

The SGX logo, consisting of the letters "SGX" in blue and a square icon with three horizontal yellow bars, is positioned at the top left of the page.

Circular

25 October 2016

Circular No. DC/AM – 98 of 2016

Notice on The Steel Index (TSI) Market Consultation

Proposed Changes to Iron Ore Index Methodology

SGX will like to highlight that TSI is seeking industry feedback on its proposal to update the specification and delivery point for the TSI Iron Ore 62% Fe Benchmark Index. Under the proposal, TSI plans to introduce the specification change on 1 January 2018. TSI's market consultation and feedback period is until 25 November 2016.

As this is the underlying index for the SGX TSI Iron Ore CFR China (62% Fe Fines) derivative contracts, SGX encourages all members to contact TSI at feedback@thesteelindex.com regarding any feedback. Members are to note that the specification change, if implemented by the TSI, will affect SGX's TSI Iron Ore CFR China (62% Fe Fines) derivative contracts for the contract months of January 2018 onwards.

TSI's announcement of the market consultation and details of the proposed methodology change are included in Appendix A and Appendix B respectively.

Alison King
Senior Vice President
Derivatives

Singapore Exchange Derivatives Clearing Limited

Company Reg No. 200005878M
(a wholly-owned subsidiary of Singapore Exchange Limited)

2 Shenton Way, #02-02 SGX Centre 1, Singapore 068804
Main: (65) 6236 8888 Fax: (65) 6536 6495

www.sgx.com

Appendix A: TSI's announcement of market consultation

Dear Sir,

The Steel Index (TSI) is seeking industry feedback on its proposal to update the specification and delivery point of its Chinese iron ore imports benchmark for 62% Fe fines, CFR Tianjin port, to more closely reflect the specifications of the most liquid products traded in the spot market today. The change proposes to adjust impurity levels and move the delivery port to Qingdao. **Please find attached details of the current and proposed specification.**

This proposal follows consistent, proactive feedback from market participants from all parts of the supply chain, who have requested closer alignment between the specification of physical cargoes and TSI's 62% Fe index specification. The change would lead to better suitability of the price for index-linking in physical contracts, which would in turn minimize basis risk when hedging using risk management tools settled against the TSI 62% Fe benchmark.

Furthermore, there are a number of additional benefits to the proposed change. A closer alignment between the specifications of physical cargoes and TSI's 62% Fe index will assist when converting floating cargoes back to a fixed-price equivalent as part of TSI's fallback procedure. The specification change will also minimize differences between TSI and Platts IODEX (the other assessment considered as part of the fallback procedure for floating price deals by TSI's methodology). Both serve to increase transparency.

Finally, the adoption of Qingdao port as a pricing point, rather than Tianjin port, eliminate the need for freight adjustments when pricing physical cargoes off the TSI benchmark index.

Under this proposal TSI plans to introduce the specification change on January 1, 2018. TSI recognizes that the index price has use in contract negotiation, physical and financial settlement, and/or royalty payments and therefore extends a period of market consultation and feedback until November 25, 2016, before a final decision is made.

If you wish to provide any comments or feedback regarding this proposal, please send them to feedback@thesteelindex.com. TSI will consider all comments received. Please mark your comments as 'confidential' unless you are agreeable to them being made publically available on request.

For details of TSI's methodology and a full list of published indices, please visit:
<https://www.thesteelindex.com/en/procedures-methodology/>

Kind regards,

Oscar Tarneberg
TSI Regional Manager, APAC

The Steel Index
feedback@thesteelindex.com

TSI Iron Ore 62% Fe Benchmark Index

Methodology Change Proposal

Specification	Current	Proposed
Product Type	Sinter Fines: granular size below 10mm for at least 90% of the cargo, with maximum of 40% below 150 micron	
Iron Content	62.00%	62.00%
Moisture	8.00%	8.00%
Alumina	3.50%	2.25%
Silica	4.00%	4.50%
Phosphorus	0.07%	0.09%
Sulphur	0.05%	0.05%
Minimum Lot Size (metric tonnes)	20,000	50,000
Pricing Point	CFRFO Tianjin port, China	CFRFO Qingdao port, China
Timing	Loading within four weeks and delivery within eight weeks of transaction	
Payment	At Sight	At Sight
Current & Units	US\$ per dry metric tonne	US\$ per dry metric tonne

Proposal Timeframe

Under this proposal TSI plans to introduce the specification change on **January 1, 2018**. TSI recognizes that the index price has use in contract negotiation, physical and financial settlement, and/or royalty payments and therefore extends a period of market consultation and feedback until **November 25, 2016**, before a final decision is made.