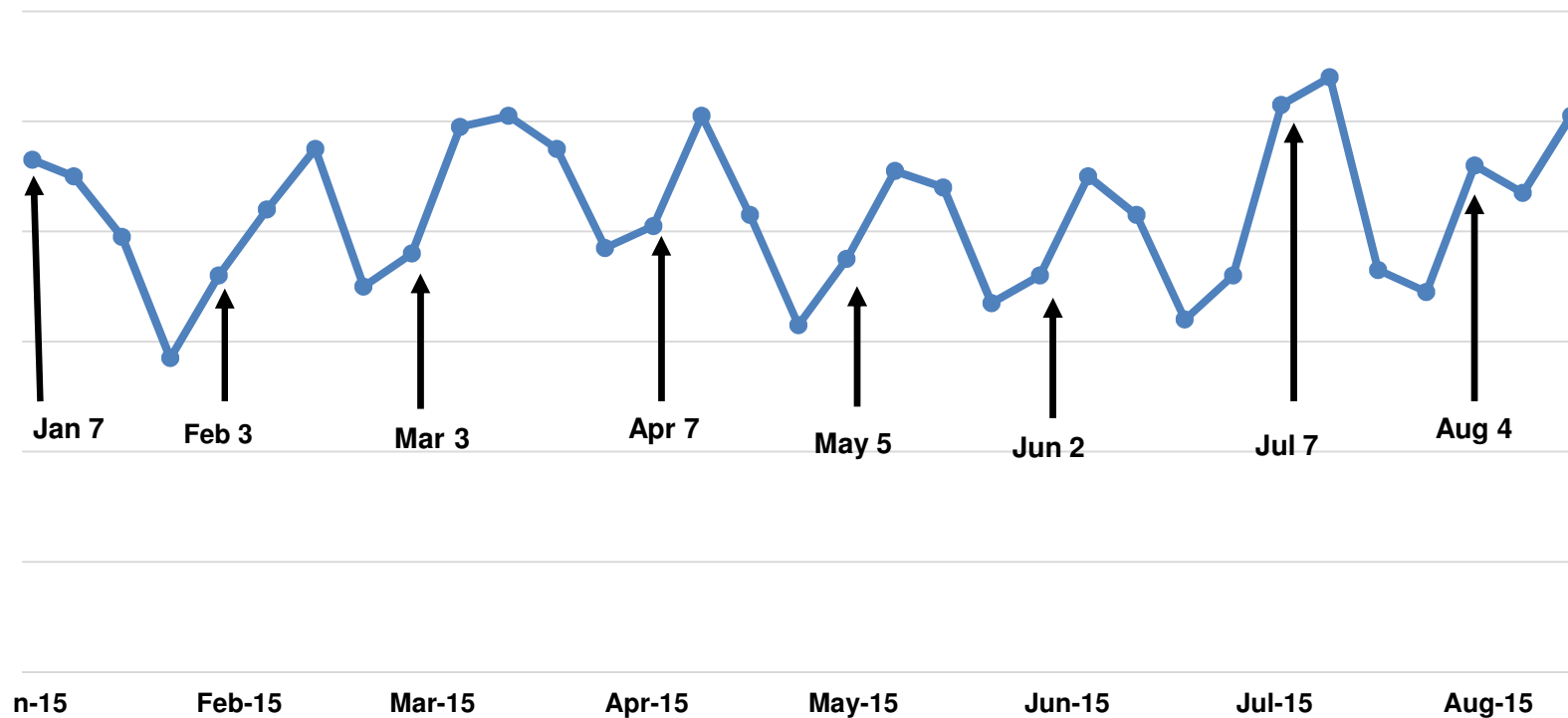
2. XX

Finding	Possible risk / consequence	Recommendation
<p>2.5 Compilation of price points to be reported reported to FOEX is done manually in excel. excel.</p> <p>XX reports all eligible transactions to FOEX, who calculates the weighted average. During the audit EY performed a sample testing testing of one month's price reporting, consisting consisting of the price data from four weeks.</p>	<p>The consequence of errors in in inclusion or exclusion of price points may affect the weighted average price and thereby the index, lessening its its accuracy.</p>	<p>We recommend that prices prices reported to FOEX be be validated prior to reporting, for instance in an an internal meeting, to ensure correctness of the the price points.</p>



PIX NBSKP Europe - no. of price points

Chart describes how the No. of price points has varied in weeks 1 - 33 in Jan – Aug 2015

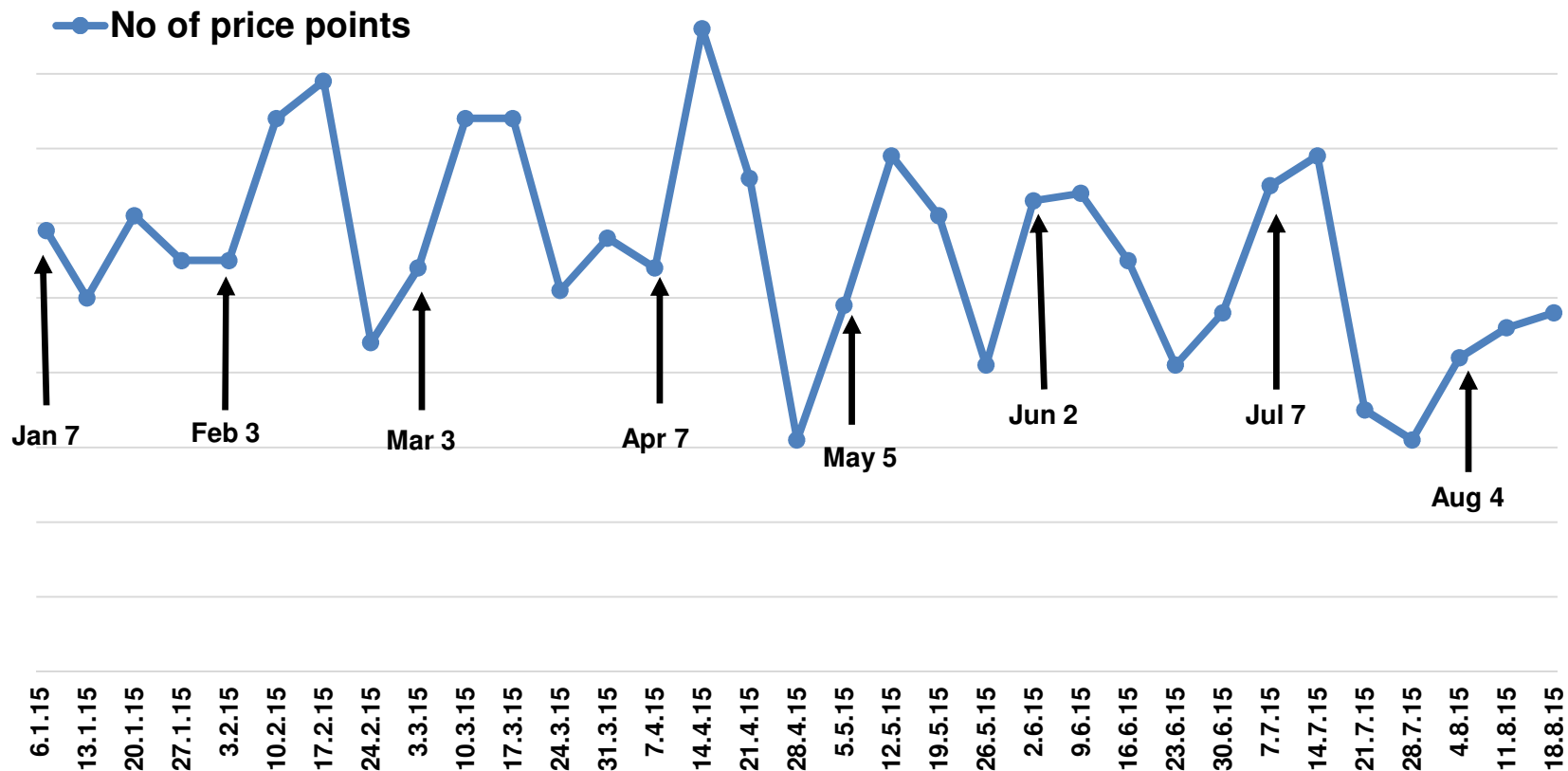


→ In Feb-Aug, the no. of price points has been the highest in the 2nd or 3rd week



PIX BHKP Europe - No. of price points

Chart describes how the No. of price points has varied between weeks 1 to 33 in Jan - Aug

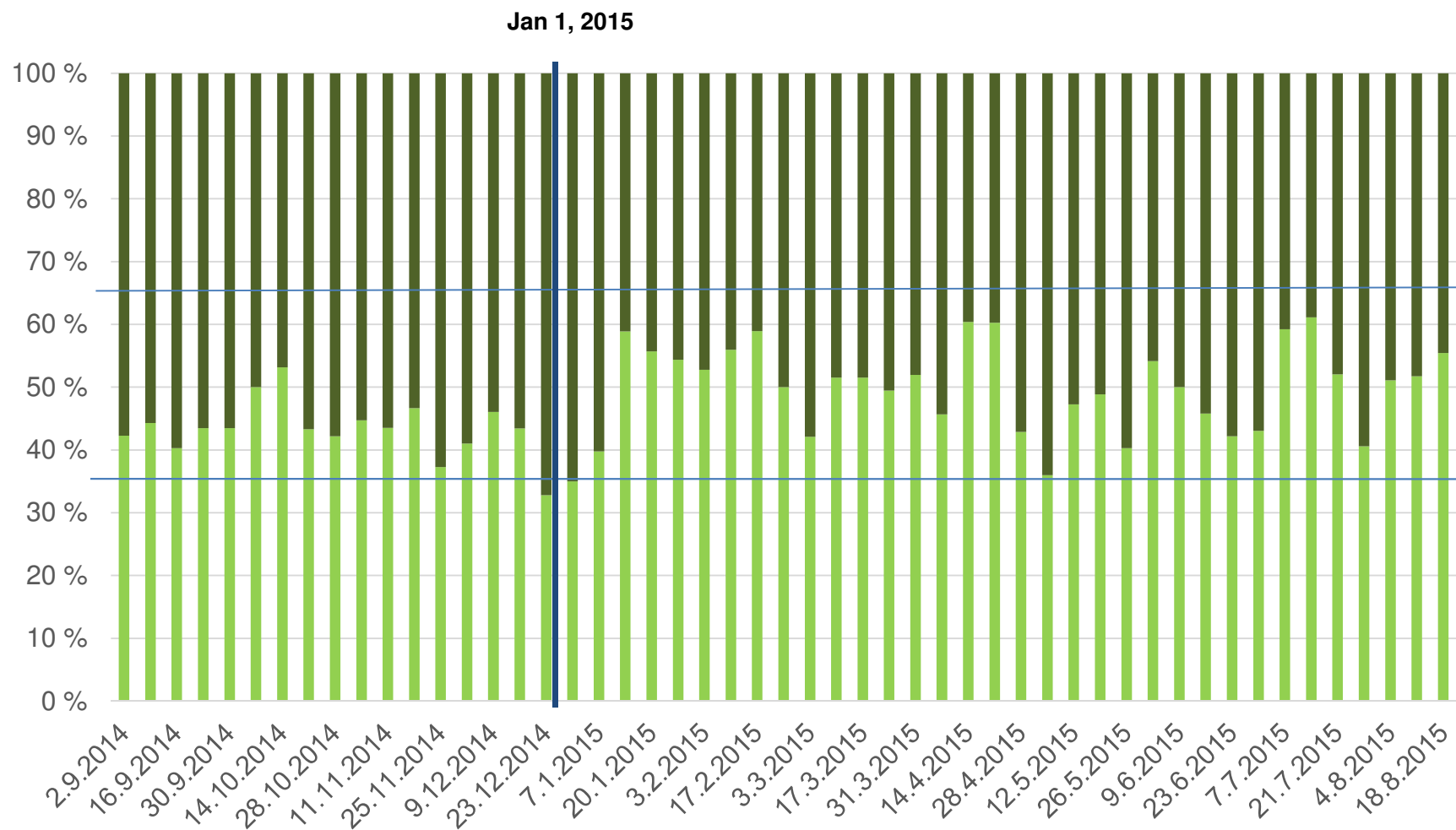


→ No. of price points has in Jan-Aug been the highest in the 2nd or 3rd week



Balance of price points between buyers and sellers PIX NBSKP Europe

Sellers Buyers

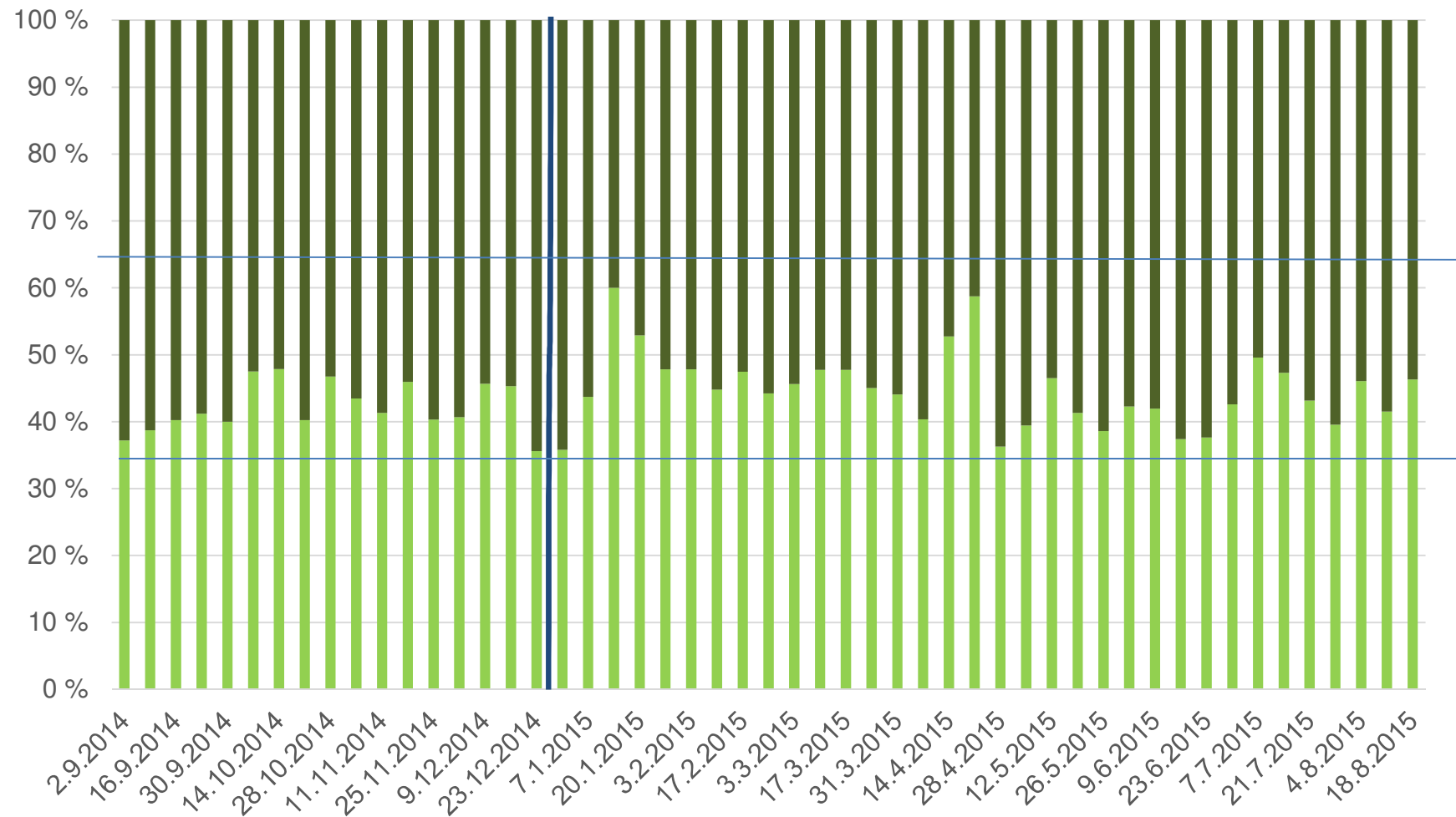




Balance of price points between buyers and sellers PIX BHKP Europe

■ Sellers ■ Buyers

Jan 1, 2015



Conclusions, needs for adjustments or revisions

WHAT PRICE DATA TO REPORT

1. The different ways how to take the volumes into account when calculating the prices to be reported → as long as the method of weighing remains the same, the value of the index is not impacted
2. Make clear (accept) that both price agreements and invoices/deliveries need to be reported (at least should be allowed) to ensure constantly high no. of price points. If only price agreements, smaller players are left out during 1-2 weeks every month and as the size of buyers and sellers is in average not the same, this can have an effect on the balance of price points. The weighting of price providers eliminates at least partially the effects of the smaller players reporting same price agreements several times
3. Should the rule of “previous month’s prices can be reported only twice” be removed?
4. Should the requirement of “all eligible transactions need to be reported” be softened in such a way that it will not be within the scope of the audit?
5. Should buyer/seller –balance of price points be adjusted to 50/50 every week?

Conclusions, needs for adjustments or revisions AUDITING, DATA PROVIDER AGREEMENT

6. Audits can be both on-site and based on phone interview and delivered material
7. Objectives of audits concentrate on defining the process and the problems or doubts which come up when carrying out the weekly reporting
8. Some companies unwilling to sign DPA and accept auditing as rules require reporting ALL eligible prices. Also too strict requirements together with strict audits might prevent signing DPA.
 - Would a large, representative sample of prices be sufficient from index accuracy point-of-view?
9. Price reporters' non-disclosure agreements with their trading partners create an obstacle to show invoices or price agreements to a 3rd party
10. If revisions to rules are made, when shall they be taken into use?
FOEX does not expect any meaningful changes on the index levels.

Next Steps

- 1. Feedback on findings from pilot audits and this meeting's comments will be sent to / collected by FOEX**
- 2. Next meeting of the working group on 17 Sep 2015 to discuss FOEX' proposal for adjustments to the rules**
- 3. Presenting the revised price reporting guidelines in November 2015**
- 4. Revised guidelines are taken into use as of ?**