

AFEX



**AFEX
CLOSING PRICE
METHODOLOGY**



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DRAFT

INTRODUCTION

AFEX Commodities Exchange operates a network of warehouses across all geopolitical zones in Nigeria which provides a valuable infrastructure for capturing market data, information, and sentiments. At AFEX, we believe strongly in the importance of data, as it relates to the agricultural sector. Availability of price data could be beneficial to various stakeholders – investors, processors, farmers, regulators, and government agencies. Since 2015, AFEX has aggregated data as relates to commodities prices, logistics costs and farmer data as relates to its core operations as a rallying player in the ecosystem.

It is on the back of this that we have developed the AFEX Closing Price Methodology (ACPM) to transparently communicate the prices of commodities traded on the Exchange. The ACPM leverages the role played by AFEX in the agricultural ecosystem of the country to provide a transparent and unbiased reflection of prices of commodities in the ecosystem. As an exchange with strong interaction with key stakeholders in the industry, we have developed a robust trading ecosystem in a bid to promote availability of data on all key activities in the system.

One of the key challenges facing agriculture in Nigeria is the fragmentation of farmers coupled with the opacity of transactions in the industry. Cultivation of key commodities occurs across the country with huge concentration in key regions. The distributed and fragmented cultivation makes pricing and valuation of these commodities difficult, with no central reference point for pricing.

The ACPM outlines the methodology used for pricing of commodities using a concept known as **Reference Location** and **Location Differential** to converge prices from various locations across the country. The document also stipulates the procedure to adopt for valuing commodities during the “dry” period, when there is little or no trade of commodities in the country.

All commodities in Nigeria have key focus regions where they are either largely produced or consumed compared to other regions in the country, hence, the need for the determination and inclusion of Location Differentials in the computation of **ACP**. For instance, most Cocoa is largely produced in the southern region in the country compared to the Northern region in the country, this is because of the nature of the crop and the type of land and climate required to grow the crop. Hence, prices in key focus region (i.e., “Reference Regions”) are especially important in the determination of the AFEX Closing Price as AFEX aims is to have a price that is still reflective of the market to different market participants.

It is a given that the cost of transporting a commodity should be part of the price of the commodity, especially when the players to the commodity transaction are not in the same Reference Location. In this methodology the Executed Price for Commodities are inclusive of the cost of transporting the commodities to different regions of the executed demand, which is why

AFEX has a robust system for the determination of the cost of transportation of commodities (i.e., Location Differential).

It is worthy of note that the nature of the commodities market is still to large extent seasonal, i.e., production for most commodities is not all year round, hence, the possibility of lack of price information for some periods during the year. Due to this fact, AFEX has assumed the period of September to November as the period of Harvest for most commodities (especially grains), thus, restricting its price reporting period to December – August of for season.

AFEX CLOSING PRICE (ACP) COMPUTATION

Closing prices of commodities are computed boards i.e., Cash Settled Board, Physical Deliverable Board and Over the Counter Board (OTC). For each of these boards, the closing price is a volume weighted average price of all executed prices for a commodity in any trading day. On the back of this, the AFEX Closing Price (ACP) is calculated as a volume weighted average of closing prices across boards.

The ACP is computed as follows:

$$ACP = \frac{\sum P_i * V_i}{\sum V_i}$$

Where:

ACP = AFEX Closing Price for a commodity

V = Total Volume of each board

P = Closing price of each board

Notes:

1. Quoted prices are ex-reference location for all commodities. (See appendix for reference locations for each commodity)
2. In the circumstances where no trades were executed on the exchange for the day, the published closing price will be the closing price on the prior working day.
3. If no trade is executed on the exchange for five consecutive trading days, the closing price published will be the best-quoted bid in the market.
4. The closing prices are quoted in Naira/contract.

APPENDIX

CHANGES TO THE METHODOLOGY

Although the methodology is intended to be comprehensive and accurate, ambiguities may arise, and errors or omissions may have been made. In such circumstances, AFEX shall follow procedures, which stipulates that where a proposed change of the Methodology is considered material, the matter must be brought before the Price Committee for consideration to ensure the continued integrity of the price determinations. When determining if a proposed change is material, AFEX shall consider:

- any economic and/or financial impact of the proposed change to investors in commodities
- whether the change is related to Submissions.
- if the original intent and/or function of the price methodology is retained.
- the extent to which the change is consistent with the design objective of the methodology.

In a situation where stakeholders consultation procedures are required in relation to changes to the Methodology that are deemed material, and that is appropriate and proportionate to the breadth and depth of the price use and the nature of the Stakeholders. Any such decision to survey Stakeholders shall be taken by the Price Administrator upon approval by the Price Committee.

Such consultation should:

- Disclose the rationale of such proposed change.
- Exactly what the changes entail.
- When the changes are intended to apply.
- Provide advance notice and a clear timeframe that gives Stakeholders sufficient opportunity to analyze and comment on the impact of such proposed material changes, having regard to the Price Administrator's assessment of the overall circumstances; and

Following such consultation, the Committee shall notify Stakeholders of any change of Methodology, either on a per-client basis where applicable or through a notice on its website.

TRANSITION

Due to market structure change, product definition change, or any other condition which may make the price methodology no longer representative of its intended interest, possible cessation of a methodology may be necessary. The policies and procedures around methodology cessation are:

- Such cessation must be approved by the Price Committee.
- If deemed appropriate by the Price Committee, AFEX shall seek to undertake a survey of

Stakeholders on a proportionate basis for feedback on the proposed discontinuance of the methodology.

- The Price Committee shall consider the estimated breadth and depth of contracts that reference an Index and the economic and financial stability impact that might result from the cessation of the methodology; and
- Stakeholders shall be notified of such cessation.

COMPLAINTS PROCEDURES

AFEX has established an electronic and user-friendly complaints process on its website. Stakeholders may submit complaints as follows:

- All Complaints will be addresses to indexcomplaint@afexnigeria.com
- All Complaints will be reviewed by the Price Committee.
- the Compliance Officer will, in consultation with the Price Committee, seek to resolve such complaint as soon as reasonably practicable.
- The complainant and other relevant parties will be advised of the outcome of its investigation within a reasonable period; and
- All records relating to complaints, including those submitted by the complainant as well as the Price Administrator's record, will be retained for a minimum of five years (subject to applicable national legal or regulatory requirements).

Disputes about price determination, which are not formal complaints, will be resolved by AFEX by reference to its standard appropriate procedures. If a complaint results in a change in a price determination, that will be published or made available to subscribers and published or made available to stakeholders as soon as possible as set out in the methodology.

PROCEDURES FOR RECEIVING INPUTS FROM STAKEHOLDERS

Stakeholders are also encouraged to make inputs to the price methodology through the following procedures:

- Stakeholders reach out through indexadministrator@afexnigeria.com email with their proposed input.
- The Input is evaluated by the Price Administrator and brought to the attention of the Price Committee in the next committee meeting.
- If the input is in line with the purpose of the methodology, foster transparency and in no means leads to market manipulation or will not intentionally favour certain stakeholders if implemented on the Index, it will be considered reasonable and implemented.
- A public notice will be release to the public concerning the new update to the price

methodology.

AUDITS

AFEX may appoint an independent auditor with appropriate experience and capability and that the frequency of audits should be proportionate to the size and complexity of the operations, AFEX has applied proportionality contemplated by the principles as follows: AFEX is authorized and regulated by the Securities and Exchange Commission. Although AFEX is currently not subject to a specific external IOSCO audit, AFEX is subject to annual external audits about its compliance policies and procedures and monitoring program. In addition to the annual audits, these auditors shall also provide AFEX with ongoing support as well as regulatory updates.

As the business grows, AFEX expects to expand the scope of such audit. The internal oversight is provided by the Index Governance Committee, which uses among other things a Management Information process to oversee several metrics.

AUDIT TRAIL

AFEX Commodities Exchange Limited shall ensure that it keeps for a minimum of 5 year period all relevant document with regards to

- all market data, Submissions, and any other data and information
- sources relied upon for price determination.
- the exercise of Expert Judgment made by the Price Administrator in reaching a Price determination.
- other changes in or deviations from standard procedures and Methodologies, including those made during periods of market stress or disruption.
- the identity of each person involved in producing a Price determination (provided that where such determination is conducted in an automatic manner, the identities of each person setting up such automated system); and
- any queries and responses relating to data inputs.

RECORD RETENTION

AFEX shall:

- Maintain records of closing commodities prices for not less than 5 years.
- Make available upon request by the Commission any record kept.
- Keep its record safe, secured and in a manner which will make it easy for retrieval.
- Ensure that records kept can be retrieved in their original form without alteration.
- Upon request, provide the Commission with closing prices of commodities records.

COOPERATION WITH REGULATORY AUTHORITIES

All relevant documents, audit trails, and other documents subject to the principles shall be made readily available by AFEX to the relevant Regulatory Authorities in carrying out their regulatory or supervisory duties and handed over promptly upon request. Also, AFEX will promptly bring to the attention of the regulatory authority in situations of market distortion, disruption and manipulation through the following procedures:

- AFEX will reach out to the regulatory authorities through mail and in writing, indicating the emerging issue.
- In the mail, AFEX will give full details of the nature of the issue and way forward.
- AFEX will provide all details and documents as required by the regulatory authority.
- AFEX will help in any form to the regulatory authority as requested.

COMMODITIES AND REFERENCE LOCATIONS

S/N	Commodities	Reference Locations
1.	Maize	Ibadan
2.	Soybean	Ibadan
3.	Paddy Rice	Kano
4.	Sorghum	Kano
5.	Cocoa	Lagos
6.	Ginger	Lagos
7.	Cashew Nut	Lagos
8.	Sesame	Lagos

AFEX PRICE PUBLICATION MEDIUMS

1. Daily:
 - a) AFEX Website.
 - b) Media Partners: Proshare, Channels TV, BusinessDay Media.

2. Weekly:
 - a) AFEX Website.
 - b) Media Partners: Proshare, BusinessDay, Channels TV.
 - c) AFEX Social Media Platforms.



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LAGOS: 5C, Adekunle Lawal, Off 2nd Avenue, Ikoyi

IBADAN: Christiana Oyinade House, Iwo road

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